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

ANNUAL FINANCIAL REPORT

2006 AND 2005

CLAY TOWNSHIP REGIONAL WASTE DISTRICT

HAMILTON COUNTY, INDIANA



**FILED**  
10/31/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Administration/ Customer Service	Candy J. Feltner	01-01-05 to 12-31-07
Utility Director	Andrew Williams	05-23-05 to 12-31-07
Controller	Ron Hansen	01-13-05 to 12-31-07
Treasurer	Carol S. Hartman Michael A. Claytor	01-01-05 to 12-31-05 01-01-06 to 12-31-06
President of the Board	David S. DeVilbiss Ronald F. Houck	01-01-05 to 12-31-05 01-01-06 to 12-31-06



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CLAY TOWNSHIP REGIONAL  
WASTE DISTRICT, HAMILTON COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Clay Township Regional Waste District (District), as of and for the years ended December 31, 2006 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.

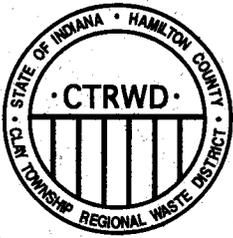
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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, 2006 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 Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

August 30, 2007



# Clay Township Regional Waste District

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## Management's Discussion and Analysis

As management of Clay Township Regional Waste District (the District), we offer readers of our financial statements this narrative, overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Since the District is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The District's financial statements present a Regional Sewer District organized under the laws of the State of Indiana (Indiana Code Title 13, Article 26) to provide sanitary sewer to specific areas of Hamilton, Boone and Marion Counties including Clay Township. The District is not a segment of any local county government nor is it a component unit thereof. The enterprise fund financial statements are presented in a manner similar to a private-sector business.

The **Statement of Net Assets** presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The **Statement of Revenues, Expenses and Other Changes in Fund Net Assets** presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. This statement may be used to determine whether the District has successfully recovered all of its costs through user fees and other charges.

The **Statement of Cash Flows** presents the cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities.

### Financial Highlights

In 2006, the assets of the District exceeded its liabilities by \$100,123,932. Of this amount, \$88,078,425 is invested in capital assets and \$12,045,507 is depicted as unrestricted and may be used to meet the District's ongoing obligations. However, the District has placed restrictions on the use of funds collected for the expansion of sewage treatment facilities and the collection system. These funds total \$4,728,879.

The District's total net assets in 2006 increased by \$10,055,846, of which \$9,911,562 was attributable to capital contributions and connection charges from developers and property owners.

The District's total liabilities in 2006 decreased by \$461,636, which was primarily due to a decrease in inspection fees billed prior to the start of developer interceptor projects and a decrease in accounts payable resulting from fewer active construction projects.

## Net Assets

	2006	2005	2006 vs 2005	
			Change	%
Current and other assets	\$ 12,715,886	\$ 11,609,010	\$ 1,106,876	9.5%
Capital Assets	88,078,425	79,591,091	8,487,334	10.7%
<b>Total assets</b>	<b>100,794,311</b>	<b>91,200,101</b>	<b>9,594,210</b>	<b>10.5%</b>
Current liabilities	514,529	976,165	(461,636)	-47.3%
Long-term liabilities	155,850	155,850	0	0.0%
<b>Total liabilities</b>	<b>670,379</b>	<b>1,132,015</b>	<b>(461,636)</b>	<b>-40.8%</b>
<b>Net Assets</b>				
Invested in capital assets	88,078,425	79,591,091	8,487,334	10.7%
Unrestricted	12,045,507	10,476,995	1,568,512	15.0%
<b>Total net assets</b>	<b>\$ 100,123,932</b>	<b>\$ 90,068,086</b>	<b>\$ 10,055,846</b>	<b>11.2%</b>

## Capital Asset and Debt Administration

The District's total investment in capital assets including construction in process in 2006 totaled \$88.1 million (net of accumulated depreciation). These assets include land, buildings, sewer lines, lift stations, treatment facilities, machinery and equipment, and construction in process. Capital assets increased by \$8.5 million or 10.7% over 2005. Significant 2006 capital events included:

