

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

EXAMINATION REPORT
OF

DELAWARE COUNTY REGIONAL
WASTEWATER DISTRICT
DELAWARE COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED
12/30/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	Pamela Shinn	01-01-06 to 12-31-08
Treasurer	Howard (Mac) Clary Tom McCarthy	01-01-06 to 12-31-07 01-01-08 to 12-31-08
President of the Board	Nancy Williams	01-01-06 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE DELAWARE COUNTY REGIONAL
WASTEWATER DISTRICT, DELAWARE COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Delaware County Regional Wastewater 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.

Except as described in the next paragraph, 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.

Financial records presented for examination were not reflective of the activity of the District. The records presented did not provide sufficient information to examine disbursements made from the various cash accounts; capital leases were not reflected in the financial records; capital asset purchases were posted as expenses rather than as capital assets; no detail of capital assets was maintained; the accounts receivable balances could not be verified; and an attorney representation letter was not received.

Because of the restrictions on our examination as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether schedules referred to above present fairly, in all material respects, the cash transactions of the District for the years ended December 31, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

November 13, 2008

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
STATEMENT OF NET ASSETS
December 31, 2006 And 2007

	2006	2007
<u>Assets</u>		
Current assets:		
Operating cash and cash equivalents	\$ 318,180	\$ 82,819
Accounts receivable (net of allowance)	364,375	417,989
Prepaid items	106,064	104,982
Total current assets	788,619	605,790
Noncurrent assets:		
Restricted cash and cash equivalents		
Depreciation cash and cash equivalents	349,416	365,050
Bond and interest cash	53,809	26,210
Debt service reserve cash and cash equivalents	820,235	898,257
Construction cash and cash equivalents	(9,642)	(9,642)
Improvement/expansion cash and cash equivalents	147,106	142,546
Retainage cash	168,398	173,624
Interest receivable	3,837	5,075
Total restricted assets:	1,533,159	1,601,120
Deferred charges	135,363	127,819
Capital assets:		
Land, improvements to land and construction in progress	231,690	231,690
Other capital assets (net of accumulated depreciation)	17,229,797	16,814,608
Total capital assets	17,461,487	17,046,298
Total noncurrent assets	19,130,009	18,775,237
Total assets	19,918,628	19,381,027
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	36,903	44,556
Retainage payable	168,398	173,624
Wages and benefits payable	3,963	2,569
Current liabilities payable from restricted assets:		
Revenue bonds payable	29,000	30,000
Accrued interest payable	31,100	29,650
Total current liabilities	269,364	280,399
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	1,149,000	1,084,000
Loans payable	12,549,145	12,042,145
Total noncurrent liabilities	13,698,145	13,126,145
Total liabilities	13,967,509	13,406,544
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,703,242	3,860,503
Restricted for purchase of capital assets and plant expansion	486,880	497,954
Restricted for debt service	874,044	924,467
Restricted for other purposes	172,235	178,699
Unrestricted	714,718	512,860
Total net assets	\$ 5,951,119	\$ 5,974,483

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

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

	2006	2007
Operating revenues:		
Flat rate revenues	\$ 2,153,319	\$ 2,233,208
Other	54,811	55,902
	2,208,130	2,289,110
Operating expenses:		
Collection system - operations and maintenance	343,503	517,671
Treatment and disposal - operations and maintenance	658,620	762,368
Customer accounts	62,566	57,711
Administration and general	162,060	171,211
Depreciation and amortization	428,045	429,026
	1,654,794	1,937,987
Total operating expenses	1,654,794	1,937,987
Operating income	553,336	351,123
Nonoperating revenues (expenses):		
Interest and investment revenue	90,119	72,548
Miscellaneous revenue	-	98,285
Interest expense	(509,716)	(498,592)
	(419,597)	(327,759)
Total nonoperating revenues (expenses)	(419,597)	(327,759)
Changes in net assets	133,739	23,364
Total net assets - beginning	5,817,380	5,951,119
Total net assets - ending	\$ 5,951,119	\$ 5,974,483

