

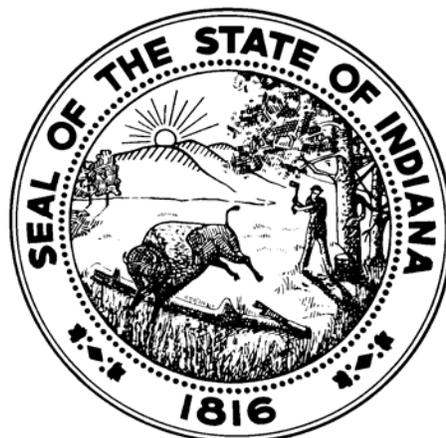
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2005

SOUTH CENTRAL REGIONAL SEWER DISTRICT

MONROE COUNTY, INDIANA



**FILED**  
03/06/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utility Manager	Rick Coppock	01-01-01 to 12-31-06
Treasurer	Patricia Gross Benjamin Keutzer	01-01-01 to 09-24-03 09-25-03 to 12-31-06
President of the District Board	Randy Cassady Gary Lentz	01-01-01 to 12-31-01 01-01-02 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE SOUTH CENTRAL REGIONAL  
SEWER DISTRICT, MONROE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the South Central Regional Sewer District (District), as of and for the year ended December 31, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

December 5, 2006



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE SOUTH CENTRAL REGIONAL  
SEWER DISTRICT, MONROE COUNTY, INDIANA

We have audited the financial statements of the South Central Regional Sewer District (District), as of and for the year ended December 31, 2005, and have issued our report dated December 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

This report is intended solely for the information and use of the District's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

December 5, 2006

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2005

<u>Assets</u>	<u>2005</u>
Current assets:	
Cash and cash equivalents	\$ 185,210
Accounts receivable	209,616
Other receivable-bond proceeds	<u>348,900</u>
Total current assets	<u>743,726</u>
Noncurrent assets:	
Restricted cash and cash equivalents:	
Bond and interest	42,957
Construction (LaSalle Woods)	31,361
Construction (Van Buren)	(3,014)
Reserve	<u>76,560</u>
Total restricted assets:	<u>147,864</u>
Capital assets:	
Land, improvements to land and construction in progress	1,743,698
Other capital assets (net of accumulated depreciation)	<u>4,840,046</u>
Total capital assets	<u>6,583,744</u>
Total noncurrent assets	<u>6,731,608</u>
Total assets	<u>7,475,334</u>
 <u>Liabilities</u>	
Current liabilities:	
Accounts payable	42,801
Current liabilities payable from restricted assets:	
Revenue bonds payable	12,800
Accrued interest payable	<u>10,711</u>
Total current liabilities	<u>66,312</u>
Noncurrent liabilities:	
Revenue bonds payable	<u>1,115,650</u>
Total liabilities	<u>1,181,962</u>
 <u>Net Assets</u>	
Invested in capital assets, net of related debt	5,455,294
Restricted for debt service	119,517
Unrestricted	<u>718,561</u>
Total net assets	<u>\$ 6,293,372</u>

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

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2005

	2005
Operating revenues:	
Commercial sales	\$ 678,092
Penalties	15,519
Other	32,485
Total operating revenues	726,096
Operating expenses:	
Operations and maintenance	94,663
Customer accounts	21,991
Depreciation	202,300
Professional fees	32,660
Director fees	8,800
Purchased power	48,175
Telephone	4,611
Office expense	814
Materials and supplies	50,691
Contractual services	240,376
Contract labor	2,520
Transportation expenses	3,563
Insurance expense	13,405
Miscellaneous expenses	4,364
Total operating expenses	728,933
Operating loss	(2,837)
Nonoperating revenues (expenses):	
Interest and investment revenue	5,359
Interest expense	(23,843)
Amortization expense	(834)
Total nonoperating expenses	(19,318)
Loss before contributions	(22,155)
Capital contributions	781,900
Change in net assets	759,745
Total net assets - beginning	5,533,627
Total net assets - ending	\$ 6,293,372

