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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

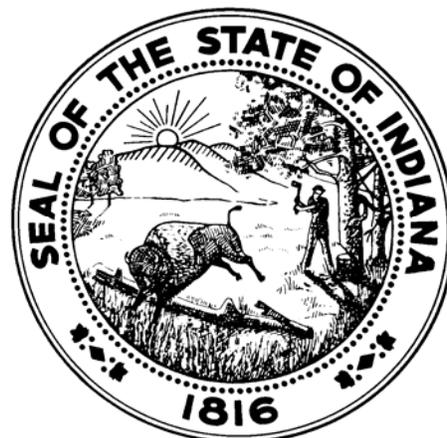
AUDIT REPORT

OF

TRI-COUNTY CONSERVANCY DISTRICT

MORGAN COUNTY, INDIANA

January 1, 2001 to December 31, 2005



FILED
01/29/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Auditor's Report.....	3
Statement of Net Assets.....	4, 7
Statement of Revenues, Expenses and Other Changes in Fund Net Assets	5, 8
Statement of Cash Flows	6, 9
Notes to Financial Statements	10-22
Exit Conference.....	23

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Secretary	David Smith	01-01-01 to 12-31-06
Chairman of the Board of Directors	Timothy J. Shrout	01-01-01 to 12-31-06
Financial Clerk	David K. Pasotti	01-01-01 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TRI-COUNTY CONSERVANCY DISTRICT, MORGAN COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Tri-County Conservancy District (District), as of and for the years ended December 31, 2001, 2002, 2003, 2004, and 2005. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2001, 2002, 2003, 2004, and 2005, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

October 12, 2006

TRI-COUNTY CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
WATER UTILITY
December 31, 2001, 2002, 2003, 2004, And 2005

<u>Assets</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Current assets:					
Cash and cash equivalents	\$ 84,545	\$ 11,392	\$ 6,527	\$ 3,528	\$ 16,925
Accounts receivable	2,293	15,462	9,349	14,045	17,148
Total current assets	<u>86,838</u>	<u>26,854</u>	<u>15,876</u>	<u>17,573</u>	<u>34,073</u>
Capital assets:					
Other capital assets (net of accumulated depreciation)	826,723	804,363	782,035	759,739	737,553
Total assets	<u>913,561</u>	<u>831,217</u>	<u>797,911</u>	<u>777,312</u>	<u>771,626</u>
<u>Liabilities</u>					
Current liabilities:					
Accounts payable	-	3,960	5,776	3,960	-
Payable to Indianapolis Water Company	96,000	60,350	73,100	78,740	82,400
Interfund services provided and used	1,172,432	1,074,003	957,041	845,412	732,894
Taxes payable	686	107	-	1,412	1,429
Customer deposits	27,885	39,719	46,319	50,144	55,147
Total current liabilities	<u>1,297,003</u>	<u>1,178,139</u>	<u>1,082,236</u>	<u>979,668</u>	<u>871,870</u>
<u>Net Assets</u>					
Invested in capital assets	826,723	804,363	782,035	759,739	737,553
Unrestricted	<u>(1,210,165)</u>	<u>(1,151,285)</u>	<u>(1,066,360)</u>	<u>(962,095)</u>	<u>(837,797)</u>
Total net assets	<u>\$ (383,442)</u>	<u>\$ (346,922)</u>	<u>\$ (284,325)</u>	<u>\$ (202,356)</u>	<u>\$ (100,244)</u>

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
WATER UTILITY

As Of And For The Years Ended December 31, 2001, 2002, 2003, 2004, and 2005

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating revenues:					
Metered water revenue:					
Residential	\$ 118,692	\$ 175,004	\$ 214,854	\$ 236,614	\$ 261,318
Commercial	33,474	41,255	22,265	30,164	27,996
Penalties	1,853	2,234	2,875	2,409	3,435
Application and inspection fees	22,000	5,875	5,000	5,125	6,500
Tap fees	53,190	14,100	12,000	12,300	15,600
Other	<u>170</u>	<u>120</u>	<u>68</u>	<u>121</u>	<u>135</u>
 Total operating revenues	 <u>229,379</u>	 <u>238,588</u>	 <u>257,062</u>	 <u>286,733</u>	 <u>314,984</u>
 Operating expenses:					
Purchased water	55,797	66,130	58,345	73,868	77,113
Materials and supplies	937	3,812	4,622	1,221	572
Contractual services	33,304	35,499	24,595	17,885	21,520
Equipment	1,137	2,702	2,339	2,365	1,616
Repair and maintenance	392	3,792	1,385	302	618
Office supplies	1,642	262	3,947	6,210	5,020
Postage, delivery and copies	2,956	3,452	2,015	259	113
Lab fees	430	990	1,200	895	840
Depreciation and amortization	21,486	24,685	22,328	22,296	22,186
Settlement with Indianapolis Water Company	96,000	60,350	73,100	78,740	82,400
Miscellaneous expenses	<u>1,018</u>	<u>1,028</u>	<u>679</u>	<u>793</u>	<u>1,081</u>
 Total operating expenses	 <u>215,099</u>	 <u>202,702</u>	 <u>194,555</u>	 <u>204,834</u>	 <u>213,079</u>
 Operating income (loss)	 <u>14,280</u>	 <u>35,886</u>	 <u>62,507</u>	 <u>81,899</u>	 <u>101,905</u>
 Nonoperating revenues (expenses):					
Interest and investment revenue	<u>1,201</u>	<u>634</u>	<u>90</u>	<u>70</u>	<u>207</u>
 Change in net assets	 15,481	 36,520	 62,597	 81,969	 102,112
Total net assets - beginning	<u>(398,923)</u>	<u>(383,442)</u>	<u>(346,922)</u>	<u>(284,325)</u>	<u>(202,356)</u>
Total net assets - ending	<u>\$ (383,442)</u>	<u>\$ (346,922)</u>	<u>\$ (284,325)</u>	<u>\$ (202,356)</u>	<u>\$ (100,244)</u>

