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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, 2008 to December 31, 2009



FILED
06/03/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	James Crown	01-01-08 to 12-31-10
Superintendent	Mike Darter	01-01-08 to 12-31-10
Treasurer	Larry Dunn	01-01-08 to 12-31-10
President of the Board of Trustees	Curtis Garrison	01-01-08 to 12-31-10



STATE OF INDIANA
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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, 2008, and 2009. 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.

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 District as of December 31, 2008, and 2009, 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 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 March 11, 2010, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

March 11, 2010



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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 (District), as of and for the years ended December 31, 2008 and 2009 and have issued our report thereon dated March 11, 2010. 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.

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 consider the deficiencies described in item 2009-1 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.

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 2009-1 to be a material weakness.

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.

The 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 District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's management, the District Board of Trustees, and federal awarding agencies 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

March 11, 2010

TWIN LAKES REGIONAL SEWER DISTRICT
STATEMENT OF NET ASSETS
December 31, 2008 And 2009

<u>Assets</u>	<u>2008</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 273,583	\$ 273,070
Accounts receivable	506,461	631,369
Accounts receivable - other	742,272	800,512
Inventories	<u>103,303</u>	<u>129,211</u>
Total current assets	<u>1,625,619</u>	<u>1,834,162</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Debt service reserve cash and investments	798,200	1,218,200
Bond and interest cash and investments	1,197,889	1,129,897
Construction cash and investments	<u>1,753</u>	<u>471,276</u>
Total restricted assets:	<u>1,997,842</u>	<u>2,819,373</u>
Deferred charges	<u>235,036</u>	<u>222,657</u>
Capital assets:		
Land, improvements to land and construction in progress	14,661,316	887,468
Other capital assets (net of accumulated depreciation)	<u>32,580,403</u>	<u>48,495,160</u>
Total capital assets	<u>47,241,719</u>	<u>49,382,628</u>
Total noncurrent assets	<u>49,474,597</u>	<u>52,424,658</u>
Total assets	<u>51,100,216</u>	<u>54,258,820</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	100,940	171,767
Contracts payable	47,155	67,792
Wages payable	22,816	-
Loan payable - White County	183,000	150,000
Current liabilities payable from restricted assets:		
Revenue bonds payable	589,000	611,000
Accrued interest payable	<u>610,694</u>	<u>654,986</u>
Total current liabilities	<u>1,553,605</u>	<u>1,655,545</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts)	34,462,918	35,174,364
Bond anticipation note payable	<u>50,000</u>	<u>400,000</u>
Total noncurrent liabilities	<u>34,512,918</u>	<u>35,574,364</u>
Total liabilities	<u>36,066,523</u>	<u>37,229,909</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	11,956,801	13,047,264
Restricted for debt service	1,997,842	2,819,373
Unrestricted	<u>1,079,050</u>	<u>1,162,274</u>
Total net assets	<u>\$ 15,033,693</u>	<u>\$ 17,028,911</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, 2008 And 2009

	<u>2008</u>	<u>2009</u>
Operating revenues:		
Unmetered water revenue		
Residential and commercial	\$ 3,478,600	\$ 3,878,410
Penalties	67,931	66,507
Other	<u>190,636</u>	<u>1,562,440</u>
Total operating revenues	<u>3,737,167</u>	<u>5,507,357</u>
Operating expenses:		
Salaries and wages	458,510	428,718
Employee pensions and benefits	112,434	122,104
Purchased power	142,593	243,951
Sludge removal	-	93,194
Chemicals	24,865	17,190
Materials and supplies	107,728	231,861
Contractual services	216,677	345,962
Communication and postage expenses	41,632	53,874
Transportation expenses	36,577	18,161
Insurance expense	31,664	38,426
Regulatory commission expenses	21,387	22,042
Depreciation and amortization	1,187,495	1,486,573
Miscellaneous expenses	<u>31,489</u>	<u>15,287</u>
Total operating expenses	<u>2,413,051</u>	<u>3,117,343</u>
Operating income	<u>1,324,116</u>	<u>2,390,014</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	58,061	44,179
Miscellaneous revenue	53,400	1,865
Interest expense	(575,673)	(1,153,118)
Miscellaneous expense	<u>(3,701)</u>	<u>(10,096)</u>
Total nonoperating expenses	<u>(467,913)</u>	<u>(1,117,170)</u>
Income before contributions	856,203	1,272,844
Capital contributions	<u>2,554,279</u>	<u>722,374</u>
Change in net assets	3,410,482	1,995,218
Total net assets - beginning	<u>11,623,211</u>	<u>15,033,693</u>
Total net assets - ending	<u>\$ 15,033,693</u>	<u>\$ 17,028,911</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, 2008 And 2009