- The completion of the 106<sup>th</sup> Street Force Main & Lift Station #2 Upgrade project costing \$5.5 million. Spending in 2006 was \$0.7 million. This project enabled the District to begin diverting 0.75 million gallons of the daily flow from Lift Station #2 to our Michigan Road Treatment Plant in August instead of sending all of the flow to Carmel Utilities for treatment.
- The completion of the Little Eagle Creek Interceptors Phase I & II at a cost of \$2.0 million. Spending in 2006 was \$0.9 million.
- Began the design of the Michigan Road Biosolids Processing project budgeted at \$1.3 million. In 2007, a building will be constructed and a biosolids de-watering machine purchased to allow the District to dispose of treated waste in solid rather than liquid form. This will significantly reduce the disposal costs. Spending on this project in 2006 was \$0.1 million.
- Acceptance of \$6.4 million of developer constructed neighborhood sewers.
- Spending on other projects:
 

Crooked Stick Neighborhood Sewer	\$654,000
Michigan Road Treatment Plant Expansion	\$131,000
Parkwood West Forcemain & LS# 24	\$418,000

More detailed information on the District's capital assets is presented in Sections I-D-3, II-B and II-C in the Notes to Financial Statements.

At the end of 2006, the District had long-term liabilities of \$155,850 in deferred credits. Most of this was a reimbursement owed to a developer for the construction of an off-site interceptor. Payment to the developer will not occur until Interceptor funds become available. This fund has been running a deficit and borrowed \$700,000 from the Operating fund in 2006. The fund has borrowed \$1,800,000 in total and reimbursement is not anticipated for several years. The Interceptor Fee will be reviewed in 2007. All of the capital projects are being paid from funds on hand and the District has not had any bonds outstanding since 2002.

## Revenues, Expenses and Changes in Fund Net Assets

	2006	2005	2006 vs 2005	
			Change	%
<b>Revenues</b>				
Operating revenue	\$ 4,188,251	\$ 3,961,351	\$ 226,900	5.7%
Interest and investment revenue	522,885	379,579	143,306	37.8%
Other revenue	63,581	33,917	29,664	87.5%
<b>Total revenue</b>	<b>4,774,717</b>	<b>4,374,847</b>	<b>399,870</b>	<b>9.1%</b>
<b>Expenses</b>				
Operating expenses:				
Operations and maintenance	1,014,606	886,097	128,509	14.5%
Treatment and disposal	930,229	786,017	144,212	18.3%
Customer accounts	174,285	154,726	19,559	12.6%
Administration and general	700,815	527,648	173,167	32.8%
Other	700,576	561,880	138,696	24.7%
Depreciation	1,109,922	853,712	256,210	30.0%
<b>Total expenses</b>	<b>4,630,433</b>	<b>3,770,080</b>	<b>860,353</b>	<b>22.8%</b>
Income before contributions	144,284	604,767	(460,483)	-76.1%
Capital contributions	9,911,562	10,064,187	(152,625)	-1.5%
Change in net assets	10,055,846	10,668,954	(613,108)	-5.7%
Total net assets - beginning	90,068,086	79,399,132	10,668,954	13.4%
<b>Total net assets - ending</b>	<b>\$ 100,123,932</b>	<b>\$ 90,068,086</b>	<b>\$ 10,055,846</b>	<b>11.2%</b>

Revenue increased in 2006 by \$399,870 or 9.1%. The increase was due in part to customer growth and higher interest and investment revenue resulting from rising interest rates and a \$2,000,000 increase in investments during the year. Customer growth continued at a strong pace with customers billed increasing from 10,468 in 2005 to 11,005 in 2006, an increase of 537 customers or 5.1%.