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY CONSERVANCY DISTRICT
STATEMENT OF CASH FLOWS
WATER UTILITY
As Of And For The Years Ended December 31, 2001, 2002, 2003, 2004, and 2005

	2001	2002	2003	2004	2005
Cash flows from operating activities:					
Receipts from customers and users	\$ 246,204	\$ 237,133	\$ 269,707	\$ 285,741	\$ 316,749
Payments to suppliers and contractors	(214,465)	(210,286)	(157,768)	(177,302)	(191,176)
Interfund services provided (used)	26,236	(98,429)	(116,962)	(111,629)	(112,518)
Other receipts	8,810	120	68	121	135
Net cash provided (used) by operating activities	<u>66,785</u>	<u>(71,462)</u>	<u>(4,955)</u>	<u>(3,069)</u>	<u>13,190</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	<u>(46,170)</u>	<u>(2,325)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:					
Interest received	<u>1,201</u>	<u>634</u>	<u>90</u>	<u>70</u>	<u>207</u>
Net increase in cash and cash equivalents	21,816	(73,153)	(4,865)	(2,999)	13,397
Cash and cash equivalents, January 1	<u>62,729</u>	<u>84,545</u>	<u>11,392</u>	<u>6,527</u>	<u>3,528</u>
Cash and cash equivalents, December 31	<u>\$ 84,545</u>	<u>\$ 11,392</u>	<u>\$ 6,527</u>	<u>\$ 3,528</u>	<u>\$ 16,925</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	<u>\$ 14,279</u>	<u>\$ 35,886</u>	<u>\$ 62,507</u>	<u>\$ 81,899</u>	<u>\$ 101,905</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	21,486	24,685	22,328	22,296	22,186
(Increase) decrease in assets:					
Receivables, net	14,100	(13,169)	6,113	(4,696)	(3,103)
Increase (decrease) in liabilities:					
Accounts payable	(117,111)	3,960	1,816	(1,816)	(3,960)
Customer deposits payable	11,535	11,834	6,600	3,825	5,003
Interfund services provided or used	26,236	(98,429)	(116,962)	(111,629)	(112,518)
Payable to IWD	96,000	(35,650)	12,750	5,640	3,660
Contracts payable	-	-	-	-	-
Taxes payable	260	(579)	(107)	1,412	17
Total adjustments	<u>52,506</u>	<u>(107,348)</u>	<u>(67,462)</u>	<u>(84,968)</u>	<u>(88,715)</u>
Net cash provided (used) by operating activities	<u>\$ 66,785</u>	<u>\$ (71,462)</u>	<u>\$ (4,955)</u>	<u>\$ (3,069)</u>	<u>\$ 13,190</u>

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
WASTEWATER UTILITY
December 31, 2001, 2002, 2003, 2004, And 2005

