

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

AUDIT REPORT

OF

NORWOOD REGIONAL WATER AND SEWER DISTRICT

HUNTINGTON COUNTY, INDIANA

January 1, 2005 to December 31, 2006



FILED
11/07/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis	7, 9
Fund Financial Statements:	
Proprietary Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Fund.....	8, 10
Notes to Financial Statements	11-15
Supplementary Information:	
Schedule of Capital Assets.....	16
Schedule of Long-Term Debt.....	17
Audit Results and Comments:	
Distribution of Gross Revenues to the Various Funds.....	18
Capital Assets.....	18
List of Employees Not Filed With County Treasurer.....	18
Supporting Documentation	18-19
Prescribed Forms	19
Approval of Forms	19
Official Bond	19
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	22-23
Schedule of Expenditures of Federal Awards.....	24
Note to Schedule of Expenditures of Federal Awards	25
Schedule of Findings and Questioned Costs.....	26
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	27
Exit Conference.....	28

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utility Manager	David Hacker	07-08-05 to 12-31-07
Treasurer	Rhonda Adams	01-01-05 to 12-31-07
President of the Board	Dee Hinesley	01-01-05 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE NORWOOD REGIONAL WATER
AND SEWER DISTRICT, HUNTINGTON COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Norwood Regional Water and Sewer District (District), as of and for the years ended December 31, 2005 and 2006, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 opinions.

As discussed in Note I, the District prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the business-type activities of the District as of December 31, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated October 24, 2007, 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.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 24, 2007



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE NORWOOD REGIONAL WATER
AND SEWER DISTRICT, HUNTINGTON COUNTY, INDIANA

We have audited the financial statements of the business-type activities of the Norwood Regional Water and Sewer District (District), as of and for the years ended December 31, 2005 and 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 24, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

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

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management in a separate letter dated October 24, 2007.

This report is intended solely for the information and use of the District's management, District Board, 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

October 24, 2007

NORWOOD REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended December 31, 2005

<u>Functions/Programs</u>	Disbursements	Program Receipts		Net (Disbursements)
		Charges for Services	Capital Grants and Contributions	Receipts and Changes in Net Assets
Primary government:				
Business-type activities:				
Water and sewer district	\$ 1,264,889	\$ 297,941	\$ 198,677	\$ (768,271)
General receipts:				
Bonds and loans				908,021
Unrestricted investment earnings				176
Total general receipts				908,197
Change in net assets				139,926
Net assets - beginning				120,486
Net assets - ending				\$ 260,412
<u>Assets</u>				
Cash and investments				\$ 88,427
Restricted assets:				
Cash and investments				171,985
Total assets				\$ 260,412
<u>Net Assets</u>				
Restricted for:				
Debt service				\$ 17,511
Other purposes				154,474
Unrestricted				88,427
Total net assets				\$ 260,412

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

NORWOOD REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUND
As of and for the Year Ended December 31, 2005

Operating receipts:	
Metered water receipts:	
Residential and commercial	\$ 146,567
Wastewater receipts:	
Residential and commercial	148,405
Penalties	1,071
Other	<u>1,898</u>
Total operating receipts	<u>297,941</u>
Operating disbursements:	
Equipment and capital improvements	713,297
Operations and maintenance	15,901
Administration and general	13,790
Salaries and wages	25,279
Employee pensions and benefits	1,668
Purchased power	17,657
Chemicals	558
Contractual services	143,475
Rents	136
Insurance disbursements	12,564
Regulatory commission disbursements	2,400
Miscellaneous disbursements	<u>347</u>
Total operating disbursements	<u>947,072</u>
Deficiency of operating receipts over operating disbursements	<u>(649,131)</u>
Nonoperating receipts (disbursements):	
Bond proceeds	908,021
Interest and investment receipts	176
Debt service of principal	(300,000)
Interest and investment disbursement	<u>(17,817)</u>
Total nonoperating receipts (disbursements)	<u>590,380</u>
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(58,751)
Capital contributions	<u>198,677</u>
Excess of receipts and contributions over disbursements	139,926
Cash and investment fund balance - beginning	<u>120,486</u>
Cash and investment fund balance - ending	<u>\$ 260,412</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 88,427
Restricted assets:	
Cash and investments	<u>171,985</u>
Total cash and investment assets - December 31	<u>\$ 260,412</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 17,511
Other purposes	154,474
Unrestricted	<u>88,427</u>
Total cash and investment fund balance - December 31	<u>\$ 260,412</u>

