

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

AUDIT REPORT

OF

METAMORA REGIONAL WASTEWATER DISTRICT

FRANKLIN COUNTY, INDIANA

January 1, 2006 to December 31, 2007



**FILED**

11/25/2008



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Annabel Looker	01-01-06 to 02-18-08
	Rob Siedling	02-19-08 to 03-17-08
	Sandra Baker	03-18-08 to 12-31-08
Financial Clerk	Jane Klenke	09-01-06 to 12-31-08
President of the Board	Dennis Anness	01-01-06 to 02-18-08
	Michael Moore	02-19-08 to 12-31-08



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

TO: THE OFFICIALS OF THE METAMORA REGIONAL WASTEWATER  
DISTRICT, FRANKLIN COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities and the major fund of the Metamora Regional District (District), as of and for the years ended December 31, 2006 and 2007, 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.

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 and the major fund of the District as of December 31, 2006 and 2007, 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 30, 2008, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. 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.

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, as listed in the Table of Contents, 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 30, 2008



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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 METAMORA REGIONAL WASTEWATER  
DISTRICT, FRANKLIN COUNTY, INDIANA

We have audited the financial statements of the business-type activities and the major fund of the Metamora Regional Wastewater District (District), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 30, 2008. 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.

This report is intended solely for the information and use of the District's management, the Board of Directors 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 30, 2008

METAMORA REGIONAL WASTEWATER 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 Disbursement and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	Business-Type Activities
Business-type activities:				
Wastewater	\$ 1,808,813	\$ 45,975	\$ 652,073	\$ (1,110,765)
General receipts:				
Other local sources				26
Loans proceeds				1,304,000
Total general receipts				1,304,026
Change in net assets				193,261
Net assets - beginning				34,967
Net assets - ending				\$ 228,228
 <u>Assets</u>				
Cash and investments				\$ 228,228
 <u>Net Assets</u>				
Unrestricted				\$ 45,561
Restricted				182,667
Total net assets				\$ 228,228

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

METAMORA REGIONAL WASTEWATER 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

	<u>Wastewater Utility</u>
Operating receipts:	
Flat rate receipts	\$ 45,975
Operating disbursements:	
Customer accounts	1,000
Contractual services	1,003
Miscellaneous disbursements	<u>188</u>
Total operating disbursements	<u>2,191</u>
Deficiency of operating receipts over operating disbursements	<u>43,784</u>
Nonoperating receipts:	
Equipment and capital improvements	(1,806,622)
Loan proceeds	1,304,000
Miscellaneous receipts	<u>26</u>
Total nonoperating receipts	<u>(502,596)</u>
Deficiency of receipts over disbursements and nonoperating receipts	(458,812)
Capital contributions	<u>652,073</u>
Excess of receipts and contributions over disbursements	193,261
Cash and investment fund balance - beginning	<u>34,967</u>
Cash and investment fund balance - ending	<u>\$ 228,228</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	<u>\$ 228,228</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	\$ 45,561
Restricted	<u>182,667</u>
Total cash and investment fund balance	<u>\$ 228,228</u>

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

METAMORA REGIONAL WASTEWATER DISTRICT  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts		Net Disbursement and Changes in Net Assets
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	Business-Type Activities
Business-type activities:				
Wastewater	\$ 1,302,737	\$ 84,924	\$ 1,095,427	\$ (122,386)
General receipts:				
Other local sources				183
Change in net assets				(122,203)
Net assets - beginning				228,228
Net assets - ending				\$ 106,025
 <u>Assets</u>				
Cash and investments				\$ 106,025
 <u>Net Assets</u>				
Unrestricted				\$ 51,590
Restricted				54,435
Total net assets				\$ 106,025

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

METAMORA REGIONAL WASTEWATER 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, 2007

	<u>Wastewater Utility</u>
Operating receipts:	
Flat rate receipts	\$ 84,924
Other	<u>183</u>
Total operating receipts	<u>85,107</u>
Operating disbursements:	
Treatment and disposal disbursements - operations and maintenance	6,937
Operations and maintenance	7,029
Material and supplies	5,003
Contractual services	36,185
Insurance disbursements	5,068
Regulatory commission disbursements	400
Miscellaneous disbursements	<u>4,989</u>
Total operating disbursements	<u>65,611</u>
Deficiency of operating receipts over operating disbursements	<u>19,496</u>
Nonoperating disbursements:	
Equipment and capital improvements	(1,185,319)
Interest expense	(51,171)
Miscellaneous disbursements	<u>(636)</u>
Total nonoperating disbursements	<u>(1,237,126)</u>
Deficiency of receipts over disbursements and nonoperating disbursements	(1,217,630)
Capital contributions	<u>1,095,427</u>
Deficiency of receipts, contributions over disbursements	(122,203)
Cash and investment fund balance - beginning	<u>228,228</u>
Cash and investment fund balance - ending	<u>\$ 106,025</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	<u>\$ 106,025</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	\$ 51,590
Restricted	<u>54,435</u>
Total cash and investment fund balance	<u>\$ 106,025</u>

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

METAMORA REGIONAL WASTEWATER 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's financial reporting entity is composed of the following:

Primary Government: Metamora Regional Wastewater District

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. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Financial statements are provided for proprietary funds.