<u>Assets</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Current assets:					
Cash and cash equivalents	\$ 396,835	\$ 2,292,995	\$ 2,354,738	\$ 1,258,782	\$ 895,658
Accounts receivable	57,990	106,150	155,745	208,213	405,185
Other receivables	16,528	-	80,000	-	-
Interfund receivables:					
Interfund services provided and used	1,172,432	1,074,003	957,041	845,412	732,894
Prepaid items	<u>3,741</u>	<u>7,024</u>	<u>5,397</u>	<u>5,618</u>	<u>5,071</u>
Total current assets	<u>1,647,526</u>	<u>3,480,172</u>	<u>3,552,921</u>	<u>2,318,025</u>	<u>2,038,808</u>
Deferred charges	<u>247,050</u>	<u>356,330</u>	<u>336,932</u>	<u>317,534</u>	<u>298,136</u>
Capital assets:					
Land, improvements to land and construction in progress	1,482,828	1,164,212	1,164,212	1,164,212	1,164,212
Other capital assets (net of accumulated depreciation)	<u>7,973,416</u>	<u>8,307,479</u>	<u>8,497,207</u>	<u>9,483,274</u>	<u>10,079,074</u>
Total capital assets	<u>9,456,244</u>	<u>9,471,691</u>	<u>9,661,419</u>	<u>10,647,486</u>	<u>11,243,286</u>
Total noncurrent assets	<u>9,703,294</u>	<u>9,828,021</u>	<u>9,998,351</u>	<u>10,965,020</u>	<u>11,541,422</u>
Total assets	<u>11,350,820</u>	<u>13,308,193</u>	<u>13,551,272</u>	<u>13,283,045</u>	<u>13,580,230</u>
<u>Liabilities</u>					
Current liabilities:					
Accounts payable	-	113,194	238,923	135,221	85,039
Unearned revenue	8,488	12,059	11,205	15,263	14,578
Leases payable	2,450	-	-	-	-
Retainage payable	195,409	173,945	173,945	-	-
Taxes payable	1,473	-	-	204	-
Current liabilities payable from restricted assets:					
Revenue bonds payable	<u>310,000</u>	<u>320,000</u>	<u>385,000</u>	<u>385,000</u>	<u>435,000</u>
Total current liabilities	<u>517,820</u>	<u>619,198</u>	<u>809,073</u>	<u>535,688</u>	<u>534,617</u>
Noncurrent liabilities:					
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	6,405,000	11,885,000	11,500,000	10,770,000	10,225,000
Loans payable	<u>3,921,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>10,326,929</u>	<u>11,885,000</u>	<u>11,500,000</u>	<u>10,770,000</u>	<u>10,225,000</u>
Total liabilities	<u>10,844,749</u>	<u>12,504,198</u>	<u>12,309,073</u>	<u>11,305,688</u>	<u>10,759,617</u>
<u>Net Assets</u>					
Invested in capital assets, net of related debt	(1,180,685)	(2,733,309)	(2,223,581)	(507,514)	583,286
Unrestricted	<u>1,686,756</u>	<u>3,537,304</u>	<u>3,465,780</u>	<u>2,484,871</u>	<u>2,237,327</u>
Total net assets	<u>\$ 506,071</u>	<u>\$ 803,995</u>	<u>\$ 1,242,199</u>	<u>\$ 1,977,357</u>	<u>\$ 2,820,613</u>

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
WASTEWATER UTILITY

As Of And For The Years Ended December 31, 2001, 2002, 2003, 2004, and 2005

	2001	2002	2003	2004	2005
Operating revenues:					
Measured revenue:					
Residential	\$ 331,827	\$ 423,134	\$ 592,526	\$ 721,949	\$ 836,881
Commercial	48,711	42,090	99,202	112,375	112,370
Penalties	44,670	88,314	85,383	103,829	227,353
Application and inspection fees	40,925	53,606	22,300	12,100	7,075
Other	7,160	2,907	28	27,213	5,325
Total operating revenues	473,293	610,051	799,439	977,466	1,189,004
Operating expenses:					
Treatment and disposal - purchased wastewater treatment	172,742	88,814	101,476	130,394	145,149
Salaries and wages	55,110	65,989	63,369	65,845	67,856
Purchased power	14,860	15,046	16,843	22,022	25,137
Materials and supplies	19,865	10,255	3,141	2,465	3,995
Contractual services	94,862	121,494	148,325	148,452	140,464
Equipment rental	1,917	2,023	1,852	1,502	2,288
Repair and maintenance	13,715	31,174	36,890	36,807	41,326
Telephone	7,277	7,167	7,329	6,339	8,299
Office supplies	2,390	609	4,569	6,285	5,132
Postage, delivery and copies	2,666	3,850	5,961	6,083	6,693
Dues and subscriptions	50	430	85	75	155
Transportation expenses	6,648	4,865	6,238	9,366	5,707
Insurance expense	25,721	33,687	40,374	39,119	38,862
Taxes	5,626	5,053	4,848	7,161	5,775
Depreciation and amortization	219,895	238,537	243,371	257,038	301,103
Miscellaneous expenses	18,745	28,490	26,125	20,319	28,893
Total operating expenses	662,089	657,483	710,796	759,272	826,834
Operating income (loss)	(188,796)	(47,432)	88,643	218,194	362,170
Nonoperating revenues (expenses):					
Exceptional benefits	95,533	92,788	94,080	91,845	93,630
Facility utilization fees	1,132,348	984,000	739,500	272,500	215,000
Interest and investment revenue	6,591	31,095	16,544	11,630	21,588
Interest expense	(464,935)	(455,877)	(526,895)	(534,327)	(562,671)
Amortization of bond issue costs	(25,486)	(108,551)	(19,398)	(19,398)	(19,398)
Purchased wastewater treatment based on facility utilization fees	-	(198,099)	(234,784)	(96,715)	(133,400)
Total nonoperating revenues (expenses)	744,051	345,356	69,047	(274,465)	(385,251)
Income (loss) before contributions and transfers	555,255	297,924	157,690	(56,271)	(23,081)
Capital contributions	4,000	-	280,514	791,429	866,337
Change in net assets	559,255	297,924	438,204	735,158	843,256
Total net assets - beginning	(53,184)	506,071	803,995	1,242,199	1,977,357
Total net assets - ending	\$ 506,071	\$ 803,995	\$ 1,242,199	\$ 1,977,357	\$ 2,820,613

