

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

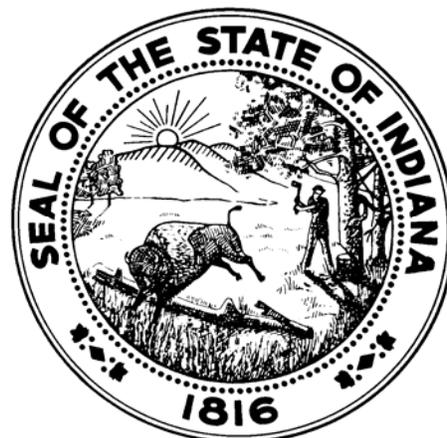
AUDIT REPORT

OF

SPRINGS VALLEY REGIONAL WATER DISTRICT

ORANGE COUNTY, INDIANA

January 1, 2004 to December 31, 2005



**FILED**  
09/19/2006



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	William H. Harris Alan Barnett	01-01-04 to 12-31-04 01-01-05 to 12-31-06
Office Manager	Susan J. Farris	01-01-04 to 12-31-06
Superintendent	Stephen Mark Brown	01-01-04 to 12-31-06
President of the Board	Wayne Carnes	01-01-04 to 12-31-06



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

TO: THE OFFICIALS OF THE SPRINGS VALLEY REGIONAL  
WATER DISTRICT, ORANGE COUNTY, INDIANA

We have audited the accompanying financial statements of the Springs Valley Regional Water District (Water District), as of and for the years ended December 31, 2004 and 2005, which collectively comprise the Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Water District's management. Our responsibility is to express an opinion 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 opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the proprietary funds, of the Water District as of December 31, 2004 and 2005, 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 August 23, 2006, on our consideration of the Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Water District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

The Water 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 an opinion on the financial statements that collectively comprise the Water District's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not a required part 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

August 23, 2006



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE SPRINGS VALLEY REGIONAL  
WATER DISTRICT, ORANGE COUNTY, INDIANA

We have audited the financial statements of the Springs Valley Regional Water District (Water District), as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated August 23, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

August 23, 2006

SPRINGS VALLEY REGIONAL WATER DISTRICT  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Years Ended December 31, 2004 and 2005

	<u>2004</u>	<u>2005</u>
Operating receipts:		
Unmetered water receipts	\$ 1,373	\$ 2,393
Metered water receipts	521,387	866,209
Other	<u>3,749</u>	<u>3,635</u>
Total operating receipts	<u>526,509</u>	<u>872,237</u>
Operating disbursements:		
Equipment and capital improvements	232,021	3,455,668
Salaries and wages	148,596	163,204
Employee pensions and benefits	46,810	49,285
Purchased water	23,476	27,788
Purchased power	24,830	31,528
Chemicals	34,688	29,947
Material and supplies	14,367	21,189
Contractual services	10,896	36,588
Transportation disbursements	6,428	7,210
Insurance disbursements	18,083	17,118
Sales tax	25,616	43,285
Miscellaneous disbursements	<u>11,697</u>	<u>12,576</u>
Total operating disbursements	<u>597,508</u>	<u>3,895,386</u>
Deficiency of operating receipts under operating disbursements	<u>(70,999)</u>	<u>(3,023,149)</u>
Nonoperating receipts (disbursements):		
Bond proceeds	364,500	3,486,300
Interest and investment receipts	10,205	23,778
Miscellaneous receipts	9,460	35,542
Debt service of principal	(115,000)	(120,000)
Interest and investment disbursement	(108,443)	(190,399)
Miscellaneous disbursements	<u>(135,143)</u>	<u>(49,829)</u>
Total nonoperating receipts (disbursements)	<u>25,579</u>	<u>3,185,392</u>
Excess (deficiency) of receipts over (under) disbursements and nonoperating receipts (disbursements)	(45,420)	162,243
Cash and investment fund balance - beginning	<u>969,860</u>	<u>924,440</u>
Cash and investment fund balance - ending	<u>\$ 924,440</u>	<u>\$ 1,086,683</u>
<u>Cash and Investment Assets - December 31</u>		
Cash and investments	\$ 357,936	\$ 441,571
Restricted assets:		
Cash and investments	<u>566,504</u>	<u>645,112</u>
Total cash and investment assets - December 31	<u>\$ 924,440</u>	<u>\$ 1,086,683</u>
<u>Cash and Investment Fund Balance - December 31</u>		
Restricted for:		
Debt service	\$ 319,071	\$ 386,571
Customer deposits	22,831	27,199
Construction	339	1,375
Improvements	224,263	229,967
Unrestricted	<u>357,936</u>	<u>441,571</u>
Total cash and investment fund balance - December 31	<u>\$ 924,440</u>	<u>\$ 1,086,683</u>