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

NORWOOD REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended December 31, 2006

<u>Functions/Programs</u>	Disbursements	Program Receipts		Net (Disbursements)
		Charges for Services	Capital Grants and Contributions	Receipts and Changes in Net Assets
Primary government:				
Business-type activities:				
Water and sewer district	\$ 6,437,785	\$ 434,999	\$ 2,916,460	\$ (3,086,326)
General receipts:				
Bonds and loans				3,021,193
Change in net assets				(65,133)
Net assets - beginning				260,412
Net assets - ending				<u>\$ 195,279</u>
<u>Assets</u>				
Cash and investments				\$ 32,444
Restricted assets:				
Cash and investments				162,835
Total assets				<u>\$ 195,279</u>
<u>Net Assets</u>				
Restricted for:				
Debt service				\$ 128,340
Other purposes				34,495
Unrestricted				32,444
Total net assets				<u>\$ 195,279</u>

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

NORWOOD REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUND
As of and for the Year Ended December 31, 2006

Operating receipts:	
Metered water receipts:	
Residential and commercial	\$ 158,256
Wastewater receipts:	
Residential and commercial	269,185
Penalties	3,651
Other	<u>3,907</u>
Total operating receipts	<u>434,999</u>
Operating disbursements:	
Equipment and capital improvements	5,796,846
Operations and maintenance	32,098
Administration and general	30,891
Salaries and wages	45,000
Employee pensions and benefits	5,513
Purchased power	25,931
Chemicals	3,396
Contractual services	108,310
Rents	1,141
Insurance disbursements	28,171
Regulatory commission disbursements	<u>500</u>
Total operating disbursements	<u>6,077,797</u>
Deficiency of operating receipts over operating disbursements	<u>(5,642,798)</u>
Nonoperating receipts (disbursements):	
Bond proceeds	3,021,193
Debt service of principal	(300,000)
Interest and investment disbursement	<u>(59,988)</u>
Total nonoperating receipts (disbursements)	<u>2,661,205</u>
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(2,981,593)
Capital contributions	<u>2,916,460</u>
Deficiency of receipts and contributions over disbursements	(65,133)
Cash and investment fund balance - beginning	<u>260,412</u>
Cash and investment fund balance - ending	<u>\$ 195,279</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 32,444
Restricted assets:	
Cash and investments	<u>162,835</u>
Total cash and investment assets - December 31	<u>\$ 195,279</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 128,340
Other purposes	34,495
Unrestricted	<u>32,444</u>
Total cash and investment fund balance - December 31	<u>\$ 195,279</u>

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

NORWOOD REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District was established under the laws of the State of Indiana. The District operates under an appointed governing board.

The District (primary government) is the financial reporting entity.

In determining the financial reporting entity, the District complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Business-type activity (proprietary) financial statements consist of the Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds).

NORWOOD REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the District's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

NORWOOD REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

II. Detailed Notes on All Funds

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. The bank balances 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.

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.

NORWOOD REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The District does not have a formal policy in regards to foreign currency risk.

NORWOOD REGIONAL WATER AND 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; job related illnesses or injuries to employees; and natural disasters.

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

B. 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

NORWOOD REGIONAL WATER AND SEWER DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

December 31, 2006

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.