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY CONSERVANCY DISTRICT
STATEMENT OF CASH FLOWS
WASTEWATER UTILITY
As Of And For The Years Ended December 31, 2001, 2002, 2003, 2004, and 2005

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Cash flows from operating activities:					
Receipts from customers and users	\$ 275,515	\$ 562,555	\$ 748,962	\$ 901,843	\$ 986,022
Payments to suppliers and contractors	(534,137)	(264,510)	(276,700)	(714,227)	(507,510)
Payments to employees	(57,711)	(67,462)	(63,369)	(65,641)	(68,060)
Interfund services provided (used)	(26,236)	98,429	116,962	111,629	112,518
Other receipts	<u>1,218,513</u>	<u>898,124</u>	<u>518,824</u>	<u>374,813</u>	<u>180,555</u>
Net cash provided by operating activities	<u>875,944</u>	<u>1,227,136</u>	<u>1,044,679</u>	<u>608,417</u>	<u>703,525</u>
Cash flows from capital and related financing activities:					
Proceeds from capital debt	625,000	5,582,169	-	-	-
Acquisition and construction of capital assets	(813,913)	(253,984)	(152,585)	(451,676)	(30,566)
Principal paid on capital debt	(305,227)	(4,234,379)	(320,000)	(730,000)	(495,000)
Interest paid on capital debt	<u>(501,212)</u>	<u>(455,877)</u>	<u>(526,895)</u>	<u>(534,327)</u>	<u>(562,671)</u>
Net cash provided (used) by capital and related financing activities	<u>(995,352)</u>	<u>637,929</u>	<u>(999,480)</u>	<u>(1,716,003)</u>	<u>(1,088,237)</u>
Cash flows from investing activities:					
Interest received	<u>6,591</u>	<u>31,095</u>	<u>16,544</u>	<u>11,630</u>	<u>21,588</u>
Net increase in cash and cash equivalents	(112,817)	1,896,160	61,743	(1,095,956)	(363,124)
Cash and cash equivalents, January 1	<u>509,652</u>	<u>396,835</u>	<u>2,292,995</u>	<u>2,354,738</u>	<u>1,258,782</u>
Cash and cash equivalents, December 31	<u>\$ 396,835</u>	<u>\$ 2,292,995</u>	<u>\$ 2,354,738</u>	<u>\$ 1,258,782</u>	<u>\$ 895,658</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (188,796)	\$ (47,432)	\$ 88,643	\$ 218,194	\$ 362,170
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	219,895	238,537	243,371	257,038	301,103
Nonoperating income	1,227,881	878,689	598,796	267,630	175,230
(Increase) decrease in assets:					
Receivables, net	(35,509)	(31,632)	(129,595)	27,532	(196,972)
Interfund services provided or used	(26,236)	98,429	116,962	111,629	112,518
Prepaid items	(956)	(3,283)	1,627	(221)	547
Increase (decrease) in liabilities:					
Accounts payable	(22,155)	113,194	125,729	(103,702)	(50,182)
Contracts payable	(319,351)	-	-	-	-
Taxes payable	(2,601)	(1,473)	-	204	(204)
Unearned income	(171,637)	3,571	(854)	4,058	(685)
Retainage payable	<u>195,409</u>	<u>(21,464)</u>	<u>-</u>	<u>(173,945)</u>	<u>-</u>
Total adjustments	<u>1,064,740</u>	<u>1,274,568</u>	<u>956,036</u>	<u>390,223</u>	<u>341,355</u>
Net cash provided by operating activities	<u>\$ 875,944</u>	<u>\$ 1,227,136</u>	<u>\$ 1,044,679</u>	<u>\$ 608,417</u>	<u>\$ 703,525</u>
Noncash investing, capital and financing activities:					
Contributions of capital assets from developers	\$ 4,000	\$ -	\$ 280,514	\$ 791,429	\$ 866,337

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Tri-County Conservancy District was established pursuant to Indiana Code 14-33. The area of the Conservancy District is commonly known as Heartland Crossing and its boundaries are in Morgan, Hendricks and Marion Counties. The Conservancy District is governed by an elected Board of Directors and provides the following services: collection, treatment and disposal of sewage and other liquid waste; water supply, including treatment and distribution for domestic, industrial and public use; and development of forest wildlife areas, ponds and recreational facilities in connection with beneficial water management. The expenses associated with the services for recreational facilities are included by the Conservancy District within the accounts of the Wastewater Utility. The Water Utility only provides services to customers in Morgan County. Water services for Conservancy District residents in Hendricks and Morgan County are provided by an outside water company.

