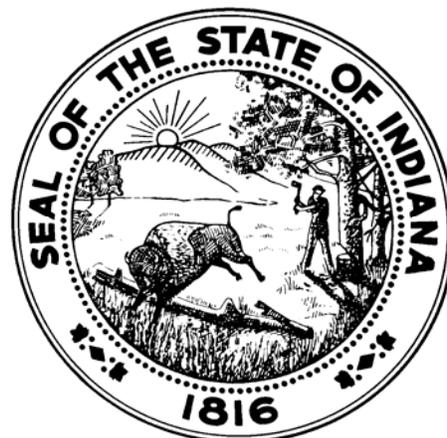


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

LAWRENCEBURG, MANCHESTER, SPARTA
TOWNSHIPS CONSERVANCY DISTRICT
DEARBORN COUNTY, INDIANA

January 1, 2005 to December 31, 2006



FILED
10/11/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	Melvin Craig	01-01-05 to 12-31-07
Financial Clerk	David D. Hizer	01-01-05 to 12-31-07
President of the Board	Wayne L. Montgomery	01-01-05 to 12-31-07



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE LAWRENCEBURG, MANCHESTER, SPARTA
TOWNSHIPS CONSERVANCY DISTRICT, DEARBORN COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Lawrenceburg, Manchester, Sparta Townships Conservancy District (District), as of and for the years ended December 31, 2005, and 2006. 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, 2005, and 2006, 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 that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

August 9, 2007

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
December 31, 2005 And 2006

<u>Assets</u>	<u>2005</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 496,426	\$ 40,967
Investments	-	200,000
Interest receivable	-	8,163
Accounts receivable (net of allowance)	37,833	49,910
Prepaid items	<u>7,167</u>	<u>7,008</u>
Total current assets	<u>541,426</u>	<u>306,048</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Bond and interest cash and investments	210,025	228,659
Customer deposits	69,327	75,137
Interest receivable	<u>1,054</u>	<u>1,095</u>
Total restricted assets	<u>280,406</u>	<u>304,891</u>
Deferred charges	<u>17,680</u>	<u>15,401</u>
Capital assets:		
Land, improvements to land and construction in progress	36,725	36,725
Other capital assets (net of accumulated depreciation)	<u>2,320,993</u>	<u>2,412,324</u>
Total capital assets	<u>2,357,718</u>	<u>2,449,049</u>
Total noncurrent assets	<u>2,655,804</u>	<u>2,769,341</u>
Total assets	<u>3,197,230</u>	<u>3,075,389</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	4,551	5,394
Accrued payroll and withholdings payable	482	514
Taxes payable	5,680	5,707
Matured unpaid bonds and coupons	131,300	98,900
Current liabilities payable from restricted assets:		
Customer deposits	69,327	75,137
Revenue bonds payable	125,833	136,580
Accrued interest payable	<u>2,100</u>	<u>5,261</u>
Total current liabilities	<u>339,273</u>	<u>327,493</u>
Noncurrent liabilities:		
Revenue bonds payable	<u>721,954</u>	<u>592,928</u>
Total noncurrent liabilities	<u>721,954</u>	<u>592,928</u>
Total liabilities	<u>1,061,227</u>	<u>920,421</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,396,311	1,636,042
Restricted for debt service	207,925	223,398
Unrestricted	<u>531,767</u>	<u>295,528</u>
Total net assets	<u>\$ 2,136,003</u>	<u>\$ 2,154,968</u>

