

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

ANNUAL FINANCIAL REPORT

2007

TWIN LAKES REGIONAL SEWER DISTRICT

WHITE COUNTY, INDIANA



**FILED**  
07/23/2008



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	James Crawn	01-01-07 to 12-31-08
Superintendent	Michael Darter	01-01-07 to 12-31-08
Treasurer	Arthur Anderson Larry Dunn	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the Board of Trustees	James Smith Curtis W. Garrison	01-01-07 to 12-31-07 01-01-08 to 12-31-08



**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 (Sewer District), as of and for the year ended December 31, 2007, which collectively comprise the Sewer District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Sewer 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Sewer District as of December 31, 2007, and the respective changes in financial position and cash flows, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Sewer 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.

In accordance with Government Auditing Standards, we have also issued a report dated July 10, 2008, on our consideration of the Sewer 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 Sewer 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

July 10, 2008



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the business-type activities of the Twin Lakes Regional Sewer District (Sewer District), as of and for the year ended December 31, 2007, which collectively comprise the Sewer District's basic financial statements and have issued our report thereon dated July 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sewer District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sewer District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sewer District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiencies described in item 2007-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned costs as item 2007-1.

The Sewer District's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Sewer District's response and, accordingly, we express no opinion on it.

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

July 10, 2008

TWIN LAKES REGIONAL SEWER DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2007

Assets

Current assets:	
Cash and cash equivalents	\$ 187,366
Accounts receivable	588,039
Accounts receivable - other	324,988
Inventories	<u>72,179</u>
 Total current assets	 <u>1,172,572</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Debt service reserve	759,894
Bond and interest cash and investments	<u>642,163</u>
 Total restricted assets	 <u>1,402,057</u>
 Deferred charges	 <u>247,415</u>
Capital assets:	
Land, improvements to land and construction in progress	7,821,898
Other capital assets (net of accumulated depreciation)	<u>28,762,900</u>
 Total capital assets	 <u>36,584,798</u>
 Total noncurrent assets	 <u>38,234,270</u>
 Total assets	 <u>39,406,842</u>

Liabilities

Current liabilities:	
Accounts payable	64,324
Contracts payable	871,985
Loans payable - White County	210,400
Current liabilities payable from restricted assets:	
Revenue bonds payable	389,000
Accrued interest payable	<u>365,320</u>
 Total current liabilities	 <u>1,901,029</u>
Noncurrent liabilities:	
Revenue bonds payable (net of unamortized discounts)	25,832,602
Bond anticipation note payable	<u>50,000</u>
 Total noncurrent liabilities	 <u>25,882,602</u>
 Total liabilities	 <u>27,783,631</u>

Net Assets

Invested in capital assets, net of related debt	9,230,811
Restricted for debt service	1,402,057
Unrestricted	<u>990,343</u>
 Total net assets	 <u>\$ 11,623,211</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 Year Ended December 31, 2007

Operating revenues:	
Unmetered revenue:	
Residential and commercial	\$ 3,069,101
Other	239,491
Penalties	<u>53,924</u>
Total operating revenues	<u>3,362,516</u>
Operating expenses:	
Salaries and wages	343,992
Employee pensions and benefits	128,443
Purchased power	118,063
Sludge removal	2,795
Chemicals	23,335
Materials and supplies	168,286
Contractual services	278,562
Equipment rental	6,288
Transportation expenses	24,951
Insurance expense	20,837
Regulatory commission expenses	22,354
Communication and postage expenses	29,013
Depreciation	1,044,271
Miscellaneous expenses	<u>187,764</u>
Total operating expenses	<u>2,398,954</u>
Operating income	<u>963,562</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	45,571
Miscellaneous revenue	23,411
Interest expense	(791,709)
Miscellaneous expense	<u>(27,221)</u>
Total nonoperating expenses	<u>(749,948)</u>
Income before contributions	213,614
Capital contributions	<u>238,971</u>
Change in net assets	452,585
Total net assets - beginning	<u>13,926,655</u>
Prior period adjustment:	
Correction of capital asset account (Note II. G.)	<u>(2,756,029)</u>
Restated net assets beginning of the year	<u>11,170,626</u>
Total net assets - ending	<u>\$ 11,623,211</u>

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

TWIN LAKES REGIONAL SEWER DISTRICT  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2007