	<u>2008</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 3,628,109	\$ 3,820,009
Payments to suppliers and contractors	(773,933)	(1,169,512)
Payments to employees	(435,694)	(451,534)
Other receipts (uses)	<u>(226,648)</u>	<u>1,504,200</u>
Net cash provided by operating activities	<u>2,191,834</u>	<u>3,703,163</u>
Cash flows from noncapital financing activities:		
Net miscellaneous nonoperating revenue (expense)	<u>49,699</u>	<u>(8,231)</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	9,210,550	1,313,680
Capital contributions	2,554,279	722,374
Acquisition and construction of capital assets	(12,162,147)	(3,594,466)
Principal paid on capital debt	(416,400)	(622,000)
Interest paid on capital debt	(803,874)	(1,100,060)
Proceeds from bond anticipation note	<u>-</u>	<u>350,000</u>
Net cash used by capital and related financing activities	<u>(1,617,592)</u>	<u>(2,930,472)</u>
Cash flows from investing activities:		
Interest received	<u>58,061</u>	<u>44,179</u>
Net increase in cash and cash equivalents	682,002	808,639
Cash and cash equivalents, January 1	<u>1,589,423</u>	<u>2,271,425</u>
Cash and cash equivalents, December 31	<u>\$ 2,271,425</u>	<u>\$ 3,080,064</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 1,324,116</u>	<u>\$ 2,390,014</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,175,116	1,474,194
(Increase) decrease in assets:		
Accounts receivable	81,578	(124,908)
Accounts receivable - other	(417,284)	(58,240)
Inventories	(31,124)	(25,908)
Increase (decrease) in liabilities:		
Accounts payable	36,616	70,827
Wages payable	<u>22,816</u>	<u>(22,816)</u>
Total adjustments	<u>867,718</u>	<u>1,313,149</u>
Net cash provided by operating activities	<u>\$ 2,191,834</u>	<u>\$ 3,703,163</u>
Noncash investing, capital and financing activities:		
Capital asset trade-ins	\$ 12,500	\$ -
Capitalized interest	494,720	334,449
Change in capital assets acquired through contracts payable	(824,830)	20,637

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 Trustees 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 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.

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

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

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 District during the two year period was \$2,782,218. Of the amount, \$829,169 was included as part of the cost of capital assets under construction in connection with the Phase III and Phase IIIB wastewater treatment/collection system construction project.

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 upon termination.

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

- 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 10 days. Accumulated vacation leave is paid to employees through cash payments upon termination.

No liability is reported for vacation 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 IC 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 Receivable - Other

Other accounts receivable consists primarily of regular accounts receivable customers who have been certified to White or Carroll County for collection.

C. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 203,339	\$ -	\$ -	\$ 203,339
Construction in progress	<u>14,457,977</u>	<u>3,616,394</u>	<u>17,390,242</u>	<u>684,129</u>
 Total capital assets, not being depreciated	 <u>14,661,316</u>	 <u>3,616,394</u>	 <u>17,390,242</u>	 <u>887,468</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Engineering	5,195,943	3,320,263	-	8,516,206
Collection system	20,871,546	13,922,294	-	34,793,840
Treatment plant and equipment	11,359,401	60,351	-	11,419,752
Machinery and equipment	700,804	86,043	-	786,847
 Totals	<u>38,127,694</u>	<u>17,388,951</u>	<u>-</u>	<u>55,516,645</u>
 Less accumulated depreciation:	<u>5,547,291</u>	<u>1,474,194</u>	<u>-</u>	<u>7,021,485</u>
 Totals	<u>5,547,291</u>	<u>1,474,194</u>	<u>-</u>	<u>7,021,485</u>
 Total capital assets, being depreciated, net	<u>32,580,403</u>	<u>15,914,757</u>	<u>-</u>	<u>48,495,160</u>
 Total capital assets, net	<u>\$ 47,241,719</u>	<u>\$ 19,531,151</u>	<u>\$ 17,390,242</u>	<u>\$ 49,382,628</u>