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

DELAWARE COUNTY REGIONAL WASTEWATER 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	\$ 2,197,442	\$ 2,235,494
Payments to suppliers and contractors	(1,072,621)	(1,318,086)
Payments to employees	<u>(140,554)</u>	<u>(178,308)</u>
Net cash provided by operating activities	<u>984,267</u>	<u>739,100</u>
Cash flows from noncapital financing activities:		
Miscellaneous	<u>-</u>	<u>98,285</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(77,919)	(6,291)
Principal paid on capital debt	(551,000)	(571,000)
Interest paid on capital debt	<u>(511,066)</u>	<u>(500,042)</u>
Net cash used by capital and related financing activities	<u>(1,139,985)</u>	<u>(1,077,333)</u>
Cash flows from investing activities:		
Interest received	<u>90,119</u>	<u>71,310</u>
Net increase in cash and cash equivalents	(65,599)	(168,638)
Cash and cash equivalents, January 1	<u>1,913,101</u>	<u>1,847,502</u>
Cash and cash equivalents, December 31	<u>\$ 1,847,502</u>	<u>\$ 1,678,864</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 553,336</u>	<u>\$ 351,123</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	428,045	429,026
(Increase) decrease in assets:		
Accounts receivable	(10,688)	(53,615)
Prepaid items	20,410	1,081
Increase (decrease) in liabilities:		
Accounts payable	(12,422)	7,653
Retainage payables	5,627	5,226
Wages and benefits payable	<u>(41)</u>	<u>(1,394)</u>
Total adjustments	<u>430,931</u>	<u>387,977</u>
Net cash provided by operating activities	<u>\$ 984,267</u>	<u>\$ 739,100</u>

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

DELAWARE COUNTY REGIONAL WASTEWATER 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 is governed by a Board of Trustees 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

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.

State statute (Indiana Code 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.

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.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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 bond covenants and of actions of the governing body.

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) have not been established by the governing body, depreciation methods and estimated useful lives of capital assets are as follows:

	Depreciation Method	Estimated Useful Life
Buildings and improvements	Composite	2%
Machinery and equipment	Composite	10%
Wastewater distribution and collection systems	Composite	10%

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/Personal Leave – District employees earn sick/personal leave at the rate of 6 days per year. Unused sick/personal leave may be accumulated to a maximum of 20 days. Accumulated sick/personal leave is not paid to employees.
- 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 does not accumulate from year to year.

No liability is reported for vacation and sick/personal leave.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 and Investments

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.

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

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	\$ 196,540	\$ -	\$ -	\$ 196,540
Construction in progress	-	35,150	-	35,150
				-
Total capital assets, not being depreciated	196,540	35,150	-	231,690
Capital assets, being depreciated:				
Improvements other than buildings and distribution and collection systems	20,969,431	-	-	20,969,431
Buildings	15,000	-	-	15,000
Transportation equipment	8,047	1,295	-	9,342
Machinery and equipment	32,552	41,473	-	74,025
Totals	21,025,030	42,768	-	21,067,798

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
2006 (continued):				
Less accumulated depreciation for:				
Improvements other than buildings and distribution and collection systems	3,390,027	419,390	-	3,809,417
Buildings	2,100	300	-	2,400
Transportation equipment	2,414	160	-	2,574
Machinery and equipment	22,960	650	-	23,610
	<u>3,417,501</u>	<u>420,500</u>	<u>-</u>	<u>3,838,001</u>
Totals				
Total capital assets, being depreciated, net	<u>17,607,529</u>	<u>(377,732)</u>	<u>-</u>	<u>17,229,797</u>
Total capital assets, net	<u>\$ 17,804,069</u>	<u>\$ (342,582)</u>	<u>\$ -</u>	<u>\$ 17,461,487</u>
2007:				
Capital assets, not being depreciated:				
Land	\$ 196,540	\$ -	\$ -	\$ 196,540
Construction in progress	35,150	-	-	35,150
	<u>231,690</u>	<u>-</u>	<u>-</u>	<u>231,690</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Improvements other than buildings and distribution and collection systems	20,969,431	-	-	20,969,431
Buildings	15,000	-	-	15,000
Transportation equipment	9,342	398	-	9,740
Machinery and equipment	74,025	5,894	-	79,919
	<u>21,067,798</u>	<u>6,292</u>	<u>-</u>	<u>21,074,090</u>
Totals				
Less accumulated depreciation for:				
Improvements other than buildings and distribution and collection systems	3,809,417	419,513	-	4,228,930
Buildings	2,400	300	-	2,700
Transportation equipment	2,574	1,481	-	4,055
Machinery and equipment	23,610	187	-	23,797
	<u>3,838,001</u>	<u>421,481</u>	<u>-</u>	<u>4,259,482</u>
Totals				
Total capital assets, being depreciated, net	<u>17,229,797</u>	<u>(415,189)</u>	<u>-</u>	<u>16,814,608</u>
Total capital assets, net	<u>\$ 17,461,487</u>	<u>\$ (415,189)</u>	<u>\$ -</u>	<u>\$ 17,046,298</u>

