

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

AUDIT REPORT

OF

TWIN LAKES REGIONAL SEWER DISTRICT

WHITE COUNTY, INDIANA

January 1, 2005 to December 31, 2006



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	James Crown	05-15-06 to 12-31-07
Superintendent	Michael Darter	01-01-05 to 12-31-07
Treasurer	Arthur Anderson	01-01-05 to 12-31-07
President of the Utility Service Board	James Smith	01-01-05 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE TWIN LAKES REGIONAL SEWER DISTRICT, WHITE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Twin Lakes Regional Sewer District (District), as of and for the years ended December 31, 2005, and 2006. 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 audit.

Except as discussed in the third paragraph, 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.

The District did not maintain detailed records of their capital assets. Additionally, no record of disposals and their effects on depreciation expense and accumulated depreciation has been maintained. The amounts by which the financial statements would change if these amounts were included cannot be determined.

In our opinion, except for the effects, if any, of inadequate capital asset, accumulated depreciation and related depreciation expense account records, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2005, and 2006, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2007, 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 and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the 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.

STATE BOARD OF ACCOUNTS

May 23, 2007



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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 TWIN LAKES REGIONAL SEWER DISTRICT, WHITE COUNTY, INDIANA

We have audited the financial statements of the Twin Lakes Regional Sewer District (District), as of and for the years ended December 31, 2005, and 2006, and have issued our report thereon dated May 23, 2007. The opinion to the basic financial statements was qualified due to scope limitations related to capital assets, accumulated depreciation and depreciation expense. 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 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 instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1, 2006-2 and 2006-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1, 2006-2 and 2006-3.

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. Our consideration of the

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
(Continued)

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider items 2006-1, 2006-2, and 2006-3, to be material weaknesses.

This report is intended solely for the information and use of the 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

May 23, 2007

TWIN LAKES REGIONAL SEWER DISTRICT
STATEMENT OF NET ASSETS
December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 58,519	\$ 257,281
Accounts receivable	246,362	255,350
Accounts receivable - other	202,632	575,035
Inventories	<u>142,092</u>	<u>108,745</u>
Total current assets	<u>649,605</u>	<u>1,196,411</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Debt service reserve	-	99,216
Bond and interest cash and investments	623,073	620,892
Construction cash and investments	<u>796,423</u>	<u>750,374</u>
Total restricted assets:	<u>1,419,496</u>	<u>1,470,482</u>
Deferred charges	<u>199,426</u>	<u>224,199</u>
Capital assets:		
Land, improvements to land and construction in progress	17,389,268	1,695,995
Other capital assets (net of accumulated depreciation)	<u>14,284,302</u>	<u>32,404,663</u>
Total capital assets	<u>31,673,570</u>	<u>34,100,658</u>
Total noncurrent assets	<u>33,292,492</u>	<u>35,795,339</u>
Total assets	<u>33,942,097</u>	<u>36,991,750</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	46,959	83,818
Contracts payable	132,513	238,917
Loan payable - White County	320,900	237,800
Current liabilities payable from restricted assets:		
Revenue bonds payable	325,740	324,000
Accrued interest payable	<u>444,259</u>	<u>363,494</u>
Total current liabilities	<u>1,270,371</u>	<u>1,248,029</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts)	19,921,781	19,817,066
Bond anticipation note payable	<u>1,500,000</u>	<u>2,000,000</u>
Total noncurrent liabilities	<u>21,421,781</u>	<u>21,817,066</u>
Total liabilities	<u>22,692,152</u>	<u>23,065,095</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	9,605,149	11,721,792
Restricted for debt service	623,073	720,108
Unrestricted	<u>1,021,723</u>	<u>1,484,755</u>
Total net assets	<u>\$ 11,249,945</u>	<u>\$ 13,926,655</u>