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

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 497,308	\$ 484,567
Commercial	57,640	50,428
Fire protection revenue	4,742	3,036
Penalties	4,281	4,486
Other water revenue	<u>14,585</u>	<u>19,939</u>
 Total operating revenues	 <u>578,556</u>	 <u>562,456</u>
 Operating expenses:		
Source of supply and expense - operations and maintenance	249,885	272,043
Customer accounts	40,025	44,492
Administration and general	88,216	115,956
Insurance expense	16,253	16,505
Depreciation and amortization	<u>98,652</u>	<u>102,180</u>
 Total operating expenses	 <u>493,031</u>	 <u>551,176</u>
 Operating income	 <u>85,525</u>	 <u>11,280</u>
 Nonoperating revenues (expenses):		
Interest and investment revenue	12,826	25,484
Miscellaneous revenue	41,988	51,296
Interest expense	(45,129)	(46,061)
Miscellaneous expense	<u>(2,279)</u>	<u>(23,034)</u>
 Total nonoperating revenues	 <u>7,406</u>	 <u>7,685</u>
 Change in net assets	 92,931	 18,965
Total net assets - beginning	<u>2,043,072</u>	<u>2,136,003</u>
Total net assets - ending	<u>\$ 2,136,003</u>	<u>\$ 2,154,968</u>

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

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS

As Of And For The Years Ended December 31, 2005 And 2006

	2005	2006
Cash flows from operating activities:		
Receipts from customers and users	\$ 596,734	\$ 555,469
Payments to suppliers and contractors	(212,182)	(236,801)
Payments to employees	(185,691)	(210,414)
Other receipts	41,988	51,296
	240,849	159,550
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(10,963)	(214,266)
Principal paid on capital debt	(77,856)	(148,279)
Interest paid on capital debt	(52,904)	(45,300)
	(141,723)	(407,845)
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Purchase of Investments	-	(200,000)
Interest received	12,826	17,280
	12,826	(182,720)
Net cash provided (used) by investing activities		
Net increase in cash and cash equivalents	111,952	(431,015)
Cash and cash equivalents, January 1	563,686	675,638
Cash and cash equivalents, December 31	\$ 675,638	\$ 244,623
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 85,525	\$ 11,280
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	98,652	102,180
Nonoperating revenue	41,988	51,296
(Increase) decrease in assets:		
Accounts receivable	14,972	(12,797)
Inventories	-	720
Prepaid items	119	159
Increase (decrease) in liabilities:		
Accounts payable	(530)	843
Accrued payroll and withholdings	(101)	32
Taxes payable	(532)	27
Advances in construction	(2,450)	-
Customer deposits	3,206	5,810
	155,324	148,270
Total adjustments		
Net cash provided by operating activities	\$ 240,849	\$ 159,550

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

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY 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 form of government and provides the following services: water 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.

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

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Prepaid Items

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.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, and deposits received from customers are classified as restricted assets on the statement of net assets balance sheet because their use is restricted by bond covenants and regulatory agencies.

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.

The District does not have a formal policy for capitalization thresholds. Depreciation of the capital assets has been provided on the straight-line method using estimated useful lives as follows:

Buildings	33 years
Improvements other than buildings	5 to 67 years
Machinery and equipment	5 to 25 years
Transportation equipment	5 to 10 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.

5. Compensated Absences

- a. Sick Leave – District employees earn sick leave at rates from 10 days per year at full pay and 10 days per year at ½ pay to 20 days per year at full pay and 20 days per year at ½ pay. Sick leave does not accumulate from year to year.
- b. Vacation Leave – District employees earn vacation leave at rates from 5 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY 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 and 2006, was as follows:

	Balance January 1, 2005	Increases	Decreases	Balance December 31, 2005
Capital assets, not being depreciated:				
Land	\$ 36,725	\$ -	\$ -	\$ 36,725
Capital assets, being depreciated:				
Improvements other than buildings	2,964,196	4,220	-	2,968,416
Buildings	27,826	-	-	27,826
Machinery and equipment	881,884	6,743	-	888,627
Transportation equipment	75,415	-	-	75,415
Totals	<u>3,949,321</u>	<u>10,963</u>	<u>-</u>	<u>3,960,284</u>
Less accumulated depreciation for:				
Improvements other than buildings	1,114,824	64,788	-	1,179,612
Buildings	26,771	258	-	27,029
Machinery and equipment	343,893	26,405	-	370,298
Transportation equipment	55,151	7,201	-	62,352
Totals	<u>1,540,639</u>	<u>98,652</u>	<u>-</u>	<u>1,639,291</u>
Total capital assets, being depreciated, net	<u>2,408,682</u>	<u>(87,689)</u>	<u>-</u>	<u>2,320,993</u>
Total capital assets, net	<u>\$ 2,445,407</u>	<u>\$ (87,689)</u>	<u>\$ -</u>	<u>\$ 2,357,718</u>