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

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2005

	2005
Cash flows from operating activities:	
Receipts from customers and users	\$ 652,961
Payments to suppliers and contractors	(492,778)
Other receipts	48,004
Net cash provided by operating activities	208,187
Cash flows from capital and related financing activities:	
Proceeds from capital debt	475,200
Capital contributions	781,900
Acquisition and construction of capital assets	(1,167,372)
Principal paid on capital debt	(288,700)
Interest paid on capital debt	(25,860)
Net cash used by capital and related financing activities	(224,832)
Cash flows from investing activities:	
Interest received	5,359
Net increase in cash and cash equivalents	(11,286)
Cash and cash equivalents, January 1	344,360
Cash and cash equivalents, December 31	\$ 333,074
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (2,837)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	202,300
Decrease in assets:	
Accounts receivable	(22,631)
Increase (decrease) in liabilities:	
Accounts payable	33,855
Customer deposits	(2,500)
Total adjustments	211,024
Net cash provided by operating activities	\$ 208,187

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

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District (primary government) was established under the laws of the State of Indiana. The District operates under an appointed Board of Trustees form of government and provides the following services: wastewater removal and treatment.

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.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

2. Inventories and Prepaid Items

Materials and supplies purchased throughout the year for repair and maintenance of the District are charged to expense accounts at the time of purchase. Inventories of materials and supplies at year end are not considered material and, therefore, are not reflected in the financial statements.

3. 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 applicable bond indentures or governing body action.

4. 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Collection systems	\$ 1,000	Straight-line	33 <sup>1</sup> / <sub>3</sub> years
Treatment plants	1,000	Straight-line	33 <sup>1</sup> / <sub>3</sub> years
Vehicles	1,000	Straight-line	5 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 \$23,843. No interest expense was included as part of the cost of capital assets under construction in connection with the wastewater treatment facilities construction project.

5. Compensated Absences

There are no employees for the South Central Regional Sewer District.

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

6. 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.

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. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 53,162	\$ -	\$ -	\$ 53,162
Construction in progress	<u>562,523</u>	<u>1,128,013</u>	<u>-</u>	<u>1,690,536</u>
				-
Total capital assets, not being depreciated	<u>615,685</u>	<u>1,128,013</u>	<u>-</u>	<u>1,743,698</u>
Capital assets, being depreciated:				
Collection system	5,682,782	23,651	-	5,706,433
Treatment plant	1,603,462	15,708	-	1,619,170
Transportation equipment	<u>25,899</u>	<u>-</u>	<u>-</u>	<u>25,899</u>
Totals	<u>7,312,143</u>	<u>39,359</u>	<u>-</u>	<u>7,351,502</u>
Less accumulated depreciation for:				
Collection system	1,757,646	154,194	-	1,911,840
Treatment plant	525,611	48,106	-	573,717
Transportation equipment	<u>25,899</u>	<u>-</u>	<u>-</u>	<u>25,899</u>
Totals	<u>2,309,156</u>	<u>202,300</u>	<u>-</u>	<u>2,511,456</u>
Total capital assets, being depreciated, net	<u>5,002,987</u>	<u>(162,941)</u>	<u>-</u>	<u>4,840,046</u>
Total capital assets, net	<u>\$ 5,618,672</u>	<u>\$ 965,072</u>	<u>\$ -</u>	<u>\$ 6,583,744</u>

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Depreciation expense was charged to functions/programs of the District as follows:

Wastewater     \$ 202,300

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2005	Committed	Required Future Funding
Van Buren	<u>\$ 1,973,021</u>	<u>\$ 1,690,536</u>	<u>\$ 282,485</u>	<u>\$ 282,485</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
2005 Sewage Revenue Bonds - Lake Monroe	4.125%	\$ 824,100
1996 Sewage Revenue Bonds - Harrodsburg	5.000%	84,000
1983 Sewage Revenue Bonds - Stinesville	5.000%	93,000
2000 Sewage Revenue Bonds - Briarwood	1.000%	<u>127,350</u>
 Total		 <u>\$ 1,128,450</u>