Expenses increased in 2006 by \$860,353 or 22.8%. Salaries and Wages increased by \$203,042 or 25.1% even though staff levels were unchanged from 2005 and the average pay increase was only 4%. Most of the change resulted from the full year's salary paid in 2006 to the seven employees added in 2005 compared to the partial year's salary they received in 2005. This was also the primary cause for the \$98,796 or 30.2% increase in Employee Pensions and Benefits. Purchased Wastewater Treatment increased by \$144,212 or 18.3% due primarily to the 17.3% rate increase in the wholesale treatment rate by the City of Carmel in November 2005. Depreciation showed a substantial increase of \$256,210 or 30.0% in 2006 due to the \$16.5M or 25.6% increase in capital assets being depreciated.

Income before Contributions declined from \$604,767 in 2005 to \$144,284 in 2006 due to expenses increasing faster than revenues as noted above. Depreciation, a non-cash item, accounted for 55.6% of the \$460,483 decrease in Income.

## Economic Outlook and Next Year's Budget

The District will add new customers over the next several years but at a slower rate than the 7% average of the past four years. Undeveloped areas within our current service territory will continue to shrink and service will be extended to older neighborhoods that are still using septic systems. The most promising areas for future growth will be along the US 421 corridor. Additional service territory may be added since

the District is well positioned to serve these areas and has several advantages over other sewer utilities as a Regional Sewer District.

The District's financial position remains strong. The District had no outstanding bonds and Noncurrent Liabilities of only \$0.2M. Cash and Investments totaled \$11.0M at the end of 2006. The 2007 three-year capital budget of \$12.5M will be paid from cash on hand and development fees. Outside financing will not be required.

Revenue in 2007 is budgeted to decline due to a slower growth rate, a 4% decrease in customer rates per the 2006 Rate Study, and a decline in interest income due to lower investments as funds are used for capital projects. Total Operating Expenses excluding depreciation in 2007 are budgeted to increase 6% over 2006 actual expenses. This is substantially lower than the 21% increase in 2006. No staff additions are planned in 2007.

Growth in the District will lead to further additions to capital assets due to neighborhood collection system dedications, new interceptors and additions to the treatment system. Net Capital Assets increased by \$8.5M or 11% in 2006. This increase will produce a corresponding increase in depreciation. The 2007 depreciation budget is \$1,270,000 compared to an actual expense of \$1,109,922 in 2006, an increase of 14%.

An increase in the Interceptor Fee may be required since this fund was not able to pay for all of the interceptor projects in 2006 and has borrowed \$1.8M from the Operating Fund to date, \$0.7M in 2006.

### **Requests for Information**

This financial report is designed to provide an overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Andrew Williams, Utility Director at 10701 North College Avenue, Suite A, Indianapolis, Indiana 46280.

CLAY TOWNSHIP REGIONAL WASTE DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2006 And 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 710,922	\$ 1,603,731
Investments	10,300,000	8,300,000
Interest receivable	159,754	60,386
Accounts receivable	358,274	384,713
Invoiced receivable	892,725	923,580
Liens receivable	84,796	68,571
Notes receivable	156,423	226,459
Inventories	24,346	26,599
Prepaid items	<u>28,646</u>	<u>14,971</u>
 Total current assets	 <u>12,715,886</u>	 <u>11,609,010</u>
Capital assets:		
Land, improvements to land and construction in progress	1,495,858	6,994,110
Other capital assets (net of accumulated depreciation)	<u>86,582,567</u>	<u>72,596,981</u>
 Total capital assets	 <u>88,078,425</u>	 <u>79,591,091</u>
 Total assets	 <u>100,794,311</u>	 <u>91,200,101</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	306,815	588,502
Invoiced payable	118,396	284,915
Accrued payroll and withholdings payable	39,174	55,134
Compensated absences	<u>50,144</u>	<u>47,614</u>
 Total current liabilities	 <u>514,529</u>	 <u>976,165</u>
Noncurrent liabilities:		
Deferred credits	<u>155,850</u>	<u>155,850</u>
 Total liabilities	 <u>670,379</u>	 <u>1,132,015</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	88,078,425	79,591,090
Unrestricted	<u>12,045,507</u>	<u>10,476,996</u>
 Total net assets	 <u>\$ 100,123,932</u>	 <u>\$ 90,068,086</u>