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

TWIN LAKES REGIONAL SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
Operating revenues:		
Unmetered water revenue:		
Residential and commercial	\$ 1,748,764	\$ 2,529,458
Penalties	<u>43,654</u>	<u>42,621</u>
Total operating revenues	<u>1,792,418</u>	<u>2,572,079</u>
Operating expenses:		
Salaries and wages	114,133	167,922
Employee pensions and benefits	201,365	232,122
Purchased power	71,345	109,114
Sludge removal	29,671	17,119
Chemicals	5,936	6,581
Materials and supplies	70,478	145,813
Contractual services	264,163	151,189
Equipment rental	4,537	4,655
Transportation expenses	10,278	17,045
Insurance expense	23,441	21,295
Regulatory commission expenses	6,456	16,174
Bad debt expense	-	15,068
Communication and postage expenses	9,889	31,221
Depreciation and amortization	465,343	442,429
Miscellaneous expenses	<u>187,918</u>	<u>23,217</u>
Total operating expenses	<u>1,464,953</u>	<u>1,400,964</u>
Operating income	<u>327,465</u>	<u>1,171,115</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	14,043	43,016
Miscellaneous revenue	9,754	37,551
Interest expense	(151,115)	(265,378)
Miscellaneous expense	<u>(24,860)</u>	<u>(29,605)</u>
Total nonoperating expenses	<u>(152,178)</u>	<u>(214,416)</u>
Income before contributions	175,287	956,699
Capital contributions	<u>5,605,889</u>	<u>1,720,011</u>
Change in net assets	5,781,176	2,676,710
Total net assets - beginning	<u>5,468,769</u>	<u>11,249,945</u>
Total net assets - ending	<u>\$ 11,249,945</u>	<u>\$ 13,926,655</u>

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

TWIN LAKES REGIONAL SEWER DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Years Ended December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,759,287	\$ 2,563,091
Payments to suppliers and contractors	(684,287)	(506,704)
Payments to employees	(315,498)	(400,044)
Other receipts	<u>(1,075,554)</u>	<u>(514,833)</u>
Net cash provided (used) by operating activities	<u>(316,052)</u>	<u>1,141,510</u>
Cash flows from noncapital financing activities:		
Miscellaneous nonoperating revenue (expense)	<u>(15,106)</u>	<u>7,946</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	4,539,381	4,315,000
Capital contributions	5,605,889	1,720,011
Acquisition and construction of capital assets	(10,259,060)	(2,458,706)
Principal paid on capital debt	(229,700)	(6,043,840)
Interest paid on capital debt	(414,106)	(475,189)
Proceeds from bond anticipation note	<u>-</u>	<u>2,000,000</u>
Net cash used by capital and related financing activities	<u>(757,596)</u>	<u>(942,724)</u>
Cash flows from investing activities:		
Interest received	<u>14,043</u>	<u>43,016</u>
Net increase (decrease) in cash and cash equivalents	(1,074,711)	249,748
Cash and cash equivalents, January 1	<u>2,552,726</u>	<u>1,478,015</u>
Cash and cash equivalents, December 31	<u>\$ 1,478,015</u>	<u>\$ 1,727,763</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 327,465</u>	<u>\$ 1,171,115</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	445,067	432,512
(Increase) decrease in assets:		
Accounts receivable	(33,131)	(8,988)
Accounts receivable - other	254,494	(372,403)
Inventories	-	33,347
Prepaid items	9,021	-
Increase (decrease) in liabilities:		
Accounts payable	(175)	18,440
Contracts payable	<u>(1,318,793)</u>	<u>(132,513)</u>
Total adjustments	<u>(643,517)</u>	<u>(29,605)</u>
Net cash provided (used) by operating activities	<u>\$ (316,052)</u>	<u>\$ 1,141,510</u>
Noncash investing, capital and financing activities:		
Purchase of equipment on account	\$ 132,513	\$ 18,419
Capital asset increase through interest capitalization	385,008	143,558
Capital assets acquired through transfers of construction in progress	-	16,873,877

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

TWIN LAKES 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 Trustee 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 Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the District to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

TWIN LAKES REGIONAL SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

2. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 5,000	Straight-line	50 years
Machinery and equipment	5,000	Straight-line	10 years
Wastewater distribution and collection systems	5,000	Straight-line	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. The total interest expense incurred by the District during the current year was \$408,936. Of the amount, \$143,558 was included as part of the cost of capital assets under construction in connection with the Phase I and II wastewater treatment system construction project.

TWIN LAKES REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Compensated Absences

- a. Sick Leave – District employees earn sick leave at the rate of 4 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is not paid to employees through cash payments upon leave of employment.
- b. Vacation Leave – District employees earn vacation leave at rates from 10 days to 15 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 25 days. Accumulated vacation leave is paid to employees through cash payments upon leave of employment.

No liability is reported for vacation and sick leave.