The accompanying financial statements present the activities of the District. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the District to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Exceptional Benefit Assessments

Exceptional benefit assessments are levied on the following subdivisions with the Conservancy District commonly known as Heartland Crossing: The Settlement, Section 1; The Sanctuary, Sections 1 and 2; The Villas, Sections 1 and 2; The Landings, Sections 1 and 2; and The Mission, Sections 1 and 2. The assessment was for \$2,300 per lot plus interest at the rate of 7.5% payable in equal annual amounts of \$222.50 per lot per year for 20 years beginning in 1998. Exceptional benefits assessments levied are collected by the Morgan County Treasurer and are distributed to the Conservancy District in June and December. Assessments may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All exceptional benefit assessments collected by the Morgan County Treasurer and available for distribution were distributed to the Conservancy District on or prior to December 31 of the year collected.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by bond covenants and resolutions adopted by the district governing board.

5. Interfund Assets/Liabilities

During the course of its operations, the individual utilities have numerous transactions with each other to provide goods and services. To the extent these transactions have not been paid or received at year end, balances of these liabilities have been recorded in the statement of net assets of the enterprise funds.

Further, utility collections are collected in the Wastewater Utility and the Water Utility's portion of amounts collected is periodically transferred from the Wastewater Utility to the Water Utility. As of December 31, 2002, 2003, 2004, and 2005, insufficient transfers have been made from the Wastewater Utility to the Water Utility. As a result, the amount reported for cash and cash equivalents in the statement of net assets for the Water Utility is less than the amount reported for the liability for customer deposits.

In addition, the proceeds for the 2002 revenue bond issue are accounted for in the Wastewater Utility. As noted in Note II D, the proceeds from the bond were used for a variety of projects, including approximately \$779,500 used for water line improvements. The bond liability is accounted for, and bond payments are made by, the Wastewater Utility. The Conservancy District has allocated the approximate share of the Water Utility's portion of this debt obligation by reporting a due to Wastewater Utility in the Water Utility's statement of net assets, with a corresponding due from Water Utility in the Wastewater Utility's statement of net assets.

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Water Utility:			
Water lines	\$ 500	Straight-line	40 Years
Water lines - miscellaneous	500	Straight-line	40 Years
Equipment	500	DDB	7 Years
Software	500	DDB	7 Years
Wastewater Utility:			
Wastewater distribution and collection systems	500	Straight-line	40 Years
Structures	500	Straight-line	40 Years
Earthwork and landscaping	500	Straight-line	20 to 40 Years
Engineering, legal and accounting	500	Straight-line	20 to 40 Years
Parks and commons	500	Straight-line	7 to 40 Years
Storm drainage systems	500	Straight-line	40 Years
Equipment, software and related	500	DDB	7 Years
Vehicles	500	DDB	7 Years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the District during the current year was \$562,671.

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Receivables

The following receivable accounts have timing and credit characteristics different from typical accounts receivable. The district recognized a receivable at December 31, 2001, for exceptional benefits tax collected shortly after the beginning of the next year. In addition, the District recognized a receivable at December 31, 2003, for an insurance settlement collected early in the following year.

C. Capital Assets

Capital asset activity for the years ended December 31, 2001, 2002, 2003, 2004, and 2005, was as follows:

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2001:				
Capital assets, being depreciated:				
Water lines	\$ 733,346	\$ -	\$ -	\$ 733,346
Water lines - miscellaneous	103,557	46,170	-	149,727
Equipment	585	-	-	585
Software	2,430	-	-	2,430
	<u>839,918</u>	<u>46,170</u>	<u>-</u>	<u>886,088</u>
Totals				
Less accumulated depreciation for:				
Water lines	31,969	17,147	-	49,116
Water lines - miscellaneous	4,240	3,743	-	7,983
Equipment	219	110	-	329
Software	1,451	486	-	1,937
	<u>37,879</u>	<u>21,486</u>	<u>-</u>	<u>59,365</u>
Totals				
Total capital assets, net	<u>\$ 802,039</u>	<u>\$ 24,684</u>	<u>\$ -</u>	<u>\$ 826,723</u>

