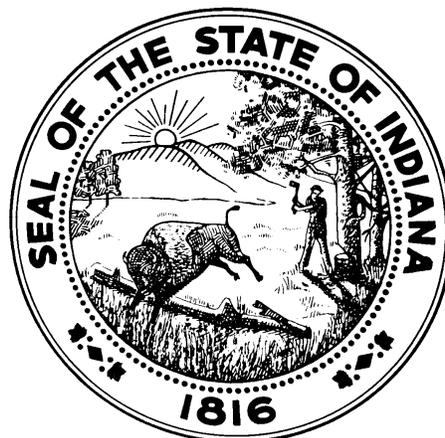


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

LAKE SANTEE REGIONAL WASTE
AND WATER DISTRICT
DECATUR COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED

11/25/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	Darrow McCreary	01-01-06 to 12-31-08
Treasurer	David Kinnett Frank Erdosy	01-01-06 to 03-10-08 03-11-08 to 12-31-08
President of the Board	William Pearsey	01-01-06 to 12-31-08



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

TO: THE OFFICIALS OF THE LAKE SANTEE REGIONAL WASTE
AND WATER DISTRICT, DECATUR COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities and each major fund of the Lake Santee Regional Waste and Water District (District), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District as of December 31, 2006 and 2007, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated October 30, 2008, 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.

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.

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

The District has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 30, 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 LAKE SANTEE REGIONAL WASTE
AND WATER DISTRICT, DECATUR COUNTY, INDIANA

We have audited the financial statements of the business-type activities and each major fund of the Lake Santee Regional Waste and Water District (District), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 30, 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 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

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)

Compliance and Other Matters

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 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.

We noted certain matters that we reported to management in a separate letter dated October 30, 2008.

This report is intended solely for the information and use of the District's management, Lake Santee Regional Waste and Water District Board 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

October 30, 2008

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2006

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts			<u>Net (Disbursement) and Receipt Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Business-Type Activities</u>
Business-type activities:					
Water	\$ 2,720,601	\$ 378,697	\$ 8,000	\$ 369,000	\$ (1,964,904)
Wastewater	<u>336,076</u>	<u>359,867</u>	<u>-</u>	<u>-</u>	<u>23,791</u>
Total business-type activities	<u>\$ 3,056,677</u>	<u>\$ 738,564</u>	<u>\$ 8,000</u>	<u>\$ 369,000</u>	<u>(1,941,113)</u>
General receipts:					
Other local sources					3,957
Bonds and loans					1,880,000
Unrestricted investment earnings					<u>14,796</u>
Total general receipts					<u>1,898,753</u>
Change in net assets					(42,360)
Net assets - beginning					<u>405,007</u>
Net assets - ending					<u>\$ 362,647</u>
<u>Assets</u>					
Cash and investments					\$ 59,108
Restricted assets:					
Cash and investments					<u>303,539</u>
Total assets					<u>\$ 362,647</u>
<u>Net Assets</u>					
Restricted for:					
Debt service					\$ 221,882
Other purposes					81,657
Unrestricted					<u>59,108</u>
Total net assets					<u>\$ 362,647</u>