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

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. Accounts Receivables - Other

Other accounts receivable consists primarily of customers paying off connection fees on a payment plan, regular accounts receivable customers who have been certified to White County for collection and rural development grant money received in the subsequent period.

C. Capital Assets

Capital asset records were not maintained by the District and detailed information on capital assets and related accumulated depreciation necessary for disclosure is not available.

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Phase III extension project	\$ 23,456,000	\$ 1,695,995	\$ 1,048,105	\$ 21,456,000

TWIN LAKES REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. 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
Big Monon Bay Series A, 1999	3.25%	\$ 3,729,000
Big Monon Bay Series B, 1999	3.25%	1,331,000
Idaville Series A, 2002	4.50%	456,000
Idaville Series B, 2002	4.50%	52,000
Phase I Series A, 2004	4.375%	4,894,000
Phase II Series B, 2004	4.375%	4,898,000
Snow Ditch Refunding, 2004	3.00% to 4.25%	580,000
Snow Ditch Refunding, 2006	4.55%	<u>4,280,000</u>
 Total		 <u>\$ 20,220,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended	Principal	Interest
December 31		
2007	\$ 324,000	\$ 733,312
2008	389,000	816,902
2009	406,000	800,805
2010	416,000	784,266
2011	447,000	766,824
2012-2016	2,386,000	3,533,896
2017-2021	2,638,000	3,028,357
2022-2026	3,225,000	2,423,527
2027-2031	2,888,000	1,730,256
2032-2036	2,857,000	1,209,102
2037-2041	2,964,000	599,976
2042-2044	<u>1,280,000</u>	<u>84,018</u>
 Totals	 <u>\$ 20,220,000</u>	 <u>\$ 16,511,241</u>

TWIN LAKES REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Loans Payable

The District has entered into various loans payable with White County. At December 31, 2006, the balance on these loans was \$237,800. These loans are interest free and can be paid back over an undesignated period of time. The District has also entered into a bond anticipation note payable (BAN) until the Phase III bond issue is closed. The balance on the BAN at December 31, 2006, was \$2,000,000. The BAN is scheduled to mature on July 3, 2008.

3. Advance Refunding

In prior years, the District defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The following outstanding bonds, at December 31, 2006, were considered defeased:

	<u>Amount</u>
Snow Ditch Series A, 2001	\$ 615,000
Snow Ditch Series B, 2001	4,025,000

4. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 20,295,740	\$ 4,315,000	\$ 4,390,740	\$ 20,220,000	\$ 324,000
Less deferred amount on refunding	<u>48,219</u>	<u>37,756</u>	<u>7,041</u>	<u>78,934</u>	<u>324,000</u>
Total long-term liabilities	<u>\$ 20,247,521</u>	<u>\$ 4,277,244</u>	<u>\$ 4,383,699</u>	<u>\$ 20,141,066</u>	<u>\$ -</u>

F. Restricted Assets

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

Revenue bond debt service reserve	\$ 99,216
Revenue bond operations and maintenance account	620,892
Revenue bond construction account	<u>750,374</u>
Total restricted assets	<u>\$ 1,470,482</u>

TWIN LAKES REGIONAL SEWER 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

Phase III Construction Project

Twin Lakes Regional Sewer District is currently undergoing further expansion of its service area with its Phase III project. Bids were let for this project on April 4, 2007. Construction is estimated to begin near the end of June of 2007. Estimated costs for this project total \$23,456,000. Funding for Phase III will be provided by United States Department of Agriculture Rural Development (USDA-RD) loans totaling \$18,509,000 and a USDA-RD grant for \$2,500,000; as well as \$2,625,000 in connection fees from new Phase III customers.

District Office Building

The District is in the planning stages of acquiring land and constructing a new office building. The cost of this project is estimated to be \$472,800 and will be funded with remaining USDA-RD Phase I and II grant funds.

C. Rate Structure

The District currently has five different service areas. The current rate structure was approved by the District's Board of Trustees on October 12, 2006. As of December 31, 2006, the District had 3,791 customers. Phase III will bring on approximately 1,629 more customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District employees receive pension benefits as members of the White County plan which 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 (IC 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

TWIN LAKES REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 with White County's data and disclosed within the 2005 White County Annual Report.

