

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

EXAMINATION REPORT  
OF  
STEUBEN LAKES REGIONAL WASTE DISTRICT  
STEUBEN COUNTY, INDIANA  
January 1, 2006 to December 31, 2007



**FILED**  
11/07/2008



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	Timothy A. Frederick	01-01-06 to 12-31-08
Treasurer	James C. Kidd	01-01-06 to 12-31-08
President of the Board of Trustees	Bill J. Heckley	01-01-06 to 12-31-08



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE STEUBEN LAKES REGIONAL  
WASTE DISTRICT, STEUBEN COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Steuben Lakes Regional Waste District (District), as of and for the years ended December 31, 2006 and 2007. 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 examination.

Our examination was conducted accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination 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 District as of December 31, 2006 and 2007, 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 Discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the basic financial statements.

STATE BOARD OF ACCOUNTS

September 18, 2008

STEUBEN LAKES REGIONAL WASTE DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2006 And 2007

<u>Assets</u>	<u>2006</u>	<u>2007</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 393,509	\$ 307,902
Accounts receivable - customer	189,839	234,238
Accounts receivable - customer (liens)	576,031	494,151
Other accounts receivable	124,839	100,760
Prepaid items	16,960	20,373
	<u>1,301,178</u>	<u>1,157,424</u>
<b>Noncurrent assets:</b>		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	276,430	333,677
Bond and interest cash and investments	1,996,573	2,374,396
Construction cash and investments	173,524	-
Customer hook-up deposits cash and investments	72,431	81,738
	<u>2,518,958</u>	<u>2,789,811</u>
Deferred charges	249,933	243,178
<b>Capital assets:</b>		
Land, improvements to land and construction in progress	998,513	1,154,254
Other capital assets (net of accumulated depreciation)	46,233,543	46,059,367
	<u>47,232,056</u>	<u>47,213,621</u>
Total noncurrent assets	<u>50,000,947</u>	<u>50,246,610</u>
<b>Total assets</b>	<u>51,302,125</u>	<u>51,404,034</u>
<u>Liabilities</u>		
<b>Current liabilities:</b>		
Accounts payable	58,670	64,348
Accrued payroll and withholdings payable	14,919	7,965
Compensated absences	30,991	14,651
Deferred revenue	104,308	138,142
Current liabilities payable from restricted assets:		
Accounts payable	40,989	-
Customer hook-up deposits	72,431	81,738
Capital lease payable	8,806	39,244
Loan payable	10,000	10,000
Revenue bonds payable	355,000	365,000
BAN payable	3,505,000	3,505,000
Accrued interest payable	633,961	629,381
	<u>4,835,075</u>	<u>4,855,469</u>
<b>Noncurrent liabilities:</b>		
Revenue bonds payable	5,105,000	4,740,000
Capital leases payable	49,887	10,643
Loan payable	29,304,000	29,294,000
	<u>34,458,887</u>	<u>34,044,643</u>
<b>Total liabilities</b>	<u>39,293,962</u>	<u>38,900,112</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	9,317,820	9,492,912
Restricted for debt service	1,362,612	1,745,015
Restricted for other purposes	235,441	333,677
Unrestricted	1,092,290	932,318
	<u>12,008,163</u>	<u>12,503,922</u>
<b>Total net assets</b>	<u>\$ 12,008,163</u>	<u>\$ 12,503,922</u>

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

STEUBEN LAKES REGIONAL WASTE DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Years Ended December 31, 2006 And 2007