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. 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
\$1,062,000 1979 Westbrook Sewage Revenue Bonds	5%	\$ 521,000
\$1,018,000 1981 Daleville Sewage Revenue Bonds	5%	<u>593,000</u>
Total		<u>\$ 1,114,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended	Principal	Interest
December 31, 2007		
2008	\$ 30,000	\$ 29,650
2009	69,000	54,200
2010	72,000	50,750
2011	75,000	47,150
2012	79,000	43,400
2013-2017	460,000	153,400
2018-2022	329,000	36,000
2023-2027	<u>-</u>	<u>2,850</u>
Totals	<u>\$ 1,114,000</u>	<u>\$ 417,400</u>

2. Loans Payable

The District has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$4,039,642 are as follows:

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year	Amount
2009	\$ 939,337
2010	940,973
2011	941,910
2012	942,150
2013-2017	4,699,030
2018-2022	4,668,301
2023-2027	2,950,086
Total	<u><u>\$ 16,081,787</u></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 payable	\$ 1,238,000	\$ -	\$ 60,000	\$ 1,178,000	\$ 29,000
Loans payable	13,040,145	-	491,000	12,549,145	-
Total long-term liabilities	<u>\$ 14,278,145</u>	<u>\$ -</u>	<u>\$ 551,000</u>	<u>\$ 13,727,145</u>	<u>\$ 29,000</u>
2007:					
Revenue bonds payable	\$ 1,178,000	\$ -	\$ 64,000	\$ 1,114,000	\$ 30,000
Loans payable	12,549,145	-	507,000	12,042,145	-
Total long-term liabilities	<u>\$ 13,727,145</u>	<u>\$ -</u>	<u>\$ 571,000</u>	<u>\$ 13,156,145</u>	<u>\$ 30,000</u>

D. Restricted Assets

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

Depreciation	\$ 365,050
Bond and interest	26,210
Debt service reserve	898,257
Construction	(9,642)
Improvement/expansion	142,546
Retainage	173,624
Interest receivable	5,075
Total restricted assets	<u>\$ 1,601,120</u>

DELAWARE COUNTY REGIONAL WASTEWATER 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. Subsequent Events

In July 2008, the District entered into an interlocal agreement with the Muncie Sanitary District (MSD) for the purpose of financing the construction of a low pressure sanitary wastewater collection system for the Tanglewood Subdivision which is located in the Royerton service area. MSD will use a portion of its currently available funding from a State Revolving Fund (SRF) loan to finance the design and construction of the system. The District will pay MSD the necessary amount to repay MSD's portion of the SRF loan. The approximate cost of the project is \$350,000.

C. Rate Structure

The current rate structure was approved by the District on November 3, 2004, for the Daleville and Westbrook service areas and on May 22, 2002, for the Royerton service area. The Utility has 3,019 customers.

