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

AUDIT REPORT

OF

WEST LAKES REGIONAL SEWER DISTRICT

NOBLE COUNTY, INDIANA

January 1, 2008 to December 31, 2009



FILED
06/09/2010

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cynthia Wick	01-01-08 to 12-31-10
President of the Board	T. Craig Miller	01-01-08 to 12-31-10



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 WEST LAKES REGIONAL
SEWER DISTRICT, NOBLE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the West Lakes Regional Sewer District (Regional Sewer District), as of and for the years ended December 31, 2008 and 2009, which collectively comprise the Regional Sewer District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Regional Sewer 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 Regional Sewer 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 business-type activities of the Regional Sewer District as of December 31, 2008 and 2009, 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 May 17, 2010, on our consideration of the Regional Sewer 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Regional Sewer District's basic financial statements. 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.

The Regional 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Regional Sewer District's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt 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

May 17, 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 WEST LAKES REGIONAL
SEWER DISTRICT, NOBLE COUNTY, INDIANA

We have audited the financial statements of the business-type activities of the West Lakes Regional Sewer District (Regional Sewer District), as of and for the years ended December 31, 2008 and 2009, which collectively comprise the Regional Sewer District's basic financial statements and have issued our report thereon dated May 17, 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 Regional 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 Regional Sewer District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Regional 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 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.

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 2009-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regional 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.

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

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

May 17, 2010

WEST LAKES REGIONAL SEWER DISTRICT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2008

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipt and Changes in Net Assets Primary Government</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Business-Type Activities</u>
Business-type activities:				
Wastewater	\$ 3,708,748	\$ 319,481	\$ 3,487,457	98,190
Change in net assets				98,190
Net assets - beginning				73,555
Net assets - ending				<u>\$ 171,745</u>
 <u>Assets</u>				
Cash and investments				\$ 25,343
Restricted assets:				
Cash and Investments				146,402
Total assets				<u>\$ 171,745</u>
 <u>Net Assets</u>				
Unrestricted				\$ 25,343
Restricted:				
Debt Service				146,375
Construction				27
Total net assets				<u>\$ 171,745</u>

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

WEST LAKES REGIONAL SEWER 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, 2008

	Wastewater Utility
Operating receipts:	
Flat rate receipts	\$ 282,399
Inspections	14,400
	296,799
Total operating receipts	
Operating disbursements:	
Equipment and capital improvements	3,487,431
Insurance claims and premiums	7,548
Salaries and wages	1,800
Purchased power	9,029
Material and supplies	20,800
Contractual services	49,156
Telephone	1,374
Service disbursements	9,542
Property liens	607
Miscellaneous disbursements	1,782
	3,589,069
Total operating disbursements	
Deficiency of operating receipts over operating disbursements	(3,292,270)
Nonoperating receipts (disbursements):	
USDA loan proceeds	3,487,457
Interest and investment receipts	665
Miscellaneous receipts	22,017
Interest and investment disbursement	(119,679)
	3,390,460
Total nonoperating receipts (disbursements)	
Excess of receipts over disbursements and nonoperating receipts (disbursements)	98,190
Cash and investment fund balance - beginning	73,555
Cash and investment fund balance - ending	\$ 171,745
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 25,343
Restricted assets:	
Cash and investments	146,402
	171,745
Total cash and investment assets - December 31	\$ 171,745
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	\$ 25,343
Restricted:	
Debt service	146,375
Construction	27
	171,745
Total cash and investment fund balance - December 31	\$ 171,745

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

WEST LAKES REGIONAL SEWER DISTRICT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipt and Changes in Net Assets Primary Government</u>
	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Business-Type Activities</u>	
Business-type activities:				
Wastewater	\$ 857,825	\$ 380,531	\$ 571,779	94,485
Change in net assets				94,485
Net assets - beginning				171,745
Net assets - ending				\$ 266,230
 <u>Assets</u>				
Cash and investments				\$ 33,994
Restricted:				
Cash and Investments				232,236
Total assets				\$ 266,230
 <u>Net Assets</u>				
Unrestricted				\$ 33,994
Restricted:				
Debt Service				167,788
Construction				64,448
Total net assets				\$ 266,230

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

WEST LAKES REGIONAL SEWER 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, 2009