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Water Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2002:				
Capital assets, being depreciated:				
Water lines	\$ 733,346	\$ -	\$ -	\$ 733,346
Water lines - miscellaneous	149,727	-	-	149,727
Equipment	585	2,325	-	2,910
Software	2,430	-	-	2,430
Totals	<u>886,088</u>	<u>2,325</u>	<u>-</u>	<u>888,413</u>
Less accumulated depreciation for:				
Water lines	49,116	18,131	-	67,247
Water lines - miscellaneous	7,983	3,743	-	11,726
Equipment	329	2,325	-	2,654
Software	1,937	486	-	2,423
Totals	<u>59,365</u>	<u>24,685</u>	<u>-</u>	<u>84,050</u>
Total capital assets, net	<u>\$ 826,723</u>	<u>\$ (22,360)</u>	<u>\$ -</u>	<u>\$ 804,363</u>
2003:				
Capital assets, being depreciated:				
Water lines	\$ 733,346	\$ -	\$ -	\$ 733,346
Water lines - miscellaneous	149,727	-	-	149,727
Equipment	2,910	-	-	2,910
Software	2,430	-	-	2,430
Totals	<u>888,413</u>	<u>-</u>	<u>-</u>	<u>888,413</u>
Less accumulated depreciation for:				
Water lines	67,247	18,323	-	85,570
Water lines - miscellaneous	11,726	3,742	-	15,468
Equipment	2,654	256	-	2,910
Software	2,423	7	-	2,430
Totals	<u>84,050</u>	<u>22,328</u>	<u>-</u>	<u>106,378</u>
Total capital assets, net	<u>\$ 804,363</u>	<u>\$ (22,328)</u>	<u>\$ -</u>	<u>\$ 782,035</u>

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Water Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2004:				
Capital assets, being depreciated:				
Water lines	\$ 733,346	\$ -	\$ -	\$ 733,346
Water lines - miscellaneous	149,727	-	-	149,727
Equipment	2,910	-	-	2,910
Software	2,430	-	-	2,430
Totals	<u>888,413</u>	<u>-</u>	<u>-</u>	<u>888,413</u>
Less accumulated depreciation for:				
Water lines	85,570	19,426	-	104,996
Water lines - miscellaneous	15,468	2,870	-	18,338
Equipment	2,910	-	-	2,910
Software	2,430	-	-	2,430
Totals	<u>106,378</u>	<u>22,296</u>	<u>-</u>	<u>128,674</u>
Total capital assets, net	<u>\$ 782,035</u>	<u>\$ (22,296)</u>	<u>\$ -</u>	<u>\$ 759,739</u>
2005:				
Capital assets, being depreciated:				
Water lines	\$ 733,346	\$ -	\$ -	\$ 733,346
Water lines - miscellaneous	149,727	-	-	149,727
Equipment	2,910	-	-	2,910
Software	2,430	-	-	2,430
Totals	<u>888,413</u>	<u>-</u>	<u>-</u>	<u>888,413</u>
Less accumulated depreciation for:				
Water lines	104,996	22,186	-	127,182
Water lines - miscellaneous	18,338	-	-	18,338
Equipment	2,910	-	-	2,910
Software	2,430	-	-	2,430
Totals	<u>128,674</u>	<u>22,186</u>	<u>-</u>	<u>150,860</u>
Total capital assets, net	<u>\$ 759,739</u>	<u>\$ (22,186)</u>	<u>\$ -</u>	<u>\$ 737,553</u>

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Wastewater Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2001:				
Capital assets, not being depreciated:				
Land	\$ 1,164,212	\$ -	\$ -	\$ 1,164,212
Construction in progress	<u>318,616</u>	<u>-</u>	<u>-</u>	<u>318,616</u>
 Total capital assets, not being depreciated	 <u>1,482,828</u>	 <u>-</u>	 <u>-</u>	 <u>1,482,828</u>
Capital assets, being depreciated:				
Collections sewers	3,897,227	-	-	3,897,227
Storm drainage systems	2,235,011	204,026	-	2,439,037
Parks and commons	993,083	476,359	25,683	1,443,759
Equipment	44,830	325	-	45,155
Vehicles	13,335	1,199	-	14,534
Earthwork and landscaping	151,544	18,309	-	169,853
Engineering, legal and accounting	564,315	46,153	-	610,468
Software	<u>1,867</u>	<u>-</u>	<u>-</u>	<u>1,867</u>
 Totals	 <u>7,901,212</u>	 <u>746,371</u>	 <u>25,683</u>	 <u>8,621,900</u>
Less accumulated depreciation for:				
Collections sewers	204,189	97,431	-	301,620
Storm drainage systems	99,243	56,724	-	155,967
Parks and commons	48,882	46,219	-	95,101
Equipment	23,929	532	-	24,461
Vehicles	13,222	81	-	13,303
Earthwork and landscaping	10,820	3,928	-	14,748
Engineering, legal and accounting	27,254	14,607	-	41,861
Software	<u>1,050</u>	<u>373</u>	<u>-</u>	<u>1,423</u>
 Totals	 <u>428,589</u>	 <u>219,895</u>	 <u>-</u>	 <u>648,484</u>
 Total capital assets, being depreciated, net	 <u>7,472,623</u>	 <u>526,476</u>	 <u>25,683</u>	 <u>7,973,416</u>
 Total capital assets, net	 <u>\$ 8,955,451</u>	 <u>\$ 526,476</u>	 <u>\$ 25,683</u>	 <u>\$ 9,456,244</u>

