

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

EXAMINATION REPORT
OF
LAKE GEORGE REGIONAL SEWER 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>
Manager	James C. Humbarger	01-01-06 to 12-31-08
Treasurer	John S. Bender II	01-01-06 to 12-31-08
President of the Board of Trustees	Michael Carmer Lyle Reiff Greg Didier	01-01-06 to 05-15-06 05-16-06 to 06-30-08 07-01-08 to 12-31-08



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE LAKE GEORGE REGIONAL
SEWER DISTRICT, STEUBEN COUNTY, INDIANA

We have examined the accompanying financial statements as listed in the Table of Contents of the Lake George Regional Sewer 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 based on our examination.

Our examination was conducted in 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 thereof for the year 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

October 2, 2008

LAKE GEORGE REGIONAL SEWER DISTRICT
STATEMENT OF NET ASSETS
December 31, 2006 And 2007

<u>Assets</u>	<u>2006</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 32,539	\$ 40,706
Accounts receivable	<u>12,513</u>	<u>18,788</u>
Total current assets	<u>45,052</u>	<u>59,494</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Improvement cash and investments	50,445	47,391
Revenue fund cash and investments	10	-
Reserve fund cash and investments	333,700	335,278
Bond and interest cash and investments	<u>207,237</u>	<u>215,431</u>
Total restricted assets:	<u>591,392</u>	<u>598,100</u>
Capital assets:		
Land	126,168	126,168
Other capital assets (net of accumulated depreciation)	<u>5,928,849</u>	<u>5,839,550</u>
Total capital assets	<u>6,055,017</u>	<u>5,965,718</u>
Total noncurrent assets	<u>6,646,409</u>	<u>6,563,818</u>
Total assets	<u>6,691,461</u>	<u>6,623,312</u>
<u>Liabilities</u>		
Current liabilities:		
Customer advance payments	18,254	19,720
Current liabilities payable from restricted assets:		
Advances for construction	5,000	1,000
Loan payable (due within one year)	268,000	273,000
Accrued interest payable	<u>29,310</u>	<u>26,630</u>
Total current liabilities	<u>320,564</u>	<u>320,350</u>
Noncurrent liabilities:		
Loans payable	<u>2,663,000</u>	<u>2,390,000</u>
Total liabilities	<u>2,983,564</u>	<u>2,710,350</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,124,017	3,302,718
Restricted for debt service	511,627	524,079
Restricted for other purposes	50,455	47,391
Unrestricted	<u>21,798</u>	<u>38,774</u>
Total net assets	<u>\$ 3,707,897</u>	<u>\$ 3,912,962</u>

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

LAKE GEORGE REGIONAL SEWER 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	\$ 533,176	\$ 534,135
Repair fees	397	12,853
Permit fees	370	980
Connection fees	<u>8,325</u>	<u>8,196</u>
Total operating revenues	<u>542,268</u>	<u>556,164</u>
Operating expenses:		
Plant operations		
Inspection and maintenance	43,987	61,968
Treatment	45,886	52,649
Administration and general expense:		
Salaries and wages	33,500	33,500
Employee benefits	2,710	2,696
Collection fees	-	1,496
Conventions and meetings	110	151
Depreciation	110,528	114,665
Dues and subscriptions	70	145
Insurance	7,769	10,041
Meals and entertainment	511	283
Miscellaneous	2,777	2,967
Office supplies	2,669	1,943
Postage	669	664
Professional fees	14,307	20,624
Rent	1,062	599
Supplies and service	76	-
Taxes other	716	6
Telephone	5,190	5,570
Travel	4,050	4,006
Utilities	<u>8,140</u>	<u>12,314</u>
Total operating expenses	<u>284,727</u>	<u>326,287</u>
Operating income	<u>257,541</u>	<u>229,877</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	31,976	31,185
Miscellaneous revenues (expenses)	1,020	(57)
Interest expense	<u>(61,478)</u>	<u>(55,940)</u>
Total nonoperating revenues (expenses)	<u>(28,482)</u>	<u>(24,812)</u>
Change in net assets	229,059	205,065
Total net assets - beginning	<u>3,478,838</u>	<u>3,707,897</u>
Total net assets - ending	<u>\$ 3,707,897</u>	<u>\$ 3,912,962</u>

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

LAKE GEORGE REGIONAL SEWER DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
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	\$ 541,525	\$ 549,889
Payments to suppliers and contractors	(143,542)	(177,960)
Payments to employees	(36,210)	(36,196)
Other receipts	<u>1,020</u>	<u>(57)</u>
Net cash provided by operating activities	<u>362,793</u>	<u>335,676</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(164,265)	(25,366)
Principal paid on capital debt	(263,000)	(268,000)
Interest paid on capital debt	<u>(64,108)</u>	<u>(58,620)</u>
Net cash used by capital and related financing activities	<u>(491,373)</u>	<u>(351,986)</u>
Cash flows from investing activities:		
Interest received	<u>31,976</u>	<u>31,185</u>
Net cash provided by investing activities	<u>31,976</u>	<u>31,185</u>
Net increase (decrease) in cash and cash equivalents	(96,604)	14,875
Cash and cash equivalents, January 1	<u>720,535</u>	<u>623,931</u>
Cash and cash equivalents, December 31	<u>\$ 623,931</u>	<u>\$ 638,806</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 257,541</u>	<u>\$ 229,877</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	110,528	114,665
(Increase) decrease in assets:		
Accounts receivable	(743)	(6,275)
Other non operating income	1,020	(57)
Increase (decrease) in liabilities:		
Accounts payable	(1,060)	-
Contracts payable	(2,656)	-
Customer advance payments	(2,837)	1,466
Advances for construction	<u>1,000</u>	<u>(4,000)</u>
Total adjustments	<u>105,252</u>	<u>105,799</u>
Net cash provided by operating activities	<u>\$ 362,793</u>	<u>\$ 335,676</u>

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

LAKE GEORGE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District (primary government) was established under the laws of the State of Indiana. The District operates under an appointed Board of Trustees form of government and provides the following service: wastewater treatment.