	<u>2006</u>	<u>2007</u>
Operating revenues:		
Flat rate revenues	\$ 3,090,540	\$ 3,681,153
Penalties	53,811	77,304
Other	<u>341,149</u>	<u>176,958</u>
Total operating revenues	<u>3,485,500</u>	<u>3,935,415</u>
Operating expenses:		
Collection system - operations and maintenance	282,541	313,344
Pumping - operations and maintenance	182,457	224,423
Treatment and disposal - operations and maintenance	212,100	261,062
Customer accounts	144,143	129,296
Administration and general	432,878	559,112
Depreciation	1,099,745	1,077,629
Reclaimed water - operations and maintenance	<u>47,084</u>	<u>51,101</u>
Total operating expenses	<u>2,400,948</u>	<u>2,615,967</u>
Operating income	<u>1,084,552</u>	<u>1,319,448</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	138,297	109,408
Loss on sale of assets	-	(42,800)
Interest expense	(1,734,101)	(1,647,926)
Amortization of bond issue costs	<u>(6,755)</u>	<u>(6,755)</u>
Total nonoperating expenses	<u>(1,602,559)</u>	<u>(1,588,073)</u>
Loss before contributions	(518,007)	(268,625)
Capital contributions	<u>-</u>	<u>764,384</u>
Change in net assets	(518,007)	495,759
Total net assets - beginning	<u>12,526,170</u>	<u>12,008,163</u>
Total net assets - ending	<u>\$ 12,008,163</u>	<u>\$ 12,503,922</u>

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

STEUBEN LAKES REGIONAL WASTE DISTRICT  
STATEMENT OF CASH FLOWS  
As Of And For The Years Ended December 31, 2006 And 2007

	<u>2006</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 3,703,590	\$ 4,040,116
Payments to suppliers and contractors	(427,162)	(536,153)
Payments to employees	<u>(847,295)</u>	<u>(1,023,214)</u>
Net cash provided by operating activities	<u>2,429,133</u>	<u>2,480,749</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	3,505,000	-
Acquisition and construction of capital assets	(3,403,013)	(401,099)
Principal paid on capital debt	(363,816)	(373,806)
Interest paid on capital debt	(1,519,598)	(1,652,506)
Proceeds from sales of capital assets	<u>-</u>	<u>22,500</u>
Net cash used by capital and related financing activities	<u>(1,781,427)</u>	<u>(2,404,911)</u>
Cash flows from investing activities:		
Interest received	<u>138,297</u>	<u>109,408</u>
Net increase in cash and cash equivalents	786,003	185,246
Cash and cash equivalents, January 1	<u>2,126,464</u>	<u>2,912,467</u>
Cash and cash equivalents, December 31	<u>\$ 2,912,467</u>	<u>\$ 3,097,713</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 1,084,552</u>	<u>\$ 1,319,448</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,099,745	1,077,629
(Increase) decrease in assets:		
Accounts receivable	97,036	37,481
Other accounts receivable	85,551	24,079
Prepaid items	(4,445)	(3,413)
Increase (decrease) in liabilities:		
Accounts payable	32,704	5,678
Accrued payroll and withholdings payable	(1,055)	(6,954)
Compensated absence payable	(9,738)	33,834
Deferred revenue	(458)	(16,340)
Customer hook-up deposits	<u>45,241</u>	<u>9,307</u>
Total adjustments	<u>1,344,581</u>	<u>1,161,301</u>
Net cash provided by operating activities	<u>\$ 2,429,133</u>	<u>\$ 2,480,749</u>
Noncash investing, capital and financing activities:		
Borrowing under capital lease	\$ 25,059	\$ -
Contributions of capital assets	-	764,384
Purchase of equipment on account	48,681	-

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

STEUBEN LAKES REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District was created by order of the Stream Pollution Control Board of the State of Indiana as of February 18, 1975, pursuant to Indiana Code (IC) 13-3-2. The Board acted on a petition filed by the Trustees of Jamestown, Pleasant, Milgrove, and Jackson Townships of Steuben County. The District is governed by a Board of Trustees, and provides services for the collection and treatment of sewage for the residents of the District.

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.

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

STEUBEN LAKES REGIONAL WASTE 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, are classified as restricted assets on the Statement of Net Assets balance sheet because their use is limited by applicable bond indentures or governing body action.

4. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Straight-line	50 years
Improvements other than buildings	5,000	Straight-line	50 years
Machinery and equipment	5,000	Straight-line	5 to 20 years
Transportation equipment	5,000	Straight-line	5 years

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

a. Sick Leave – District employees earn sick leave at the rate of 2 days per year. Sick leave does not accumulate from year to year.

b. Vacation Leave – District employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 20 days. Accumulated vacation leave is paid to employees through cash payments upon termination or voluntary end of service.

STEUBEN LAKES REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

- c. Personal Leave – District employees earn personal leave at the rate of 1 day per year. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred.

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

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 District does not have a deposit policy for custodial credit risk. At December 31, 2007, the District had deposit balances in the amount of \$3,097,714. 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.

B. Capital Assets

Capital asset activity for the year ended December 31, 2006 and 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
2006:				
Capital assets, not being depreciated:				
Land	\$ 983,863	\$ -	\$ -	\$ 983,863
Construction in progress	22,486	382,190	390,026	14,650
	<u>1,006,349</u>	<u>382,190</u>	<u>390,026</u>	<u>998,513</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Improvements other than buildings	44,669,540	431,015	-	45,100,555
Buildings	2,001,843	-	-	2,001,843
Machinery and equipment	2,177,977	25,059	-	2,203,036
Transportation equipment	106,755	19,710	-	126,465
	<u>48,956,115</u>	<u>475,784</u>	<u>-</u>	<u>49,431,899</u>
Totals				

STEUBEN LAKES REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
2006 (continued):				
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Improvements other than buildings	372,524	902,011	-	1,274,535
Buildings	31,317	40,038	-	71,355
Machinery and equipment	1,612,950	147,548	-	1,760,498
Transportation equipment	81,820	10,148	-	91,968
	<u>2,098,611</u>	<u>1,099,745</u>	<u>-</u>	<u>3,198,356</u>
Totals				
Total capital assets, being depreciated, net	<u>46,857,504</u>	<u>(623,961)</u>	<u>-</u>	<u>46,233,543</u>
Total capital assets, net	<u>\$ 47,863,853</u>	<u>\$ (241,771)</u>	<u>\$ 390,026</u>	<u>\$ 47,232,056</u>
2007:				
Capital assets, not being depreciated:				
Land	\$ 983,863	\$ -	\$ 65,300	\$ 918,563
Construction in progress	14,650	221,041	-	235,691
				-
Total capital assets, not being depreciated	<u>998,513</u>	<u>221,041</u>	<u>65,300</u>	<u>1,154,254</u>
Capital assets, being depreciated:				
Improvements other than buildings	45,100,555	780,762	-	45,881,317
Buildings	2,001,843	24,991	-	2,026,834
Machinery and equipment	2,203,036	-	-	2,203,036
Transportation equipment	126,465	97,700	-	224,165
	<u>49,431,899</u>	<u>903,453</u>	<u>-</u>	<u>50,335,352</u>
Totals				
Less accumulated depreciation for:				
Improvements other than buildings	1,274,535	902,011	-	2,176,546
Buildings	71,355	40,038	-	111,393
Machinery and equipment	1,760,498	121,490	-	1,881,988
Transportation equipment	91,968	14,090	-	106,058
	<u>3,198,356</u>	<u>1,077,629</u>	<u>-</u>	<u>4,275,985</u>
Totals				
Total capital assets, being depreciated, net	<u>46,233,543</u>	<u>(174,176)</u>	<u>-</u>	<u>46,059,367</u>
Total capital assets, net	<u>\$ 47,232,056</u>	<u>\$ 46,865</u>	<u>\$ 65,300</u>	<u>\$ 47,213,621</u>

STEUBEN LAKES REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

	2006	2007
Wastewater	\$ 1,099,745	\$ 1,077,629

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2007
Preliminary costs for Orland expansion	\$ 235,691

D. Capital Leases

The District has entered into capital leases for a backhoe and bobcat. Future minimum lease payments and present values of the net minimum lease payments under the capital leases as of December 31, 2007, are as follows:

2008	\$ 41,571
2009	5,588
2010	5,587
Total minimum lease payments	52,746
Less amount representing interest	2,859
Present value of net minimum lease payments	\$ 49,887

Assets acquired through capital leases still in effect are as follows:

Machinery and equipment	\$ 84,624
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STEUBEN LAKES REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Short-Term Liabilities

The District may use short-term notes and loans to finance a variety of public projects, including plant expansions.