D. Pension Plan

Agent Multiple-Employer 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 (Indiana Code 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.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The District's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 7,199
Interest on net pension obligation	(1,144)
Adjustment to annual required contribution	1,303
Annual pension cost	7,358
Contributions made	2,067
Increase in net pension obligation	5,291
Net pension obligation, beginning of year	(15,775)
Net pension obligation, end of year	\$ (10,484)
Contribution rates:	
District	7.75%
Plan members	3%
Actuarial valuation date	07-01-07
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-05	\$ 2,355	136%	\$ (13,796)
	06-30-06	1,464	235%	(15,775)
	06-30-07	7,358	28%	(10,484)

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-02	\$ 103,010	\$ 114,150	\$ (11,140)	90%	\$ 57,494	(19%)
07-01-03	103,043	101,294	1,749	102%	41,545	4%
07-01-04	104,640	113,015	(8,375)	93%	30,043	(28%)
07-01-05	107,137	88,087	19,050	122%	58,163	33%
07-01-06	(20,391)	58,261	(78,652)	35%	20,362	(386%)
07-01-07	(16,316)	10,522	(26,838)	155%	27,918	(96%)

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS

The following items were noted:

1. A capital lease was obtained in 2005 for an alarm monitoring system. The monitoring system was not posted to capital asset accounts nor was a capital lease payable established. Monthly payments of \$1,479.42 were disbursed for the lease. The unit could not provide any documentation on the lease.
2. Entries to cash accounts did not always disclose specific checks paid from those accounts. The entries were noted as "Offset-Invoice Summary" and represented the total of monthly disbursements. There was no way to determine the type of disbursements paid from the various cash accounts.
3. Purchases of capital assets in an estimated amount of \$110,400 and \$74,708 in 2006 and 2007, respectively, were not recorded as capital assets but as expenses.
4. The detailed accounts receivable amounts did not agree with the accounts receivable per the trial balance by \$17,882 and \$173,000 as of December 31, 2006 and December 31, 2007, respectively. Also, accounts receivable was estimated at December 31, 2007, by using the total of detailed balances at January 1, 2007, billings, adjustments, penalties, and collections. Estimated calculated accounts receivable exceeded the total of detailed balances at December 31, 2007, by \$20,549.
5. An attorney representation letter was not received.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ERRORS ON CLAIMS

The following deficiencies were noted during a review of claims:

1. Claims were not prepared for all disbursements.
2. Claims were not adequately itemized. There were no invoices supporting any of the credit card statements.
3. Disbursements were made prior to board approval.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

MILEAGE REIMBURSEMENT AND VEHICLE MAINTENANCE

Mileage Form 101 was not used to support \$16,384 paid to the Director for mileage reimbursement. Maintenance expenses such as oil changes, tires, etc. were also disbursed for the Director's personal vehicle.

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)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OVERDRAWN CASH BALANCES

Cash balances of the Operating Royerton Fund, the Bond and Interest Royerton Fund and the Construction Royerton Fund were overdrawn as follows:

	<u>December 31, 2006</u>		<u>December 31, 2007</u>
Operating Royerton	\$ 39,706	\$	215,597
Bond and Interest Royerton	35,499		35,018
Construction Royerton	9,642		9,642

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

Finance charges in the amount of \$5.83 were paid to a credit card company.

Interest totaling \$10.16 was paid to the Indiana Department of Revenue for the period ending December 31, 2006.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CAPITAL ASSET RECORDS

The following deficiencies were noted during a review of capital assets:

1. Detailed capital asset records were not maintained.
2. Purchases of capital assets in an estimated amount of \$110,400 and \$74,708 in 2006 and 2007, respectively, were not recorded as capital assets but as expenses.
3. Completed construction in progress was not transferred to the proper capital asset account.
4. No capitalization policy has been established.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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)

ORDINANCES AND RESOLUTIONS

1. The district has established rate ordinances for each of its three service areas. We noted five accounts that were not charged in accordance with the approved rate ordinances.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. The District is to charge a 10% fee on all delinquent accounts; however, the unit removed penalties from some delinquent accounts without approval from governing board.
3. Partial payments were being made for tap fees; however, there was no ordinance or policy to support partial payments.
4. The Board minutes indicated charges for tap fees for the Westbrook District (Cammack Project) were \$4,000; however, we noted customers were charged \$4,350.