Cash flows from operating activities:	
Receipts from customers and users	\$ 3,029,827
Payments to suppliers and contractors	(865,176)
Payments to employees	(472,435)
Other receipts	<u>11,130</u>
Net cash provided by operating activities	<u>1,703,346</u>
Cash flows from noncapital financing activities:	
Miscellaneous nonoperating expense (net)	<u>(3,810)</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	6,450,770
Capital contributions	238,971
Acquisition and construction of capital assets	(6,450,770)
Principal paid on capital debt	(2,406,400)
Net effect of prior period adjustment to capital assets	1,150,809
Interest paid on capital debt	(916,827)
Proceeds from bond anticipation note	<u>50,000</u>
Net cash used by capital and related financing activities	<u>(1,883,447)</u>
Cash flows from investing activities:	
Interest received	<u>45,571</u>
Net decrease in cash and cash equivalents	(138,340)
Cash and cash equivalents, January 1	<u>1,727,763</u>
Cash and cash equivalents, December 31	<u>\$ 1,589,423</u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	<u>\$ 963,562</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,044,271
(Increase) decrease in assets:	
Accounts receivable	(332,689)
Accounts receivable - other	250,047
Inventories	36,566
Increase (decrease) in liabilities:	
Accounts payable	(19,494)
Contracts payable	<u>(238,917)</u>
Total adjustments	<u>739,784</u>
Net cash provided by operating activities	<u>\$ 1,703,346</u>
Noncash investing, capital and financing activities:	
Capital asset increase through interest capitalization	\$ 112,494
Capital assets acquired through transfers of construction in progress	1,512,685

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

The accompanying financial statements present the activities of the Sewer 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 Sewer 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 Sewer 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 5,000	Straight-line	50 years
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 Sewer District during the current year was \$904,203. Of the amount, \$112,494 was included as part of the cost of capital assets under construction in connection with the Phase III and Phase III B wastewater treatment system construction project.

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

5. Compensated Absences

- a. Sick Leave – Sewer 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 upon leaving employment.
- b. Vacation Leave – Sewer 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 leaving 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 regular accounts receivable customers who have been certified to White County for collection.

C. Capital Assets

Capital asset records were not maintained prior to the current audit period. The Sewer District compiled and started maintaining capital asset records during the current audit period; however, beginning balances were not available for reporting purposes. Balances as of December 31, 2007, were as follows:

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

	Ending Balance
Capital assets, not being depreciated:	
Land	\$ 203,339
Construction in progress	7,618,559
Total capital assets, not being depreciated	7,821,898
Capital assets, being depreciated:	
Engineering	5,189,929
Collection system	20,843,716
Treatment plant and equipment	6,984,863
Machinery and equipment	160,778
Total	33,179,286
Less accumulated depreciation	4,416,386
Total capital assets, being depreciated, net	28,762,900
Total capital assets, net	\$ 36,584,798

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007	Committed	Required Future Funding
Phase III and Phase III B	\$ 23,456,000	\$ 7,593,834	\$ 15,862,166	\$ 14,234,151
New office building	739,623	24,725	714,898	714,898
Totals	\$ 24,195,623	\$ 7,618,559	\$ 16,577,064	\$ 14,949,049

E. Long-Term Liabilities

1. Revenue Bonds

The Sewer District issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

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

Purpose	Interest Rates	Amount
Big Monon Bay Series A, 1999	3.25%	\$ 3,665,000
Big Monon Bay Series B, 1999	3.25%	1,308,000
Idaville Series A, 2002	4.50%	451,000
Idaville Series B, 2002	4.50%	51,000
Phase I Series A, 2004	4.375%	4,841,000
Phase II Series B, 2004	4.375%	4,845,000
Snow Ditch Refunding, 2004	3% to 4.25%	510,000
Snow Ditch Refunding, 2006	4.55%	4,170,000
 Total		 <u>\$ 19,841,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2008	\$ 334,000	\$ 720,333
2009	406,000	800,806
2010	416,000	784,265
2011	447,000	766,825
2012	473,000	748,100
2013-2017	2,403,000	3,434,273
2018-2022	2,745,000	2,917,131
2023-2027	3,603,000	2,278,182
2028-2032	2,441,000	1,624,177
2033-2037	2,971,000	1,094,568
2038-2042	2,834,000	478,837
2043-2047	768,000	33,862
 Totals	 <u>\$ 19,841,000</u>	 <u>\$ 15,681,359</u>

As of December 31, 2007; \$6,450,770 in draws against the phase III and III B Series A, B, C, and D bond issues are not included in this schedule. They are drawdown bond issues and as of December 31, 2007, the Sewer District is still drawing on them. Final amortization schedules will be determined after the last draws are made.