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

CLAY TOWNSHIP REGIONAL WASTE DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
As Of And For The Years Ended December 31, 2006 And 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Residential sales	\$ 2,802,763	\$ 2,678,156
Commercial and industrial sales	1,194,367	1,106,470
Penalties	79,424	72,675
Other	<u>111,697</u>	<u>104,050</u>
Total operating revenues	<u>4,188,251</u>	<u>3,961,351</u>
Operating expenses:		
Wastewater - operations and maintenance:		
Salaries and wages	469,516	433,910
Purchased power	207,372	178,050
Repairs and maintenance	210,981	145,490
Materials and supplies	35,514	33,791
Contractual services	63,331	58,416
Transportation expenses	27,892	36,440
Treatment and disposal:		
Purchased wastewater treatment	930,229	786,017
Customer accounts:		
Contractual services	174,285	154,726
Administration and general:		
Salaries and wages	541,952	374,516
Office expense	18,286	18,934
Other	140,577	134,198
Undistributed:		
Insurance expense	101,293	89,629
Employee pensions and benefits	425,606	326,810
Contractual services	165,963	136,551
Depreciation	1,109,922	853,712
Miscellaneous expenses	<u>7,714</u>	<u>8,890</u>
Total operating expenses	<u>4,630,433</u>	<u>3,770,080</u>
Operating income (loss)	<u>(442,182)</u>	<u>191,271</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	522,885	379,579
Miscellaneous revenue	83,794	33,917
Loss on disposal of capital assets	<u>(20,213)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>586,466</u>	<u>413,496</u>
Income before contributions	144,284	604,767
Capital contributions	<u>9,911,562</u>	<u>10,064,187</u>
Change in net assets	10,055,846	10,668,954
Total net assets - beginning	<u>90,068,086</u>	<u>79,399,132</u>
Total net assets - ending	<u>\$ 100,123,932</u>	<u>\$ 90,068,086</u>

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

CLAY TOWNSHIP REGIONAL WASTE DISTRICT  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Years Ended December 31, 2006 And 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,187,659	\$ 4,077,816
Payments to suppliers and contractors	(2,543,065)	(1,569,266)
Payments to employees	(1,450,504)	(1,105,874)
Other receipts	<u>195,491</u>	<u>137,967</u>
Net cash provided by operating activities	<u>389,581</u>	<u>1,540,643</u>
Cash flows from capital and related financing activities:		
Capital contributions	3,549,662	3,989,659
Acquisition and construction of capital assets	(3,278,019)	(7,181,206)
Proceeds from sales of capital assets	<u>22,450</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>294,093</u>	<u>(3,191,547)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	20,300,000	29,400,000
Purchase of investments	(22,300,000)	(28,700,000)
Interest received	<u>423,517</u>	<u>347,855</u>
Net cash provided (used) by investing activities	<u>(1,576,483)</u>	<u>1,047,855</u>
Net decrease in cash and cash equivalents	(892,809)	(603,049)
Cash and cash equivalents, January 1	<u>1,603,731</u>	<u>2,206,780</u>
Cash and cash equivalents, December 31	<u>\$ 710,922</u>	<u>\$ 1,603,731</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	<u>\$ (442,182)</u>	<u>\$ 191,271</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	1,109,922	853,712
Nonoperating income	83,794	33,917
(Increase) decrease in assets:		
Accounts receivable	26,439	(34,777)
Invoiced receivable	30,855	57,430
Liens receivable	(16,225)	(30,534)
Notes receivable	70,036	74,277
Inventories	2,253	890
Prepaid items	(13,675)	(1,149)
Increase (decrease) in liabilities:		
Accounts payable	(281,687)	49,385
Invoiced payables	(166,519)	162,740
Accrued payroll and payroll withholdings payable	(15,960)	19,536
Compensated absence payable	2,530	9,826
Deferred credit	<u>-</u>	<u>154,119</u>
Total adjustments	<u>831,763</u>	<u>1,349,372</u>
Net cash provided by operating activities	<u>\$ 389,581</u>	<u>\$ 1,540,643</u>
Noncash investing, capital and financing activities:		
Contributions of capital assets from developers	\$ 6,361,900	\$ 6,074,528

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

CLAY TOWNSHIP REGIONAL WASTE 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 treatment and general administrative services.