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Wastewater Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2002:				
Capital assets, not being depreciated:				
Land	\$ 1,164,212	\$ -	\$ -	\$ 1,164,212
Construction in progress	<u>318,616</u>	<u>-</u>	<u>318,616</u>	<u>-</u>
 Total capital assets, not being depreciated	 <u>1,482,828</u>	 <u>-</u>	 <u>318,616</u>	 <u>1,164,212</u>
 Capital assets, being depreciated:				
Collections sewers	3,897,227	100,852	-	3,998,079
Storm drainage systems	2,439,037	360,868	-	2,799,905
Parks and commons	1,443,759	74,830	-	1,518,589
Equipment	45,155	-	-	45,155
Vehicles	14,534	-	-	14,534
Earthwork and landscaping	169,853	1,983	-	171,836
Engineering, legal and accounting	610,468	34,067	-	644,535
Software	<u>1,867</u>	<u>-</u>	<u>-</u>	<u>1,867</u>
 Totals	 <u>8,621,900</u>	 <u>572,600</u>	 <u>-</u>	 <u>9,194,500</u>
 Less accumulated depreciation for:				
Collections sewers	301,620	100,433	-	402,053
Storm drainage systems	155,967	77,787	-	233,754
Parks and commons	95,101	37,966	-	133,067
Equipment	24,461	1,129	-	25,590
Vehicles	13,303	748	-	14,051
Earthwork and landscaping	14,748	4,412	-	19,160
Engineering, legal and accounting	41,861	15,688	-	57,549
Software	<u>1,423</u>	<u>374</u>	<u>-</u>	<u>1,797</u>
 Totals	 <u>648,484</u>	 <u>238,537</u>	 <u>-</u>	 <u>887,021</u>
 Total capital assets, being depreciated, net	 <u>7,973,416</u>	 <u>334,063</u>	 <u>-</u>	 <u>8,307,479</u>
 Total capital assets, net	 <u>\$ 9,456,244</u>	 <u>\$ 334,063</u>	 <u>\$ 318,616</u>	 <u>\$ 9,471,691</u>

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Wastewater Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2003:				
Capital assets, not being depreciated:				
Land	\$ 1,164,212	\$ -	\$ -	\$ 1,164,212
Capital assets, being depreciated:				
Collections sewers	3,998,079	181,626	-	4,179,705
Storm drainage systems	2,799,905	111,999	-	2,911,904
Parks and commons	1,518,589	127,466	-	1,646,055
Equipment	45,155	-	-	45,155
Vehicles	14,534	-	-	14,534
Earthwork and landscaping	171,836	-	-	171,836
Engineering, legal and accounting	644,535	12,008	-	656,543
Software	1,867	-	-	1,867
Totals	<u>9,194,500</u>	<u>433,099</u>	<u>-</u>	<u>9,627,599</u>
Less accumulated depreciation for:				
Collections sewers	402,053	105,190	-	507,243
Storm drainage systems	233,754	73,693	-	307,447
Parks and commons	133,067	42,150	-	175,217
Equipment	25,590	1,129	-	26,719
Vehicles	14,051	138	-	14,189
Earthwork and landscaping	19,160	4,462	-	23,622
Engineering, legal and accounting	57,549	16,539	-	74,088
Software	1,797	70	-	1,867
Totals	<u>887,021</u>	<u>243,371</u>	<u>-</u>	<u>1,130,392</u>
Total capital assets, being depreciated, net	<u>8,307,479</u>	<u>189,728</u>	<u>-</u>	<u>8,497,207</u>
Total capital assets, net	<u>\$ 9,471,691</u>	<u>\$ 189,728</u>	<u>\$ -</u>	<u>\$ 9,661,419</u>

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Wastewater Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2004:				
Capital assets, not being depreciated:				
Land	\$ 1,164,212	\$ -	\$ -	\$ 1,164,212
Capital assets, being depreciated:				
Collections sewers	4,179,705	588,940	-	4,768,645
Structures	-	277,213	-	277,213
Storm drainage systems	2,911,904	292,377	-	3,204,281
Parks and commons	1,646,055	36,937	-	1,682,992
Equipment	45,155	-	-	45,155
Vehicles	14,534	-	-	14,534
Earthwork and landscaping	171,836	-	-	171,836
Engineering, legal and accounting	656,543	47,638	-	704,181
Software	1,867	-	-	1,867
Totals	<u>9,627,599</u>	<u>1,243,105</u>	<u>-</u>	<u>10,870,704</u>
Less accumulated depreciation for:				
Collections sewers	507,243	109,937	-	617,180
Structures	-	7,244	-	7,244
Storm drainage systems	307,447	75,253	-	382,700
Parks and commons	175,217	41,868	-	217,085
Equipment	26,719	1,128	-	27,847
Vehicles	14,189	138	-	14,327
Earthwork and landscaping	23,622	4,462	-	28,084
Engineering, legal and accounting	74,088	17,008	-	91,096
Software	1,867	-	-	1,867
Totals	<u>1,130,392</u>	<u>257,038</u>	<u>-</u>	<u>1,387,430</u>
Total capital assets, being depreciated, net	<u>8,497,207</u>	<u>986,067</u>	<u>-</u>	<u>9,483,274</u>
Total capital assets, net	<u>\$ 9,661,419</u>	<u>\$ 986,067</u>	<u>\$ -</u>	<u>\$ 10,647,486</u>