2. Notes and Loans Payable

The Sewer District has entered into various loans payable with White County. At December 31, 2007, the balance on these loans was \$210,400. These loans are interest free and can be paid back over an undesignated period of time. The Sewer District has also entered into a \$1,772,000 drawdown bond anticipation note payable (BAN) until the Phase III bond issue is closed. The balance drawn on the BAN at December 31, 2007, was \$50,000. The BAN is scheduled to close on August 23, 2012.

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

3. Advance Refunding

In prior years, the Sewer 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 Sewer District's financial statements. The following outstanding bonds, at December 31, 2007, were considered defeased:

	<u>Amount</u>
Snow Ditch Series A, 2001	\$ 545,000
Snow Ditch Series B, 2001	3,940,000

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, 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	\$ 20,220,000	\$ 6,450,770	\$ 379,000	\$ 26,291,770	\$ 389,000
Less bond discount	<u>(78,934)</u>	<u>-</u>	<u>(8,766)</u>	<u>(70,168)</u>	<u>-</u>
Total long-term liabilities	<u>\$ 20,141,066</u>	<u>\$ 6,450,770</u>	<u>\$ 370,234</u>	<u>\$ 26,221,602</u>	<u>\$ 389,000</u>

Principal payments on debt not considered long-term for the year 2007 were \$2,027,400.

F. Restricted Assets

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

Revenue bond debt service reserve	\$ 759,894
Revenue bond and interest account	<u>642,163</u>
Total restricted assets	<u>\$ 1,402,057</u>

G. Restatements

For the year ended December 31, 2007, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Sewer District. Prior period adjustments represent adjustments made to reflect the changes necessary to properly report Utility Plant in Service, which had previously been expended.

Balance as Reported December 31, 2006	Prior Period Adjustments	Balance as Restated January 1, 2007
<u>\$ 13,926,655</u>	<u>\$ (2,756,029)</u>	<u>\$ 11,170,626</u>

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

III. Other Information

A. Risk Management

The Sewer 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. Risk financing is not utilized for the other risks of loss.

Worker's Compensation

During 2007, the Sewer District joined with other governmental entities in 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. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation coverage. The Sewer District pays an annual premium to the risk pool for its worker's compensation coverage. 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. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Subsequent Events

Phase IV Buffalo Service Area

Twin Lakes Regional Sewer District (TLRSD) is currently in the planning phase of its final service area. Estimated total project costs for this service area are approximately \$18,130,000. TLRSD expects to receive a funding commitment from Rural Development early in 2009, to let bids in the Fall of 2009 with construction of eighteen months duration beginning shortly after the bids are awarded.

C. Rate Structure

The Sewer District currently has seven different service areas with four different rates. The current rate structure was approved by the Sewer District's Board of Trustees on October 12, 2006. As of December 31, 2007, the Sewer District had 3,791 customers. Phase III and III B started partial billing in September of 2007 and represented approximately 1,629 additional customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Sewer 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

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

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 Sewer 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.

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 Sewer District's annual pension cost and related information, as provided by the actuary, is presented with the White County's data and disclosed within the 2006 White County Annual Report.

TWIN LAKES REGIONAL SEWER DISTRICT  
AUDIT RESULT AND COMMENT

CONDITION OF RECORDS

Posting errors to the general ledger were noted. These errors included:

1. \$213,701 in contributions were posted incorrectly.
2. \$196,729 in adjustments to interest expense were incorrectly posted.
3. \$55,000 in adjustments were made incorrectly to bonds payable.
4. \$35,016 of bond issue costs were posted to the wrong account.
5. \$16,250 interest payment related to a Bond Anticipation Note was incorrectly posted.

Indiana Code 13-26-7-1 states: "Each district must keep proper records showing the district's finances."

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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  
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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 (Sewer District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2007. The Sewer 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 Sewer District's management. Our responsibility is to express an opinion on the Sewer 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 Sewer 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 Sewer District's compliance with those requirements.

As described in item 2007-2 of the accompanying Schedule of findings and Questioned Costs, the Sewer District did not comply with requirement regarding reporting 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 Sewer District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Sewer District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the Sewer 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 Sewer District's internal

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)

control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Sewer District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a Sewer District's internal control over compliance exists when the design or operation of a control does not allow management or employee, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirements of a federal program that is more than inconsequential will not be prevented or detected in item 2007-2 of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control of a significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we considered item 2007-2 to be a material weakness.