TWIN LAKES REGIONAL SEWER DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
For The Year Ended December 31, 2006

Description of Debt	Ending Balance	Due Within One Year
Business-type Activities:		
Wastewater Utility:		
Loans or other debt:		
purpose: Loans from White County	\$ 237,800	\$ -
purpose: Bond Anticipation Note	2,000,000	-
Revenue bonds:		
purpose: Big Monon Bay - Series A - 1999	3,729,000	64,000
purpose: Big Monon Bay - Series B - 1999	1,331,000	23,000
purpose: Idaville - Series A - 2002	456,000	5,000
purpose: Idaville - Series B - 2002	52,000	1,000
purpose: Phase I - Series A - 2004	4,894,000	53,000
purpose: Phase II - Series B - 2004	4,898,000	53,000
purpose: Snow Ditch - Refunding - 2004	580,000	70,000
purpose: Snow Ditch - Refunding - 2006	<u>4,280,000</u>	<u>55,000</u>
 Total Wastewater Utility	 <u>\$ 22,457,800</u>	 <u>\$ 324,000</u>

TWIN LAKES REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS

INVESTMENT MATURITY LIMITATIONS

The District purchased a certificate of deposit which has a stated maturity in excess of two years. A similar comment was noted in prior Report B25797.

Indiana Code 5-13-9-5.6 states:

"Except for investments allowed under section 2(f) or 2(g) of this chapter, investments made under this chapter must have a stated final maturity of not more than:

- (1) five (5) years for a conservancy district located in a city having a population of more than four thousand six hundred fifty (4,650) but less than five thousand (5,000);
- (2) five (5) years for investments made from a host community agreement future fund established by ordinance of a town with population of more than six thousand three hundred (6,300) but less than ten thousand (10,000) located in a county having population of more than one hundred thousand (100,000) but less than one hundred five thousand (105,000); or (3) two (2) years for a fund or political subdivision not described in subdivision (1) or (2); after the date of purchase or entry into a repurchase agreement."

CAPITAL ASSET RECORDS

The District does not maintain a detailed record of capital assets for its Utility Plant in Service accounts. Upon purchase, the costs of the capital assets are added to an aggregate Utility Plant in Service account in the General Ledger. However, records providing historical costs for some of the District's capital assets are not available, and records classifying and summarizing the District's capital assets are incomplete. Deletions or disposals of capital assets are not recorded. A similar comment was noted in prior Report B25797.

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 16)

CONDITION OF RECORDS

The financial records were incomplete and not reflective of the activity of all general ledger accounts. Detailed subsidiary records were not available or were not being reconciled to the general ledger. Financial records were incomplete and not reflective of the activity of the following accounts: other accounts receivable, materials and supplies inventory, capital assets, accumulated depreciation, accounts payable, interest payable, bonds payable. A similar comment was noted in the prior Report B25797.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

TWIN LAKES REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

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)

RATE ORDINANCE

Twin Lakes Regional Sewer District (District) has an ordinance concerning rates and charges for its sewer district. However, the District did not always charge rates in accordance with their rate ordinance.

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

No salary ordinance or resolution was signed by the Board for 2005 or 2006. Also, amounts paid to employees were paid in advance, and any discrepancies in time worked were adjusted on the next payroll.

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 14)

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 14)

INTERNAL CONTROLS

Controls over the recording, and accounting of the financial activities of the District were insufficient. A similar comment was noted in prior Report B25797.

There were a number of posting errors to various general ledger (G/L) accounts. These errors included:

1. A \$1,987,500 bond anticipation note (BAN) received July 3, 2006, was posted incorrectly.
2. \$444,250 of interest payments made January 3, 2006, was posted to the wrong account.

Also, Rural Development grant money received in 2005 and 2006 totaled \$5,605,889 and \$1,503,211, respectively, was not properly reported in the District's financial statements. Not all transactions could be verified as posted to the G/L. Interest payments made on July 1, 2005, of \$168,605 could not be located in the G/L. There was an \$111,508 adjustment to the District's 2005 net assets that could not be supported or verified by other documentation.

TWIN LAKES REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TWIN LAKES REGIONAL SEWER DISTRICT, WHITE COUNTY, INDIANA

Compliance

We have audited the compliance of the Twin Lakes Regional Sewer 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 its major federal program for the year ended December 31, 2006. The 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 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.

As described in item 2006-3 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Equipment and Real Property Management that are applicable to its Water and Waste Disposal Systems for Rural Communities program. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended December 31, 2005 and 2006.

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 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 MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-3 and 2006-4.