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 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 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.

CLAY TOWNSHIP REGIONAL WASTE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

2. 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.

3. 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>
Land	\$ 1	N/A	N/A
Buildings	2,000	Straight-line	50 Years
Lift stations	2,000	Straight-line	50 Years
Wastewater distribution and collection systems	2,000	Straight-line	100 Years
Furniture and fixtures	2,000	Straight-line	7 Years
Transportation and portable equipment	2,000	Straight-line	7 Years

N/A = Not applicable

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. There was no interest expense incurred by the District during the current year.

4. Compensated Absences

Personal Leave – District employees earn personal leave at the rate of 24 days to 29 days per year based upon the number of years of service. Unused personal leave may be accumulated to a maximum of 30 days. Accumulated personal leave is paid to employees through cash payments upon voluntary termination.

Personal leave is accrued when incurred.

CLAY TOWNSHIP REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2006 and 2005, all bank balances and certificates of deposit were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006 and 2005, the District only had certificates of deposit investments.

Investment Policies

Indiana Code 5-13-9 authorizes the District to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the District to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the District and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the District may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the District's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

CLAY TOWNSHIP REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy for custodial credit risk for investments.

B. Capital Assets

Capital asset activity for the years ended December 31, 2006 and 2005, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
2006:				
Capital assets, not being depreciated:				
Land	\$ 519,590	\$ 5,000	\$ -	\$ 524,590
Construction in progress	<u>6,474,520</u>	<u>2,960,068</u>	<u>8,463,320</u>	<u>971,268</u>
Total capital assets, not being depreciated	<u>6,994,110</u>	<u>2,965,068</u>	<u>8,463,320</u>	<u>1,495,858</u>
Capital assets, being depreciated:				
Buildings	15,153,405	192,428	-	15,345,833
Lift stations	4,828,257	1,795,316	-	6,623,573
Distribution and collection systems	60,137,510	13,091,278	-	73,228,788
Furniture and fixtures	327,270	58,649	131,774	254,145
Transportation and portable equipment	<u>674,466</u>	<u>500</u>	<u>20,542</u>	<u>654,424</u>
Totals	<u>81,120,908</u>	<u>15,138,171</u>	<u>152,316</u>	<u>96,106,763</u>
Less accumulated depreciation for:				
Buildings	1,503,154	303,203	-	1,806,357
Lift stations	834,045	91,057	-	925,102
Distribution and collection systems	5,612,844	601,895	-	6,214,739
Furniture and fixtures	130,496	38,609	89,111	79,994
Transportation and portable equipment	<u>443,388</u>	<u>75,158</u>	<u>20,542</u>	<u>498,004</u>
Totals	<u>8,523,927</u>	<u>1,109,922</u>	<u>109,653</u>	<u>9,524,196</u>
Total capital assets, being depreciated, net	<u>72,596,981</u>	<u>14,028,249</u>	<u>42,663</u>	<u>86,582,567</u>
Total capital assets, net	<u>\$ 79,591,091</u>	<u>\$ 16,993,317</u>	<u>\$ 8,505,983</u>	<u>\$ 88,078,425</u>
2005:				
Capital assets, not being depreciated:				
Land	\$ 519,590	\$ -	\$ -	\$ 519,590
Construction in progress	<u>9,780,601</u>	<u>6,723,768</u>	<u>10,029,849</u>	<u>6,474,520</u>
Total capital assets, not being depreciated	<u>10,300,191</u>	<u>6,723,768</u>	<u>10,029,849</u>	<u>6,994,110</u>