The accompanying financial statements present the activities of the District. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and 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 is reported as revenue in the operating statement.

2. Restricted Assets

Proceeds from debt and funds set aside for payment of revenue bonds, utility plant betterments and improvements, or funds held in a trust capacity, are classified as restricted assets since their use is limited by applicable bond indentures or governing body action.

LAKE GEORGE REGIONAL SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

3. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 10,000	Straight-line	60 to 75 years
Equipment	1,000	Straight-line	20 to 50 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.

4. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

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 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 two year examination period ended December 31, 2007, was as follows:

LAKE GEORGE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
2006:				
Capital assets, not being depreciated:				
Land	\$ 116,356	\$ 9,812	\$ -	\$ 126,168
Construction in progress	9,812	-	9,812	-
Total capital assets, not being depreciated	126,168	9,812	9,812	126,168
Capital assets, being depreciated:				
Improvements other than buildings	5,563,978	-	-	5,563,978
Buildings	621,073	164,265	-	785,338
Machinery and equipment	564,476	-	-	564,476
Totals	6,749,527	164,265	-	6,913,792
Less accumulated depreciation for:				
Improvements other than buildings	719,383	88,989	-	808,372
Buildings	66,248	8,281	-	74,529
Machinery and equipment	88,784	13,258	-	102,042
Totals	874,415	110,528	-	984,943
Total capital assets, being depreciated, net	5,875,112	53,737	-	5,928,849
Total capital assets, net	\$ 6,001,280	\$ 63,549	\$ 9,812	\$ 6,055,017
2007:				
Capital assets, not being depreciated:				
Land	\$ 126,168	\$ -	\$ -	\$ 126,168
Capital assets, being depreciated:				
Improvements other than buildings	5,563,978	-	-	5,563,978
Buildings	785,338	25,366	-	810,704
Machinery and equipment	564,476	-	-	564,476
Totals	6,913,792	25,366	-	6,939,158
Less accumulated depreciation for:				
Improvements other than buildings	808,372	90,936	-	899,308
Buildings	74,529	10,471	-	85,000
Machinery and equipment	102,042	13,258	-	115,300
Totals	984,943	114,665	-	1,099,608
Total capital assets, being depreciated, net	5,928,849	(89,299)	-	5,839,550
Total capital assets, net	\$ 6,055,017	\$ (89,299)	\$ -	\$ 5,965,718

LAKE GEORGE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Depreciation expense of \$110,528 and \$114,665 was charged to functions/programs of the District for 2006 and 2007, respectively.

C. Long-Term Liabilities

1. Loan Payable

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of sewer lines. Funds were loaned to the District as construction costs accrued to the maximum allowed. The 1994 loan established a maximum draw of \$5,337,000. At the completion of construction, the outstanding principal balance of \$5,337,000 was amortized over a period of 16 years. Annual debt service requirements to maturity for this loan, including interest of \$273,220, are as follows:

2008	\$ 326,260
2009	326,800
2010	326,220
2011	326,540
2012	326,740
2013-2016	<u>1,303,660</u>
Total	<u>\$ 2,936,220</u>

2. 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:					
Loan payable	<u>\$ 3,194,000</u>	<u>\$ -</u>	<u>\$ 263,000</u>	<u>\$ 2,931,000</u>	<u>\$ 268,000</u>
2007:					
Loan payable	<u>\$ 2,931,000</u>	<u>\$ -</u>	<u>\$ 268,000</u>	<u>\$ 2,663,000</u>	<u>\$ 273,000</u>

LAKE GEORGE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Restricted Assets

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

	2006	2007
Improvement cash and investments	\$ 50,445	\$ 47,391
Revenue fund cash and investments	10	-
Reserve fund cash and investments	333,700	335,278
Bond and interest cash and investments	207,237	215,431
 Total restricted assets	 \$ 591,392	 \$ 598,100

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 (excluding post employment benefits); and natural disasters.

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

B. Rate Structure

The current rate structure was approved by the District on December 7, 1993. The District has 548 customers.

LAKE GEORGE REGIONAL SEWER DISTRICT
EXAMINATION RESULT AND COMMENT

PURCHASE OF LAND OR STRUCTURES

Officials did not obtain appraisals before purchasing a service building for the Sewer District.

The purchasing agent shall purchase the land or structure after the following procedures have been followed:

1. The fiscal body of the political subdivision shall pass an ordinance or resolution to the effect that it is interested in making a purchase of specified land or a structure.
2. The purchasing agent shall appoint two appraisers to appraise the fair market value of the land or structure. The appraisers must be professionally engaged in making appraisals or be trained as an appraiser and licensed as a broker under IC 25-34.1.
3. The appraisers shall return their separate appraisals to the purchasing agent within thirty days after the date of their appointment. The purchasing agent shall keep the appraisals on file in the purchasing agent's office for five years after they are given to the purchasing agent.
4. The purchasing agent shall give a copy of both appraisals to the fiscal body. [IC 36-1-10.5-5]

The purchasing agent may not purchase any land or structure for a price greater than the average of the two appraisals received under IC 36-1-10.5-5. [IC 36-1-10.5-6] (Accounting and Uniform Compliance Guidelines Manual for Special Districts State of Indiana, Chapter 16)

LAKE GEORGE REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 2, 2008, with John S. Bender II, Treasurer.