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water and Wastewater Funds:	
Capital assets, not being depreciated:	
Land	\$ 88,371
Construction in progress	6,466,062
Machinery and equipment	<u>19,625</u>
Total business-type activities capital assets	<u>\$ 6,574,058</u>

NORWOOD REGIONAL WATER AND SEWER DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

December 31, 2006

The District has entered into the following long-term debt:

Description of Debt	Ending Balance	Due Within One Year
Business-type Activities:		
Revenue bonds:		
Water Revenue Bonds, 2005 Series A	\$ 1,414,000	\$ 14,000
Water Revenue Bonds, 2005 Series B	390,000	4,000
Sewer Revenue Bonds, 2005 Series A	1,939,214	21,000
Sewer Revenue Bonds, 2005 Series B	186,000	2,000
Total business-type activities long-term debt	\$ 3,929,214	\$ 41,000

NORWOOD REGIONAL WATER AND SEWER DISTRICT
AUDIT RESULTS AND COMMENTS

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

The Debt Service Reserve Funds have not been established for either the water or sewer revenue bond issues. Therefore, gross revenues were not being transferred to the Debt Service Reserve Funds in accordance with the revenue bond ordinances.

Section 14(b) "Debt Service Reserve Account" for each revenue bond ordinance states:

"There shall be transferred, on the last day of each calendar month, . . . equal amounts sufficient to accumulate the Reserve Requirement within ten (10) years of the date of delivery of the Bonds, which amount shall constitute an appropriate reserve to facilitate the marketing of the Bonds, which reserve amount shall equal the lesser of (i) the maximum annual debt service on the Bonds, (ii) 125% of the average annual debt service on the Bonds, or (iii) ten percent (10%) of the proceeds of the Bonds."

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)

CAPITAL ASSETS (No Capitalization Policy)

The District has no formal policy that establishes the threshold at which capital assets are to be recorded. A similar comment appeared in prior Report B25047.

The governing body should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 16)

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER

A list of employees was not certified to the County Treasurer.

Indiana Code 6-1.1-22-14(a) states in part: "On or before June 1 and December 1 of each year . . . the disbursing officer of each political subdivision . . . shall certify the name and address of each person who has money due the person from the political subdivision to the treasurer of each county in which the political subdivision is located."

SUPPORTING DOCUMENTATION

The following items were noted regarding supporting documentation:

1. Cancelled checks or check images were not available for audit. These documents were not returned with the monthly bank statements.

NORWOOD REGIONAL WATER AND SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

2. Several payments were observed which did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

PRESCRIBED FORMS

The following prescribed or approved forms were not in use:

1. Employee's Service Record (General Form 99A)
2. Capital Assets Ledger (General Form 369)

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)

APPROVAL OF FORMS

The District is using forms which are not approved for use in lieu of prescribed forms. A similar comment appeared in prior Report B25047.

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)

OFFICIAL BOND

The official bonds were not filed in the Office of the County Recorder for the Treasurer. A similar comment appeared in prior Report B25047.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE NORWOOD REGIONAL WATER
AND SEWER DISTRICT, HUNTINGTON COUNTY, INDIANA

Compliance

We have audited the compliance of the Norwood Regional Water and 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 years ended December 31, 2005 and 2006. 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 years ended December 31, 2005 and 2006.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A control deficiency in a District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the District's management, District Board, 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

October 24, 2007

NORWOOD REGIONAL WATER AND SEWER DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-05	Total Federal Awards Expended 12-31-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grants and Loans				
Water and Waste Disposal Systems for Rural Communities	10.760			
Water Loan		91-03	\$ 841,488	\$ 572,512
Water Loan		91-05	50,000	340,000
Water Grant		91-04	-	1,010,391
Wastewater Loan		92-06	-	186,000
Wastewater Loan		92-07	-	2,049,224
Wastewater Grant		92-08	-	1,504,746
			<u>891,488</u>	<u>5,662,873</u>
Total for federal grantor agency			<u>891,488</u>	<u>5,662,873</u>
Total federal awards expended			<u>\$ 891,488</u>	<u>\$ 5,662,873</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

NORWOOD REGIONAL WATER AND SEWER DISTRICT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Norwood Regional Water and Sewer District (District) 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.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of special districts shall be conducted biennially. Such audits shall include both years within the biennial period.

NORWOOD REGIONAL WATER AND 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
Significant deficiencies 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
Significant deficiencies 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 Program:

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.

NORWOOD REGIONAL WATER AND SEWER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

NORWOOD REGIONAL WATER AND SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2007, with Rhonda Adams, Treasurer; and David Hacker, Utility Manager.