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2009	Committed	Required Future Funding
Phase IV - Buffalo Service Area	\$ 22,114,000	\$ 555,105	\$ 21,558,895	\$ 21,556,895
Phase I & II - Aquatek Equip	<u>134,368</u>	<u>129,024</u>	<u>5,344</u>	<u>5,344</u>
 Totals	<u>\$ 22,248,368</u>	<u>\$ 684,129</u>	<u>\$ 21,564,239</u>	<u>\$ 21,562,239</u>

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:

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

Purpose	Interest Rates	Amount
Big Monon Bay Series A, 1999	3.25%	\$ 3,529,000
Big Monon Bay Series B, 1999	3.25%	1,260,000
Idaville Series A, 2002	4.50%	440,000
Idaville Series B, 2002	4.50%	49,000
Phase I Series A, 2004	4.375%	4,727,000
Phase II Series B, 2004	4.375%	4,731,000
Snow Ditch Refunding, 2004	3% to 4.25%	365,000
Snow Ditch Refunding, 2006	4.55%	3,940,000
Phase III Series A, 2007	4.25%	6,420,000
Phase III Series B, 2007	4.25%	938,000
Phase IIIB Series C, 2007	4.125%	8,905,000
Phase IIIB Series D, 2007	4.125%	534,000
Total		<u>\$ 35,838,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2010	\$ 611,000	\$ 1,481,459
2011	645,000	1,455,883
2012	681,000	1,428,741
2013	782,000	1,397,569
2014	652,000	1,367,949
2015-2019	3,704,000	6,402,404
2020-2024	4,534,000	5,554,174
2025-2029	5,004,000	4,511,860
2030-2034	4,954,000	3,539,847
2035-2039	6,057,000	2,436,944
2040-2044	5,741,000	1,180,569
2045-2049	2,473,000	183,972
Totals	<u>\$ 35,838,000</u>	<u>\$ 30,941,371</u>

2. Notes and Loans Payable

The Sewer District has entered into various loans payable with White County. As of December 31, 2009, the balance on these loans was \$150,000. These loans are interest free and can be paid back over an undesignated period of time. The Sewer District has also borrowed \$50,000 and \$350,000 from bond anticipation notes (BAN) related to Phase III and IV, respectively. Both of these BAN's are outstanding at December 31, 2009.

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

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, 2009, were considered defeased:

	Amount
Snow Ditch Series A, 2001	\$ 880,000
Snow Ditch Series B, 2001	3,755,000

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	\$ 35,113,320	\$ 1,313,680	\$ 589,000	\$ 35,838,000	\$ 611,000
Less bond discount	(61,402)	-	(8,766)	(52,636)	-
Total long-term liabilities	\$ 35,051,918	\$ 1,313,680	\$ 580,234	\$ 35,785,364	\$ 611,000

F. Restricted Assets

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

Revenue bond debt service reserve	\$ 1,218,200
Revenue bond and interest account	1,129,897
Revenue bond construction account	471,276
Total restricted assets	\$ 2,819,373

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; 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.

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

Worker's Compensation

During 2007, the District joined together 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 worker's compensation coverage. The 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

The Sewer District is currently in the preliminary/engineering phase of its final service area. Estimated total project costs for this service area are approximately \$22,114,000. The District expects to receive a grant from Rural Development for \$9,949,000 and a loan from them for \$12,163,000; the remaining \$2,000 would come from District funds. The project timeline is for the design phase to end during the Summer of 2010, bidding during the Winter of 2010, and construction starting the Spring of 2011. Construction is estimated at 18 – 20 months.

C. Rate Structure

The Sewer District currently has seven different service areas with four different rates. The current rate structure was approved by the District's Board of Trustees on October 12, 2006. The District has approximately 5,400 customers. Phase IV, when completed, will bring on an additional 1,100 customers.

D. Contingent Loss

On December 1, 2008, the Sewer District entered into an agreement with the Indiana Beach Conservancy District (IBCD), the Juntgens and Untaluti Improvements Inc. (Untaluti), among others, regarding formation of the IBCD and delegation of service territory. This agreement called for a payment from IBCD of approximately \$157,896 plus interest to the District in exchange for sewer lines. The agreement also requires the District to release certain liens on the Juntgens property located next to IBCD. These liens totaled approximately \$3,900. The agreement also requires the Sewer District to assign liens of approximately \$254,701 for the customers of Untaluti and located within IBCD. The liens will be assigned to Untaluti without warranty. These liens are reflected in the financial statements of the District within accounts receivable – other. As of March 4, 2010, the District has not received any payment from IBCD and the matter is still unresolved and is being contested in the courts.