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 the 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-3 and 2006-4 to be material weaknesses.

This report is intended solely for the information and use of the 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

May 23, 2007

TWIN LAKES REGIONAL SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Total Federal Awards Expended 12-31-05	Total Federal Awards Expended 12-31-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Direct Grant			
Water and Waste Disposal Systems for Rural Communities	10.760		
USDA - Rural Development - Phase I		\$ 2,880,354	\$ 747,121
USDA - Rural Development - Phase II		<u>6,233,570</u>	<u>756,090</u>
Total for federal grantor agency		<u>9,113,924</u>	<u>1,503,211</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Grant			
Congressionally Mandated Projects	66.202		
STAG Grant - Phase III		<u>216,800</u>	<u>-</u>
Total federal awards expended		<u>\$ 9,330,724</u>	<u>\$ 1,503,211</u>

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

TWIN LAKES REGIONAL SEWER DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Twin Lakes Regional Sewer District (primary government) 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.

Note 2. Loans Outstanding

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

Program Title	Federal CFDA Number	Loan Outstanding
Water and Wastewater Disposal Systems for Rural Communities	10.760	\$ <u>15,360,000</u>

TWIN LAKES REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes

Identification of Major Program:

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

FINDING 2006-1, CAPITAL ASSET RECORDS

The Twin Lakes Regional Sewer District does not maintain a detailed record of capital assets. Information presented for audit did not indicate that an inventory or record of capital assets was maintained. Records were not sufficient to provide accurate additions, deletions or balances of capital assets.

Failure to properly establish and maintain an accurate record of capital assets could result in the loss or misappropriation of fixed assets.

TWIN LAKES REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset 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 16)

We recommended the Twin Lakes Regional Sewer District take a physical inventory of the District's capital assets and record them in a capital asset ledger.

FINDING 2006-2, INTERNAL CONTROLS

Controls over the recording and accounting for the financial activities of the Twin Lakes Regional Sewer District were insufficient.

There were a number of posting errors to various general ledger (G/L) accounts. These errors included:

1. A \$1,987,500 bond anticipation note (BAN) received July 3, 2006, was posted incorrectly.
2. \$444,250 of interest payments made January 3, 2006, was posted to the wrong account.
3. \$5,605,889 and \$1,503,211 in Rural Development grant money received in 2005 and 2006, respectively, was not properly reported in the District's financial statements.
4. Not all transactions could be verified as posted to the G/L. Interest payments made on July 1, 2005, of \$168,605 could not be located in the G/L.
5. There was an \$111,508 adjustment to the District's 2005 net assets that could not be supported or verified by other documentation.

Failure to enforce effective internal controls could lead to material losses for the District, which may not be detected promptly.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 10)

We recommended that the Twin Lakes Regional Sewer District implement internal controls which will provide: reasonable assurances regarding the reliability of financial information and records, effective and efficient operations; proper execution of management's objectives; and compliance with laws and regulations.

TWIN LAKES REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-3, EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760

The Twin Lakes Regional Sewer District does not maintain a detailed record of capital assets. Information presented for audit did not indicate that an inventory or record of capital assets was maintained. Records were not sufficient to provide accurate additions, deletions or balances of capital assets.

Requirements for the management of equipment are addressed in 24 CFR 85.32 and 40 CFR 31.32, which both state in part: "Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property."

Failure to follow program requirements of the Grant could delay or forfeit future grant funding.

We recommended the Twin Lakes Regional Sewer District take a physical inventory of the District's property and record them in a capital asset ledger.

FINDING 2006-4, REPORTING

Federal Agency: U.S. Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760

The Twin Lakes Regional Sewer District did not have accurate financial statement information available to accurately report financial activity to the oversight agency. The information reported to the oversight agency on Form 442-2 and Form 442-3 was based on financial statements that contained numerous errors.

The Twin Lakes Regional Sewer District and the USDA Rural Development entered into a grant agreement that states in part:

"(M) Providing a financial management system which will include accurate, current, and complete disclosure of financial results of each grant. Records which identify adequately the source and application of funds for grant supported activities. Those records shall contain information pertaining to grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays, and income."

Failure to maintain accurate financial statements results in inaccurate grant activity reports and could lead to incorrect financial decision making.

We recommended that the Twin Lakes Regional Sewer District design and properly monitor procedures to ensure that the financial statements provided to the management of the District and to any government oversight agencies at all times reflect the financial activity of the District and that the financial records of the District at all times portray an accurate and true picture of the financial condition of the District.