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

SPRINGS VALLEY REGIONAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Water District was established under the laws of the State of Indiana. The Water District operates under an appointed governing board, and provides water services.

The Water District's financial reporting entity is composed of the following:

Primary Government: Springs Valley Regional Water District

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

B. Fund Financial Statements

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

C. Measurement Focus and Basis of Accounting

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

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

If the Water District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

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

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

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.

SPRINGS VALLEY REGIONAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 nonoperating receipts and payment of principal and interest reported as nonoperating disbursements.

4. Equity Classification

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

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

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

E. Operating Receipts and Disbursements

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

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. At December 31, 2005, the bank balance held at Springs Valley Bank and Trust in the amount of \$1,086,683 was insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Restatements and Reclassifications

Certain amounts presented in the prior audit report have been reclassified in order to be consistent with the current year's presentation.

SPRINGS VALLEY REGIONAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Other Information

A. Risk Management

The Water 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; 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.

Job Related Illnesses or Injuries to Employees

During 1999, the Water District joined a public entity risk pool, the Indiana Public Employer's Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989 for the purpose of providing a medium for the funding and administration of workers compensation claims. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Rate Structure

The current rate structure was approved by the Water District Board on November 3, 2004.

SPRINGS VALLEY REGIONAL WATER DISTRICT  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2005

Capital assets are reported at actual cost. Contributed or donated assets are reported at estimated fair value at the time received.

	<u>Ending Balance</u>
Capital assets	
Land	\$ 23,500
Machinery and equipment	616,894
Buildings	265,906
Improvements other than buildings	3,041,774
Construction in progress	<u>3,676,331</u>
Total capital assets	<u>\$ 7,624,405</u>

SPRINGS VALLEY REGIONAL WATER DISTRICT  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2005

	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds:		
1999 Issue	\$ 1,640,000	\$ 60,000
2003 Issue	495,000	65,000
2004 Issue	<u>3,850,800</u>	<u>5,000</u>
 Total Revenue Bonds	 <u>\$ 5,985,800</u>	 <u>\$ 130,000</u>

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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 SPRINGS VALLEY REGIONAL  
WATER DISTRICT, ORANGE COUNTY, INDIANA

Compliance

We have audited the compliance of the Springs Valley Regional Water District (Water District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the years ended December 31, 2004 and 2005. The Water District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Water District's management. Our responsibility is to express an opinion on the Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 Water 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 Water District's compliance with those requirements.

In our opinion, the Water 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, 2004 and 2005.

Internal Control Over Compliance

The management of the Water 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 Water 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

August 23, 2006

SPRINGS VALLEY REGIONAL WATER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Years Ended December 31, 2004 and 2005

Federal Grantor Agency Program Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-04	Total Federal Awards Expended 12-31-05
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant:				
Water and Waste Disposal Loans and Grants (Section 306C)	10.770		\$ <u>364,161</u>	\$ <u>3,587,813</u>

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

SPRINGS VALLEY REGIONAL WATER 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 Springs Valley Regional Water District (Water 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 Regional Water Districts shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Loans Outstanding

The Water District had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2004 and 2005. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2004</u>	<u>2005</u>
Water and Waste Disposal Loans and Grants (Section 306C)	10.770	<u>\$ 364,161</u>	<u>\$ 3,951,974</u>

SPRINGS VALLEY REGIONAL WATER 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
Reportable conditions 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
Reportable conditions 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
10.770	Water and Waste Disposal Loans and Grants (Section 306C)

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.

SPRINGS VALLEY REGIONAL WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SPRINGS VALLEY REGIONAL WATER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2006, with Susan J. Farris, Office Manager; Stephen Mark Brown, Superintendent; and Wayne Carnes, President of the Board. Our report disclosed no material items that warrant comment at this time.