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Wastewater Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2005:				
Capital assets, not being depreciated:				
Land	\$ 1,164,212	\$ -	\$ -	\$ 1,164,212
Capital assets, being depreciated:				
Collections sewers	4,768,645	505,970	-	5,274,615
Structures	277,213	4,050	-	281,263
Storm drainage systems	3,204,280	360,367	-	3,564,647
Parks and commons	1,682,992	8,466	-	1,691,458
Equipment	45,155	-	-	45,155
Vehicles	14,534	-	-	14,534
Earthwork and landscaping	171,836	-	-	171,836
Engineering, legal and accounting	704,181	18,050	-	722,231
Software	1,868	-	-	1,868
	<u>10,870,704</u>	<u>896,903</u>	<u>-</u>	<u>11,767,607</u>
Less accumulated depreciation for:				
Collections sewers	617,180	119,622	-	736,802
Structures	7,244	1,512	-	8,756
Storm drainage systems	382,700	70,900	-	453,600
Parks and commons	217,085	69,464	-	286,549
Equipment	27,847	16,447	-	44,294
Vehicles	14,327	138	-	14,465
Earthwork and landscaping	28,084	5,957	-	34,041
Engineering, legal and accounting	91,096	17,063	-	108,159
Software	1,867	-	-	1,867
	<u>1,387,430</u>	<u>301,103</u>	<u>-</u>	<u>1,688,533</u>
Total capital assets, being depreciated, net	<u>9,483,274</u>	<u>595,800</u>	<u>-</u>	<u>10,079,074</u>
Total capital assets, net	<u>\$ 10,647,486</u>	<u>\$ 595,800</u>	<u>\$ -</u>	<u>\$ 11,243,286</u>

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Depreciation expense for the year ended December 31, 2005 was charged to functions/programs of the District as follows:

Water	\$	22,186
Wastewater		<u>301,103</u>
 Total depreciation expense	 \$	 <u><u>323,289</u></u>

D. Long-Term Liabilities

1. Revenue Bonds

The District issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
1997 Wastewater project	Variable	\$ 5,045,000
2002 Wastewater, water and commons improvements	Variable	<u>5,615,000</u>
 Total		 <u><u>\$ 10,660,000</u></u>

Interest rates are variable and fluctuate in proportion to the underlying bonds held by the Indiana Bond Bank.

The 2002 bonds are accounted for in the records of the Wastewater Utility, but were used for a variety of projects. \$779,500 of the bond proceeds were used for improvements to the Water Utility.

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest *
2006	\$ 475,000	\$ -
2007	640,000	-
2008	680,000	-
2009	720,000	-
2010	750,000	-
2011-2015	4,010,000	-
2016-2020	2,120,000	-
2021-2025	<u>1,265,000</u>	<u>-</u>
 Totals	 <u><u>\$ 10,660,000</u></u>	 <u><u>\$ -</u></u>

*Interest is variable and cannot be determined in advance.

TRI-COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Wastewater Utility	\$ 11,095,000	\$ -	\$ 435,000	\$ 11,095,000	\$ 475,000

III. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Settlement with Indianapolis Water Company

On December 12, 1997, the Conservancy District approved a settlement agreement with Eastern Morgan Rural Water Company Inc., in order to settle all claims and litigation between the District and the Water Company. Eastern Morgan Rural Water Company Inc., was purchased by Indianapolis Water Company in 1999 and became a party to the agreement. The Conservancy District agreed to pay \$150,000 upon acceptance of the agreement. The Conservancy District is to pay \$10 per month for each residential unit and \$10 per month for each equivalent residential unit except for water used by the golf course, homeowners' association and park and common areas. Payments under the agreement commenced in January 1998 and will continue for 25 years, with the last payment due February 15, 2023, for January 2023. Payments are made by the Water Utility and are recognized on the Statement of Revenues, Expenses and Other Changes in Fund Net Assets as Settlement with Indianapolis Water Company. The estimated liability for the succeeding 12 month period is recognized on the Statement of Net Assets as Due to Indianapolis Water Company.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the District on February 3, 1998. The Utility has 660 customers.

2. Wastewater Utility

The current rate structure was approved by the District on August 14, 2002. The Utility has 2,250 customers.

TRI-COUNTY CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 12, 2006, with David K. Pasotti, Board member and Financial Clerk; David Smith, Board Secretary; Alan Hux, District Attorney; Stephen Schenk, contractual Accountant; Rebecca Brown, contractual Accountant; Shehla Siddiqi, contractual Accountant. Our audit disclosed no material items that warrant comment at this time.