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	District	
	Principal	Interest
2006	\$ 12,800	\$ 44,035
2007	16,000	43,706
2008	16,100	43,249
2009	17,100	42,796
2010	18,300	42,301
2011-2015	102,450	202,592
2016-2020	106,700	186,056
2021-2025	103,000	168,090
2026-2030	140,000	142,106
2031-2035	175,000	109,503
2036-2040	214,000	69,878
2041-2045	<u>207,000</u>	<u>21,780</u>
Totals	<u>\$ 1,128,450</u>	<u>\$ 1,116,092</u>

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	<u>\$ 413,050</u>	<u>\$ 824,100</u>	<u>\$ 108,700</u>	<u>\$ 1,128,450</u>	<u>\$ 12,800</u>

E. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

Bond and interest	\$ 42,957
Construction account (LaSalle Woods)	31,361
Construction account (Van Buren)	(3,014)
Reserve	<u>76,560</u>
Total restricted assets	<u>\$ 147,864</u>

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; 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. Risk financing is not utilized for the other risks of loss.

B. Name Change

The District received approval to change the name Monroe County Regional Sewer District to South Central Regional Sewer District on March 23, 2005.

C. Rate Structure

The current rate structure was approved by the District as follows:

Lake Monroe Division on January 10, 1996  
Stinesville Division on February 22, 2006  
Van Buren Division on July 26, 2006  
Briarwood Division on March 22, 2000  
North Park Division on July 26, 2006

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
AUDIT RESULTS AND COMMENTS

PRESCRIBED FORMS

The South Central Regional Sewer District was using the following form which had not been approved for use in lieu of a prescribed form:

General Ledger

Municipal Sewage Utility Accounts Payable Voucher (Utility Form 301S) was not used to support disbursements in numerous instances by the South Central Regional Sewer District.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CONDITION OF RECORDS

The following deficiency relating to the record keeping was present during our period of audit:

The information presented for audit indicates that numerous posting errors were made in the District's accounting records.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ORDINANCES AND RESOLUTIONS

The South Central Regional Sewer District enacted an ordinance concerning rates of depreciation. In 2005, the District should have charged approximately \$27,600 to depreciation expense for the Stinesville Division. However, the District charged only \$11,500.

The South Central Regional Sewer District issued \$165,000 of revenue bonds in 2000. The District was required by the bond ordinance to establish a bond and interest account and a reserve account for the Briarwood Division. The District did not establish these accounts.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
AUDIT RESULTS AND COMMENTS  
(Continued)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period:

1. Claims were not prepared for all disbursements.
2. Some claims were not adequately itemized.
3. Claims were not certified by the fiscal officer.
4. Some claims or invoices did not have evidence to support receipt of goods or services.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

SALES TAX

Sales tax was paid on some purchases.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

PENALTIES, INTEREST AND OTHER CHARGES

Late charges totaling \$201.92 were paid by the District during the audit period.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
AUDIT RESULTS AND COMMENTS  
(Continued)

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OVERDRAWN CASH

The cash balance of the Van Buren Construction Fund at December 31, 2005, was overdrawn by \$3,014.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts. Chapter 10)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE SOUTH CENTRAL REGIONAL  
SEWER DISTRICT, MONROE COUNTY, INDIANA

Compliance

We have audited the compliance of the South Central Regional Sewer District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2005. The District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied in all material respects with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses.

This report is intended solely for the information and use of the District's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

December 5, 2006

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Year Ended December 31, 2005

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Water and Waste Disposal Systems for Rural Communities: Rural Utilities Service-FY 2005	10.760	None Available	\$ <u>1,257,100</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the South Central Regional Sewer District (primary government) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Loans Outstanding

The primary government had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2005. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Loans Outstanding
Water and Waste Disposal Systems for Rural Communities	10.760	\$ <u>475,200</u>

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SOUTH CENTRAL REGIONAL SEWER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on January 16, 2007, with Gary Lentz, President of the District Board; Benjamin Keutzer, Treasurer; Rick Coppock, Utility Manager; Phil Hathaway, Accountant; and Theodore Ferguson, Attorney. The officials concurred with our audit findings.