The Sewer District's response to a findings identified in our audit is described in the accompanying Corrective Action Plan section of the report. We did not audit the Sewer District's response and, accordingly, we express no opinion on it.

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

July 10, 2008

TWIN LAKES REGIONAL SEWER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Year Ended December 31, 2007

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
Direct Grant		
Water and Waste Disposal Systems for Rural Communities	10.760	
USDA - Rural Development - Grant - Phase I		\$ 83,015
USDA - Rural Development - Grant - Phase II		95,335
USDA - Rural Development - Loan - Phase III		4,930,713
USDA - Rural Development - Loan - Phase III B		<u>2,312,141</u>
Total federal awards expended		<u>\$ 7,421,204</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, 2007. 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>Loans Outstanding</u>
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 21,611,770</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: Unqualified

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?	none reported

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 Programs:

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

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2007-1, INTERNAL CONTROLS

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

Posting errors to the general ledger were not detected by the internal control structure. These errors included:

1. \$213,701 in contributions were posted incorrectly.
2. \$196,729 in adjustments to interest expense were incorrectly posted.

TWIN LAKES REGIONAL SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

3. \$55,000 in adjustments were made incorrectly to bonds payable.
4. \$35,016 of bond issue costs were posted to the wrong account.
5. \$16,250 interest payment related to a Bond Anticipation Note was incorrectly posted.

Failure to enforce effective internal controls could lead to material losses for the Sewer 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 Special Districts, Chapter 10)

We recommended that the 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.

Section III – Federal Award Findings and Questioned Costs

FINDING 2007-2, 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 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 Sewer District design and properly monitor procedures to ensure that the financial statements provided to the management of the Sewer District and to any government oversight agencies at all times reflect the financial activity of the Sewer District and that the financial records of the Sewer District at all times portray an accurate and true picture of the financial condition of the Sewer District.

# TWIN LAKES REGIONAL SEWER DISTRICT

"Protecting the Environment Today for Tomorrow's Generations"

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Finding Number: 2006-3**

<u>Original SBA Audit Report Number</u>	<u>B29999</u>
<u>Finding Notation:</u>	<u>Equipment and Real Property Management</u>
<u>Auditee Contact Person</u>	<u>Jim Crown</u>
<u>Title of Contact Person</u>	<u>Office/Financial Manager</u>
<u>Phone Number</u>	<u>219-253-1105</u>
<u>Fiscal Year:</u>	<u>2005-2006</u>

**Status of Finding:**

The Twin Lakes Regional Sewer District has completed and is maintaining a detailed list of capital assets. A physical inventory of the Twin Lakes Regional Sewer District has been completed and recorded in the capital asset ledger.

**Finding Number: 2006-4**

<u>Original SBA Audit Report Number</u>	<u>B29999</u>
<u>Finding Notation:</u>	<u>Reporting</u>
<u>Auditee Contact Person</u>	<u>Jim Crown</u>
<u>Title of Contact Person</u>	<u>Office/Financial Manager</u>
<u>Phone Number</u>	<u>219-253-1105</u>
<u>Fiscal Year:</u>	<u>2005-2006</u>

**Status of Finding:**

The Twin Lakes Regional Sewer District have been implemented internal controls that have reasonable assurance regarding the reliability of financial information and records.



Michael J. Darter - Operations Manager

5-2-08

Date

(03/06) Form 14A  
A.1.5 - 9107TWINLAKESREGIONALSEWERDISTRICT - 4-30-2008.DOC

# TWIN LAKES REGIONAL SEWER DISTRICT

"Protecting the Environment Today for Tomorrow's Generations"

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## Corrective Action Plan 2007 Audit

June 17, 2008

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

### Finding No. 2007-1, INTERNAL CONTROLS

Auditee Contact Person: Jim Crawn  
Title of Contact Person: Office/Financial Manager  
Phone Number: 219-253-1105  
Expected Completion Date: December 2008

#### Corrective Action Planned:

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

### Finding No. 2007-2, REPORTING

Auditee Contact Person: Jim Crawn  
Title of Contact Person: Office/Financial Manager  
Phone Number: 219-253-1105  
Expected Completion Date: December 2008

#### Corrective Action Planned:

The Twin Lakes Regional Sewer District will 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 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 July 10, 2008, with Curtis W. Garrison, President of the Board of Trustees; Larry Dunn, Treasurer; Michael Darter, Superintendent; and James Crown, Office Manager. The officials concurred with our audit finding.