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS

As of and for the Year Ended December 31, 2006

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Totals</u>
Operating receipts:			
Metered receipts:			
Residential	\$ 347,849	\$ -	\$ 347,849
Commercial	7,124	-	7,124
Residential sales	-	315,485	315,485
Commercial and industrial sales	-	9,426	9,426
Penalties	16,723	24,951	41,674
Other	<u>7,001</u>	<u>10,005</u>	<u>17,006</u>
Total operating receipts	<u>378,697</u>	<u>359,867</u>	<u>738,564</u>
Operating disbursements:			
Equipment and capital improvements	2,411,287	-	2,411,287
Purchased power	11,654	6,889	18,543
Chemicals	8,954	5,327	14,281
Material and supplies	9,290	5,527	14,817
Rents	342	204	546
Professional fees	16,811	10,001	26,812
Management fees	137,188	81,614	218,802
Contractual services	80,978	48,174	129,152
Insurance disbursements	11,944	7,105	19,049
Miscellaneous disbursements	<u>12,706</u>	<u>6,085</u>	<u>18,791</u>
Total operating disbursements	<u>2,701,154</u>	<u>170,926</u>	<u>2,872,080</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(2,322,457)</u>	<u>188,941</u>	<u>(2,133,516)</u>
Nonoperating receipts (disbursements):			
Rural development loan proceeds	1,880,000	-	1,880,000
Interest and investment receipts	6,018	8,778	14,796
Miscellaneous receipts	214	3,743	3,957
Debt service principal	-	(34,000)	(34,000)
Debt service interest	<u>(19,447)</u>	<u>(131,150)</u>	<u>(150,597)</u>
Total nonoperating receipts (disbursements)	<u>1,866,785</u>	<u>(152,629)</u>	<u>1,714,156</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	<u>(455,672)</u>	<u>36,312</u>	<u>(419,360)</u>
Capital contributions:			
Federal grants	369,000	-	369,000
Other sources	<u>-</u>	<u>8,000</u>	<u>8,000</u>
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	<u>(86,672)</u>	<u>44,312</u>	<u>(42,360)</u>
Cash and investment fund balance - beginning	<u>151,838</u>	<u>253,169</u>	<u>405,007</u>
Cash and investment fund balance - ending	<u>\$ 65,166</u>	<u>\$ 297,481</u>	<u>\$ 362,647</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ (12,688)	\$ 71,796	\$ 59,108
Restricted assets:			
Cash and investments	<u>77,854</u>	<u>225,685</u>	<u>303,539</u>
Total cash and investment assets - December 31	<u>\$ 65,166</u>	<u>\$ 297,481</u>	<u>\$ 362,647</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 3,136	\$ 218,746	\$ 221,882
Capital outlay	74,718	6,939	81,657
Unrestricted	<u>(12,688)</u>	<u>71,796</u>	<u>59,108</u>
Total cash and investment fund balance - December 31	<u>\$ 65,166</u>	<u>\$ 297,481</u>	<u>\$ 362,647</u>

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts		Net Receipt and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	Business-Type Activities
Business-type activities:				
Water	\$ 547,346	\$ 384,019	\$ 212,500	\$ 49,173
Wastewater	338,545	406,042	-	67,497
Total business-type activities	\$ 885,891	\$ 790,061	\$ 212,500	116,670
General receipts:				
Unrestricted investment earnings				10,892
Change in net assets				127,562
Net assets - beginning				362,647
Net assets - ending				\$ 490,209
 <u>Assets</u>				
Cash and investments				\$ 111,964
Restricted assets:				
Cash and investments				378,245
Total assets				\$ 490,209
 <u>Net Assets</u>				
Restricted for:				
Debt service				\$ 367,811
Other purposes				10,434
Unrestricted				111,964
Total net assets				\$ 490,209

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Totals
Operating receipts:			
Metered receipts:			
Residential	\$ 336,659	\$ 355,965	\$ 692,624
Commercial	10,059	10,636	20,695
Penalties	26,625	28,152	54,777
Other	10,676	11,289	21,965
	<u>384,019</u>	<u>406,042</u>	<u>790,061</u>
Total operating receipts			
Operating disbursements:			
Equipment and capital improvements	220,742	-	220,742
Purchased power	14,862	16,138	31,000
Chemicals	6,073	4,821	10,894
Material and supplies	12,067	9,580	21,647
Rents	237	188	425
Professional fees	3,368	2,674	6,042
Management fees	143,170	113,657	256,827
Contractual services	16,127	12,802	28,929
Insurance disbursements	14,356	11,396	25,752
Miscellaneous disbursements	8,994	2,801	11,795
	<u>439,996</u>	<u>174,057</u>	<u>614,053</u>
Total operating disbursements			
Excess (deficiency) of operating receipts over operating disbursements	<u>(55,977)</u>	<u>231,985</u>	<u>176,008</u>
Nonoperating receipts (disbursements):			
Interest and investment receipts	2,129	8,763	10,892
Debt service principal	-	(36,000)	(36,000)
Debt service interest	(107,350)	(128,488)	(235,838)
	<u>(105,221)</u>	<u>(155,725)</u>	<u>(260,946)</u>
Total nonoperating receipts (disbursements)			
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(161,198)	76,260	(84,938)
Capital contributions:			
Federal grants	212,500	-	212,500
	<u>212,500</u>	<u>-</u>	<u>212,500</u>
Federal grants			
Excess of receipts, contributions and transfers in over disbursements and transfers out	51,302	76,260	127,562
Cash and investment fund balance - beginning	65,166	297,481	362,647
	<u>65,166</u>	<u>297,481</u>	<u>362,647</u>
Cash and investment fund balance - ending	<u>\$ 116,468</u>	<u>\$ 373,741</u>	<u>\$ 490,209</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ (5,003)	\$ 116,967	\$ 111,964
Restricted assets:			
Cash and investments	121,471	256,774	378,245
	<u>121,471</u>	<u>256,774</u>	<u>378,245</u>
Total cash and investment assets - December 31	<u>\$ 116,468</u>	<u>\$ 373,741</u>	<u>\$ 490,209</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 124,947	\$ 242,864	\$ 367,811
Capital outlay	(3,476)	13,910	10,434
Unrestricted	(5,003)	116,967	111,964
	<u>(5,003)</u>	<u>116,967</u>	<u>111,964</u>
Total cash and investment fund balance - December 31	<u>\$ 116,468</u>	<u>\$ 373,741</u>	<u>\$ 490,209</u>