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Balance January 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2006</u>
Capital assets, not being depreciated:				
Land	\$ 36,725	\$ -	\$ -	\$ 36,725
Capital assets, being depreciated:				
Improvements other than buildings	2,968,416	199,120	30,234	3,137,302
Buildings	27,826	-	-	27,826
Machinery and equipment	888,627	8,944	-	897,571
Transportation equipment	<u>75,415</u>	<u>-</u>	<u>-</u>	<u>75,415</u>
Totals	<u>3,960,284</u>	<u>208,064</u>	<u>30,234</u>	<u>4,138,114</u>
Less accumulated depreciation for:				
Improvements other than buildings	1,179,612	69,328	15,681	1,233,259
Buildings	27,029	261	-	27,290
Machinery and equipment	370,298	25,394	-	395,692
Transportation equipment	<u>62,352</u>	<u>7,197</u>	<u>-</u>	<u>69,549</u>
Totals	<u>1,639,291</u>	<u>102,180</u>	<u>15,681</u>	<u>1,725,790</u>
Total capital assets, being depreciated, net	<u>2,320,993</u>	<u>105,884</u>	<u>14,553</u>	<u>2,412,324</u>
Total capital assets, net	<u>\$ 2,357,718</u>	<u>\$ 105,884</u>	<u>\$ 14,553</u>	<u>\$ 2,449,049</u>

C. 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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1968 Water revenue bonds	6%	\$ 95,000
1998 Water revenue bonds	*	353,436
1999 Water revenue bonds	*	<u>281,072</u>
Total		<u>\$ 729,508</u>

*Monthly payments on the outstanding bonds include interest computed at 74% of the prime interest rate published for the month of payment.

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2007	\$ 136,580	\$ 44,437
2008	137,448	36,146
2009	91,120	27,807
2010	95,055	22,244
2011	99,277	16,441
2012-2014	<u>170,028</u>	<u>15,911</u>
Totals	<u>\$ 729,508</u>	<u>\$ 162,986</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005 and 2006, was as follows:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Revenue bonds payable	<u>\$ 970,643</u>	<u>\$ -</u>	<u>\$ 122,856</u>	<u>\$ 847,787</u>	<u>\$ 125,833</u>
	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	Due Within One Year
Revenue bonds payable	<u>\$ 847,787</u>	<u>\$ -</u>	<u>\$ 118,279</u>	<u>\$ 729,508</u>	<u>\$ 136,580</u>

D. Restricted Assets

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

Customer deposits	\$ 75,137
Bond and interest cash	128,659
Bond and interest investments	100,000
Interest receivable	<u>1,095</u>
Total restricted assets	<u>\$ 304,891</u>

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY 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; job related illnesses or injuries to employees; and natural disasters.

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

B. Rate Structure

The current rate structure was approved by the Indiana Utility Regulatory Commission on July 27, 1999. The Utility has 1,930 customers.

C. Pension Plan

Defined Contribution Pension Plan

Plan Description

The District has a defined contribution pension plan authorized by Indiana Code 5-10.2-2-1(d). The plan provides retirement benefits to plan members. The plan is a simplified employee pension plan, an individual retirement account contribution agreement under terms of section 408 (K) of the Internal Revenue Code.

Funding Policy and Annual Pension Cost

The District contributed 7% of covered employees' salaries. In 2005 and 2006, the District contributed \$7,747 and \$8,025, respectively, to covered employees' account.

LAWRENCEBURG, MANCHESTER, SPARTA TOWNSHIPS CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on August 9, 2007, with Melvin Craig, Superintendent; David D. Hizer, Financial Clerk; and Wayne L. Montgomery, President of the Board. Our audit disclosed no material items that warrant comment at this time.