CLAY TOWNSHIP REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
2005 (continued):				
Capital assets, being depreciated:				
Buildings	7,371,630	7,781,775	-	15,153,405
Lift stations	4,536,733	291,524	-	4,828,257
Distribution and collection systems	51,809,304	8,328,206	-	60,137,510
Furniture and fixtures	252,844	74,426	-	327,270
Transportation and portable equipment	602,619	85,884	14,037	674,466
<b>Totals</b>	<b>64,573,130</b>	<b>16,561,815</b>	<b>14,037</b>	<b>81,120,908</b>
Less accumulated depreciation for:				
Buildings	1,355,587	147,567	-	1,503,154
Lift stations	748,846	85,199	-	834,045
Distribution and collection systems	5,094,301	518,543	-	5,612,844
Furniture and fixtures	101,501	28,995	-	130,496
Transportation and portable equipment	384,017	73,408	14,037	443,388
<b>Totals</b>	<b>7,684,252</b>	<b>853,712</b>	<b>14,037</b>	<b>8,523,927</b>
Total capital assets, being depreciated, net	<u>56,888,878</u>	<u>15,708,103</u>	-	<u>72,596,981</u>
Total capital assets, net	<u>\$ 67,189,069</u>	<u>\$ 22,431,871</u>	<u>\$ 10,029,849</u>	<u>\$ 79,591,091</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Biosolids facility	\$ 1,300,000	\$ 109,038	\$ 1,190,962	\$ -
Crooked Creek Subdivision	1,020,000	676,763	343,237	-
Deerfield Subdivision	590,000	74,056	515,944	-
Shelbourne to 116th St. interceptor	25,000	2,125	22,875	-
Little Eagle Creek Eaglewood ext.	20,000	17,529	2,471	-
106th St. and College Ave. intersection	11,404	11,404	-	-
106th St. and Springmill Rd. intersection	719	719	-	-
Austin Oaks Force Main ext.	2,053	2,053	-	-
126th St. interceptor/lift station	21,279	21,279	-	-
116th St. and Shelbourne extension	1,560	1,560	-	-
St. Andrews Lane/Circle	46,912	46,912	-	-
Lift station No. 16 upgrade	4,200	4,200	-	-
Larkspur interceptor	1,790	1,790	-	-
Oaktree interceptor	1,840	1,840	-	-
<b>Totals</b>	<b><u>\$ 3,046,757</u></b>	<b><u>\$ 971,268</u></b>	<b><u>\$ 2,075,489</u></b>	<b><u>\$ -</u></b>

CLAY TOWNSHIP REGIONAL WASTE 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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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. Subsequent Events

In 2007, the Board of Trustees awarded two projects. The Biosolids Facility Project was awarded to the only bidder, Maddox Industrial, Inc., for the amount of \$973,000. The Deerfield Sanitary Sewer Project was awarded to the lowest bidder, Brackney, Inc., for the amount of \$494,535.

C. Rate Structure

The current rate structure was approved by the District on September 13, 2004. On November 13, 2006, the District approved a new rate structure effective January 1, 2007. The District has 11,005 customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

CLAY TOWNSHIP REGIONAL WASTE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. Information to segregate the assets/liabilities and the actuarial study figures between the Township and the District is not available. Therefore, the liability for Net Pension Obligation (NPO) is not considered an obligation of the District, and the separate annual pension cost and related information is not presented in this note. The District's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	<u>PERF</u>
Contribution rates:	
District	6%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

CLAY TOWNSHIP REGIONAL WASTE DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on September 6, 2007, with Candy J. Feltner, Director of Administration/Customer Service; Andrew Williams, Utility Director; Ron Hansen, Controller; Michael A. Claytor, Treasurer; and Ronald F. Houck, President of the Board. Our audit disclosed no material items that warrant comment at this time.