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Primary Government: Lake Santee Regional Waste and Water District

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements.

The District reports the following major proprietary funds:

The water and wastewater funds account for the operation of the water and sewer systems.

C. Measurement Focus and Basis of Accounting

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

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

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

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

a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

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

Fund Financial Statements

Proprietary fund equity is classified the same as in the government-wide statements.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

E. Receipts and Disbursements

Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

II. Stewardship, Compliance, and Accountability

Cash and Investment Balance Deficits

At December 31, 2006 and 2007, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2006	2007
Water Operating	\$ 12,688	\$ 5,003
Water Construction	-	3,476

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2007, the bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

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; 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.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

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.

	<u>Ending Balance</u>
Business-type activities:	
Capital assets, not being depreciated:	
Land, lakes and rivers	\$ 334,056
Machinery and equipment	4,441,347
Structures	<u>3,834,841</u>
Total Business-type activities, capital assets not being depreciated	<u>\$ 8,610,244</u>

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Water Utility		
Revenue bonds:		
2005 Waterworks Revenue Bonds	\$ 2,505,000	\$ 28,000
2005 Waterworks Revenue Bonds	<u>235,000</u>	<u>5,000</u>
Total Water Utility	<u>2,740,000</u>	<u>33,000</u>
Wastewater Utility		
Revenue bonds:		
1999 Sewage Works Revenue Bonds	<u>2,687,000</u>	<u>37,000</u>
Total business-type activities debt:	<u>\$ 5,427,000</u>	<u>\$ 70,000</u>

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
AUDIT RESULTS AND COMMENTS

DEPOSITS

In many instances, receipts were deposited later than the next business day.

Indiana Code 5-13-6-1 requires that public funds be deposited not later than the business day following the receipt of the funds on business days of the depository. (Accounting and Uniform Compliance Guidelines Manuals for Special Districts, Chapter 15)

TIMELY RECORDKEEPING

We noted instances of two to three weeks from the time of the original date of the transactions until entry on the consumer account records.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Special District, Chapter 10)

OVERDRAWN FUND BALANCES

The Water Operating Fund was overdrawn in 2006 and 2007. The Water Construction Fund was overdrawn in 2007.

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

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE LAKE SANTEE REGIONAL WASTE
AND WATER DISTRICT, DECATUR COUNTY, INDIANA

Compliance

We have audited the compliance of the Lake Santee Regional Waste and Water 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 each of its major federal programs for the years ended December 31, 2006 and 2007. The District's major federal programs are 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 each of its major federal programs 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.

In our opinion, the District complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2006 and 2007.

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, 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 District's internal control over compliance.

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

A control deficiency in a District's internal control over compliance 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 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 requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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.

Our consideration of the internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the District's management, Lake Santee Regional Waste and Water District Board, 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

October 30, 2008

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2006 and 2007

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-06	Total Federal Awards Expended 12-31-07
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760			
Water Utility Project-Rural Development Loan			\$ 1,880,000	\$ -
Water Utility Project-Rural Development Grant			<u>372,000</u>	<u>214,500</u>
Total federal awards expended			<u>\$ 2,252,000</u>	<u>\$ 214,500</u>

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Lake Santee Regional Waste and Water District (District) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of Special Districts shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Loans Outstanding

The District had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2006 and 2007. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2006
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 1,880,000</u>

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.760	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? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2008, with Darrow McCreary, Superintendent; William Pearsey, President of the Board; Frank Erdosy, Treasurer; and Tom Crowe, Utility Supervisor. The officials concurred with our audit findings.