The District reports the following major proprietary funds:

The wastewater district fund accounts for the operations of the pumping stations and collection systems.

C. Measurement Focus and Basis of Accounting

The government-wide and 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 governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

METAMORA REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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

Government-Wide Statements

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.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

METAMORA REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, (2) operating grants and contributions, and (3) 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.

II. Detailed Notes on All Funds

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, 2007, the District had deposit balances in the amount of \$106,025. 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.

III. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; 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.

B. Subsequent Events

On August 18, 2008, Ronald and Herbert Halcomb filed a complaint for permanent injunction requesting the court to order the Metamora Regional Wastewater District to remove from Metamora Cemetery, all pipes and sewer lines placed in or on cemetery property, restore the property to its original condition, and permanently enjoin the district from locating or constructing a sewer or other thoroughfare or utility upon the cemetery.

METAMORA REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

On September 10, 2008, the District filed a counter claim against Ronald and Herbert Halcomb seeking a judgment for the actual damages resulting from the neglect/and or intentional acts of the Halcombs, who on or about August 6, 2008, acting together used a back hoe or other digging device and negligently, knowingly, intentionally, and maliciously dug up the Metamora Regional Sewer District line breaking the line in two places. The District asks for a judgment in an amount sufficiently to compensate the District for their actual damages, and for punitive damages in the amount of \$1,000,000 and for all other proper relief.

METAMORA REGIONAL WASTEWATER DISTRICT  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

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:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 62,439
Construction in progress	<u>2,988,031</u>
 Total Wastewater Utility capital assets	 <u>\$ 3,050,470</u>

METAMORA REGIONAL WASTEWATER DISTRICT  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2007

The wastewater district has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Rural Development loans:		
USDA loan	\$ 1,109,000	\$ 11,000
Rural Development subloan	<u>195,000</u>	<u>2,000</u>
Total debt	<u>\$ 1,304,000</u>	<u>\$ 13,000</u>

METAMORA REGIONAL WASTEWATER DISTRICT  
AUDIT RESULTS AND COMMENTS

APPROVAL OF FORMS

The District was using the following forms which had not been approved for use in lieu of prescribed forms:

Reconciliation Detail  
Balance Sheet  
Profit & Loss  
(used in place of simplified cash journal - wastewater utility - class C)

Customer Balance Detail  
(used in place of register of daily cash receipts - consumers)  
Bank Check (computer version)  
(used in place of general check form no. 356)

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 Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

Prior to July 22, 2008, delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

(1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

(A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;

METAMORA REGIONAL WASTEWATER DISTRICT  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (B) a description of the premises, as shown by the records of the county auditor; and
  - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent.
- (c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .
- (e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

COMPLIANCE WITH BOND ORDINANCE

The District issued revenue bonds to be sold to the U.S. Department of Agriculture. An ordinance concerning the construction by the District of a wastewater treatment plant was created pertaining to the issuance of the revenue bonds to apply on the cost thereof, the collection, segregation, and distribution of the revenues of said works. The ordinance required the District to create a Debt Service Reserve Account and a Bond and Interest Account once the District becomes revenue producing. The District failed to create these accounts.

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

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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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 METAMORA REGIONAL  
WASTEWATER DISTRICT, FRANKLIN COUNTY, INDIANA

Compliance

We have audited the compliance of the Metamora Regional Wastewater 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 each of its major federal programs for the years ended December 31, 2006 and 2007. The District's major federal programs are 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 each of its major federal programs 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 each of its major federal programs for the years ended December 31, 2006 and 2007.

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, the Board of Directors 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 30, 2008

METAMORA REGIONAL WASTEWATER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended December 31, 2006 and 2007

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-06	Total Federal Awards Expended 12-31-07
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760			
Wastewater Treatment Facility Rural Development Loan 1		2006	\$ 1,109,000	\$ -
Wastewater Treatment Facility Rural Development Loan 2		2006	195,000	-
Wastewater Treatment Facility Rural Development Grant		2006	<u>276,000</u>	<u>971,500</u>
Total federal awards expended			<u>\$ 1,580,000</u>	<u>\$ 971,500</u>

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

METAMORA REGIONAL WASTEWATER DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Metamora Regional Wastewater 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 wastewater districts shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Loans Outstanding

The District had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2006 and 2007. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2006	2007
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 1,304,000</u>	<u>\$ 1,304,000</u>

METAMORA REGIONAL WASTEWATER 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 Programs:

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

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

METAMORA REGIONAL WASTEWATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

METAMORA REGIONAL WASTEWATER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2008, with Michael Moore, President of the Board; and Jane Klenke, Accountant. The officials concurred with our audit findings.