TWIN LAKES REGIONAL SEWER DISTRICT

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Finding Number: 2004-6

<u>Finding Notation:</u>	<u>Cash Management</u>
<u>Original SBA Audit Report Number:</u>	<u>B25797</u>
<u>Fiscal Year:</u>	<u>2003-2004</u>
<u>Auditee Contact Person:</u>	<u>Jim Crawn</u>
<u>Title of Contact Person:</u>	<u>Office/Financial Manager</u>
<u>Phone Number:</u>	<u>219-253-1105</u>

Status of Finding:

The construction account has been brought to a zero balance in accordance to the Corrective Action Plan dated September 15, 2005.

Finding Number: 2004-7

<u>Finding Notation:</u>	<u>Reporting</u>
<u>Original SBA Audit Report Number:</u>	<u>B25797</u>
<u>Fiscal Year:</u>	<u>2003-2004</u>
<u>Auditee Contact Person:</u>	<u>Jim Crawn</u>
<u>Title of Contact Person:</u>	<u>Office/Financial Manager</u>
<u>Phone Number:</u>	<u>219-253-1105</u>

Status of Finding:

Internal controls have been implemented that have reasonable assurance regarding the reliability of financial information and records.

Finding Number: 2004-8

<u>Finding Notation:</u>	<u>Equipment and Real Property Management</u>
<u>Original SBA Audit Report Number:</u>	<u>B25797</u>
<u>Fiscal Year:</u>	<u>2003-2004</u>
<u>Auditee Contact Person:</u>	<u>Jim Crawn</u>
<u>Title of Contact Person:</u>	<u>Office/Financial Manager</u>
<u>Phone Number:</u>	<u>219-253-1105</u>

Status of Finding:

The District is compiling a complete inventory of all capital assets owned which reflect their acquisition value and in record in the fixed asset ledger. The District anticipates having the CAR complete for the closing of the 2007 financials.



MICHAEL DARTER

OPERATIONS MANAGER, TWIN LAKES RSD

TWIN LAKES REGIONAL SEWER DISTRICT

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Corrective Action Plan 2005 –2006 Audit

May 23, 2007

**State Board Of Accounts
302 West Washington Street
Room E418
Indianapolis, Indiana 46204-2765**

Finding No. 2006-1, CAPITAL ASSET RECORDS

Auditee Contact Person: Jim Crawn
Title of Contact Person: Office/Financial Manager
Phone Number: 219-253-1105
Expected Completion Date: December 2007

Corrective Action Planned:

The Twin Lakes Regional Sewer District will complete a physical inventory of the District's capital assets and record them in a capital asset ledger.

Finding No. 2006-2, INTERNAL CONTROLS

Auditee Contact Person: Jim Crawn
Title of Contact Person: Office/Financial Manager
Phone Number: 219-253-1105
Expected Completion Date: January 2007

Corrective Action Planned:

The Twin Lakes Regional Sewer District will implement internal controls, which will provide proper posting to the general ledger (G/L) accounts.

TWIN LAKES REGIONAL SEWER DISTRICT

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Finding No. 2006-3, EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number 10.760
Federal Award Number: 10.760
Auditee Contact Person: Jim Crawn
Title of Contact Person: Office/Financial Manager
Phone Number: 219-253-1105
Expected Completion Date: December 2007

Corrective Action Planned:

The Twin Lakes Regional Sewer District will take a physical inventory of the District's property and record them in a capital asset ledger.

Finding No. 2006-4, REPORTING

Federal Agency: U.S. Department of Education
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number 10.760
Federal Award Number: 10.760
Auditee Contact Person: Jim Crawn
Title of Contact Person: Office/Financial Manager
Phone Number: 219-253-1105
Expected Completion Date: December 2007

Corrective Action Planned:

The Twin Lakes Regional Sewer District will design and properly monitor procedures to ensure that the financial statements provided to management of the District and to any government oversight agencies at all times reflect the financial activity of the District and that the financial records of the District at all times portray an accurate and true picture of the financial condition of the District.



Michael Darter
District Superintendent

TWIN LAKES REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on May 23, 2007, with James Crown, Office Manager; Michael Darter, Superintendent; Arthur Anderson, Treasurer; and James Smith, President of the Utility Service Board. The officials concurred with our audit findings.