Short-term debt activity for the years ended December 31, 2006, and 2007 was as follows:

	Beginning Balance	Issued/ Draws	Redeemed Repayments	Ending Balance
2006:				
Bond Anticipation Note (BAN)	\$ -	\$ 3,505,000	\$ -	\$ 3,505,000
2007:				
Bond Anticipation Note (BAN)	\$ 3,505,000	\$ -	\$ -	\$ 3,505,000

F. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Amount
Sewage Works Revenue Bonds of 2003	4.25% to 5.25%	\$ 5,105,000

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2008	\$ 365,000	\$ 239,447
2009	380,000	223,353
2010	395,000	206,811
2011	415,000	189,658
2012	435,000	171,070
2013-2017	2,525,000	520,201
2018	590,000	23,363
Totals	\$ 5,105,000	\$ 1,573,903

STEUBEN LAKES REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Loans Payable

The District has entered into a loan. Annual debt service requirements to maturity for the loan, including interest of \$30,236,603, are as follows:

2008	\$ 1,255,314
2009	1,254,889
2010	1,254,464
2011	1,254,039
2012	1,253,614
2013-2017	8,190,049
2018-2022	8,670,152
2023-2027	8,668,389
2028-2032	8,668,779
2033-2037	8,667,951
2038-2042	8,669,222
2043	<u>1,733,741</u>
 Total	 <u>\$ 59,540,603</u>

3. Changes in Long-Term Liabilities

Long-term liability activity, for the years ended December 31, 2006 and 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2006:					
Revenue bonds	\$ 5,805,000	\$ -	\$ 345,000	\$ 5,460,000	\$ 355,000
Capital leases	42,450	25,059	8,816	58,693	8,806
Loan payable	<u>29,324,000</u>	<u>-</u>	<u>10,000</u>	<u>29,314,000</u>	<u>10,000</u>
Total long-term liabilities	<u>\$ 35,171,450</u>	<u>\$ 25,059</u>	<u>\$ 363,816</u>	<u>\$ 34,832,693</u>	<u>\$ 373,806</u>
2007:					
Revenue bonds	\$ 5,460,000	\$ -	\$ 355,000	\$ 5,105,000	\$ 365,000
Capital leases	58,693	-	8,806	49,887	39,244
Loan payable	<u>29,314,000</u>	<u>-</u>	<u>10,000</u>	<u>29,304,000</u>	<u>10,000</u>
Total long-term liabilities	<u>\$ 34,832,693</u>	<u>\$ -</u>	<u>\$ 373,806</u>	<u>\$ 34,458,887</u>	<u>\$ 414,244</u>

STEUBEN LAKES REGIONAL WASTE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

G. Restricted Assets

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

Depreciation and maintenance account	\$ 333,677
Revenue bond payment account	2,374,396
Customer deposit hook-ups account	<u>81,738</u>
 Total restricted assets	 <u><u>\$ 2,789,811</u></u>

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. Rate Structure

The rate structure in effect during the period examined was approved by the District on December 8, 2005. The current rate structure was approved by the District on April 10, 2008. The Utility had 3,866 customers as of December 31, 2007.

STEUBEN LAKES REGIONAL WASTE DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2008, with Bill J. Heckley, President of the Board of Trustees; James C. Kidd, Treasurer; and Timothy A. Frederick, Superintendent. Our examination disclosed no material items that warrant comment at this time.