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

E. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (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 the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent 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 the White County's data and disclosed within the White County Annual Report.

TWIN LAKES REGIONAL SEWER DISTRICT
AUDIT RESULT AND COMMENT

DEFICIENCY IN INTERNAL CONTROL - SEGREGATION OF DUTIES

Control activities should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statements. The District has not separated incompatible activities related to the area of revenues of the financial statements. The failure to establish these controls could enable material misstatements to be undetected.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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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
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 each of its major federal programs for the years ended December 31, 2008 and 2009. 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, 2008 and 2009.

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 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, the District Board of Trustees, and federal awarding agencies 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

March 11, 2010

TWIN LAKES REGIONAL SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2008 and 2009

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Total Federal Awards Expended 12-31-08	Total Federal Awards Expended 12-31-09
<u>U.S. DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT</u>			
Direct Grant			
Water and Waste Disposal Systems for Rural Communities	10.760		
USDA - Rural Development - Grant - Phase I		\$ 335,010	\$ -
USDA - Rural Development - Grant - Phase II		382,330	56,276
USDA - Rural Development - Loan - Phase III		2,504,288	-
USDA - Rural Development - Grant - Phase III		1,866,664	633,336
USDA - Rural Development - Loan - Phase IIIB		<u>5,961,383</u>	<u>1,266,476</u>
Total federal awards expended		<u>\$ 11,049,675</u>	<u>\$ 1,956,088</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, 2009. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Loans Outstanding
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 31,533,000</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: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
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? no

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

Section II – Financial Statement Findings

FINDING 2009-1, DEFICIENCIES IN INTERNAL CONTROLS

We noted deficiencies in the internal control system of the Twin Lakes Regional Sewer District related to financial transactions and reporting. We believe the following deficiencies constitute a material weakness:

Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the sewer district to reduce risks to achievement of financial reporting objectives. The sewer district has not separated incompatible activities related to the collection and posting of cash receipts. Failure to establish these controls could enable material misstatements or irregularities to go undetected.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

We recommend the 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

No matters to report.

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: 2007-1

<u>Original SBA Audit Report Number</u>	B32418
<u>Finding Notation:</u>	Internal Controls
<u>Auditee Contact Person</u>	Jim Crawn
<u>Title of Contact Person</u>	Office/Financial Manager
<u>Phone Number</u>	574-583-5649
<u>Fiscal Year:</u>	2007

Status of Finding:

The Twin Lakes Regional Sewer District has implemented internal controls that have reasonable assurance regarding the reliability of financial information and records; effective and efficient operations; proper execution of management's objectives; and compliance with laws and regulations.

Finding Number: 2007-2

<u>Original SBA Audit Report Number</u>	B32418
<u>Finding Notation:</u>	Reporting
<u>Auditee Contact Person</u>	Jim Crawn
<u>Title of Contact Person</u>	Office/Financial Manager
<u>Phone Number</u>	574-583-5649
<u>Fiscal Year:</u>	2007

Status of Finding:

The Twin Lakes Regional Sewer District is designing and implementing proper 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.



Michael J. Darter - Operations Manager

2.15.10

Date

TWIN LAKES REGIONAL SEWER DISTRICT

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Corrective Action Plan 2008- 2009 Audit

February 23, 2010

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

Finding No. 2009-1, DEFICIENCIES IN INTERNAL CONTROLS

Auditee Contact Person: Jim Crown
Title of Contact Person: Office/Financial Manager
Phone Number: 574-583-5649
Expected Completion Date: December 2010

Corrective Action Planned:

The management of Twin Lakes Regional Sewer District has reviewed the Financial Statement Findings related to their audit for the years 2008 – 2009 and offers the following corrective actions.

1. Lack of Segregation of Duties – Twin Lakes Regional Sewer District will review their office procedures and attempt to institute duties that would involve to some degree, at least on a sample basis, of the work being performed by each of the office employees. However, the District is a small government unit and management has determined that the cost associated with employing additional staff necessary to properly segregate the duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current design of their business office.



Michael Darter
District Superintendent

TWIN LAKES REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on March 11, 2010, with Larry Dunn, Treasurer; Mike Darter, Superintendent; James Crown, Office Manager. The officials concurred with our audit finding.