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)

COMPENSATION AND BENEFITS

1. Time cards were not maintained for all employees.
2. Times cards were not approved by the appropriate official.
3. Forms 99A, Employee Service Records, were not maintained for any employees.
4. There were no contracts or ordinances to support salary payments made to the Director or maintenance employees for 2006 and 2007.
5. Salary payments for one part time employee for maintenance duties, excluding mowing, were reflected in the payroll records. Payments made to the part time employee for mowing services, which would be considered maintenance, were not included in the payroll records, nor were they reported on a 1099.
6. The Director was paid for supplemental insurance in the amount of \$4,270 and \$3,846 for the years 2006 and 2007, respectively. The amounts were not included as income on the employee's form W-2, for either year.
7. There were numerous errors on the Employees Earnings Records, Form 99B, resulting in inaccurate form W-2's. In 2006, gross pay for one employee was overreported in the amount of \$664 and underreported for two employees in the amount of \$1,545; social security withholdings were overreported for one employee in the amount of \$467 and county withholdings were overreported for one employee in the amount of \$10. In 2007, gross pay for two employees was overreported in the amount of \$10,679; federal withholdings were overreported for one employee in the amount of \$446 and were underreported for one employee in the amount of \$990; social security withholdings were overreported for two employees in the amount of \$175; medicare withholdings were overreported for three employees in the amount of \$46; state withholdings were overreported for two employees in the amount of \$96 and county withholdings were overreported for two employees in the amount of \$29.
8. Payments were made to Board members without payroll deductions for taxes.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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)

CONFLICT OF INTEREST

The spouse of the Board President was an employee of the District. A Uniform Conflict of Interest Disclosure Statement was not filed.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . .

(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant. . . and (B) makes a disclosure under subsection (d)(1) through (d)(6).

(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase. . . .

(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . .

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
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(Continued)

(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

ACCOUNTS RECEIVABLE

The detailed accounts receivable amounts did not agree with the accounts receivable per the trial balance by \$17,882 and \$173,000 as of December 31, 2006 and December 31, 2007, respectively.

Accounts receivable was estimated at December 31, 2007, by using the total of detailed balances at January 1, 2007, billings, adjustments, penalties and collections. Estimated accounts receivable calculated exceeded the total of detailed balances at December 31, 2007, by \$20,549.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines for Special Districts, chapter 10)

BOND ORDINANCE REQUIREMENTS

The District is required to comply with bond ordinance requirements. Per the ordinance: "The operating funds shall be credited on the last day of each calendar month a sufficient amount of the revenues of the sewage works so that the balance shall be sufficient to pay the expenses of operation, repair and maintenance for the then next succeeding two calendar months. The bond and interest funds shall be credited on the first day of each calendar month an amount equal to one-tenth of the interest and principal payable on the next succeeding principal and interest payment date." The operating funds and bond and interest funds were underfunded in the amounts of \$168,507 and \$27,475, respectively, at December 31, 2007.

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)

NO DETAILED TIME RECORDS FOR DUAL EMPLOYMENT

The Board President presented claims for services performed, other than attending Board meetings, totaling \$9,400 during the examination period. The claims did not note the specific hours worked. Monthly hours worked were documented in total with the description noted as "Field work and observation in various areas." Hours worked for a specific period were documented in total for the periods September 2005 through March 2006 and April 2006 through 2007 with the description noted as "various meetings for regional business" and "work on budget and year end reports." The Board President is also an employee of the Muncie Sanitary District.

Indiana Code 5-11-9-4(b) states: "The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees: (1) covered by section 1 or 2 of this chapter; and (2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

PUBLIC RECORDS RETENTION

Ordinances and resolutions were requested for review. A copy of Ordinance 2006-1 was provided; however, the ordinance was not signed. Ordinance 2006-2, Resolution 2007-02, and Resolution 2007-03 were not presented for examination.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on November 13, 2008, with Pamela Shinn, Office Manager; Tom McCarthy, Treasurer; Max Abrell, Director; and Nancy Williams, President of the Board.