	Wastewater Utility
Operating receipts:	
Flat rate receipts	\$ 346,237
Inspections	<u>1,100</u>
Total operating receipts	<u>347,337</u>
Operating disbursements:	
Equipment and capital improvements	507,358
Insurance claims and premiums	5,627
Salaries and wages	16,932
Purchased power	29,099
Chemicals	243
Material and supplies	12,877
Contractual services	54,998
Telephone	1,981
Property liens	1,424
Miscellaneous disbursements	<u>2,241</u>
Total operating disbursements	<u>632,780</u>
Deficiency of operating receipts over operating disbursements	<u>(285,443)</u>
Nonoperating receipts (disbursements):	
USDA loan proceeds	571,779
Interest and investment receipts	65
Miscellaneous receipts	33,129
Debt service of principal	(48,000)
Interest and investment disbursement	<u>(177,045)</u>
Total nonoperating receipts (disbursements)	<u>379,928</u>
Excess of receipts over disbursements and nonoperating receipts (disbursements)	94,485
Cash and investment fund balance - beginning	<u>171,745</u>
Cash and investment fund balance - ending	<u>\$ 266,230</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 33,994
Restricted assets:	
Cash and Investments	<u>232,236</u>
Total cash and investment assets - December 31	<u>\$ 266,230</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	\$ 33,994
Restricted:	
Debt service	167,788
Construction	<u>64,448</u>
Total cash and investment fund balance - December 31	<u>\$ 266,230</u>

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

WEST LAKES REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Regional Sewer District was established under the laws of the State of Indiana. The Regional Sewer District operates under an appointed governing board.

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

Primary Government: West Lakes Regional Sewer District

In determining the financial reporting entity, the Regional Sewer 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. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. 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, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. There are not any governmental or fiduciary funds.

The Regional Sewer District reports the following major proprietary fund:

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection 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.

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

If the Regional Sewer 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.

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 Regional Sewer District has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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) or other departments or agencies primarily within the government (internal service funds).

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The District does not have any internal service funds.

When both restricted and unrestricted resources are available for use, the District's policy is to use restricted resources first, then unrestricted as they are needed.

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. 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.

3. 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.

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

4. Long-Term Debt

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

5. 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."

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include charges to customers or applicants for goods, services, or privileges provided and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. 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.

II. Detailed Notes on All Funds

Deposits and Investments

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. IC 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

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

funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2009, the Regional Sewer District had deposit balances in the amount of \$266,230 which were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

III. Other Information

A. Risk Management

The Regional 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; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Wastewater Utility

The current rate structure was approved by the District's Board on August 12, 2009.

C. Receipts Pledged

Wastewater Utility Receipts Pledged

The Regional Sewer District has pledged future receipts, net of specified operating expenditures, to repay revenue bonds issued in 2008. Proceeds from the bonds provided financing for construction. The bonds are payable solely from net receipts and are payable through 2047. Annual principal and interest payments are expected to require less than 65 percent of net receipts.

WEST LAKES REGIONAL SEWER DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2009

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>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 165,000
Improvements other than buildings	<u>6,694,865</u>
Total Wastewater Utility capital assets	<u>6,859,865</u>
Total business-type activities capital assets	<u><u>\$ 6,859,865</u></u>

WEST LAKES REGIONAL SEWER DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2009

The Regional Sewer District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type activities:		
Wastewater Utility:		
State Revolving Fund loans:		
Wastewater Treatment Facility Construction	\$ 4,256,000	\$ 224,065

WEST LAKES REGIONAL SEWER DISTRICT
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the internal control system of the District related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the District to reduce risks to achievement of financial reporting objectives. The Regional Sewer District has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Regional Sewer District's audited financial statements and then determining how those identified risks should be managed. The Regional Sewer District has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Regional Sewer District Board to monitor and assess the quality of the Regional Sewer District's system of internal control. The Regional Sewer District Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure of the Regional sewer District to exercise their oversight responsibility places the Regional Sewer District at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Regional Sewer District has no process to identify or communicate corrective actions to improve controls.

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 objections, 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



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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 WEST LAKES REGIONAL
SEWER DISTRICT, NOBLE COUNTY, INDIANA

Compliance

We have audited the compliance of the West Lakes Regional Sewer District (Regional 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 years ended December 31, 2008 and 2009. The Regional Sewer 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 Regional Sewer District's management. Our responsibility is to express an opinion on the Regional 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 non-compliance 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 Regional 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 Regional Sewer District's compliance with those requirements.

In our opinion, the Regional Sewer 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 Regional 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 Regional Sewer 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 Regional Sewer 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 Regional Sewer 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.

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

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

May 17, 2010

WEST 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 Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-08	Total Federal Awards Expended 12-31-09
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Wastewater Disposal Systems for Rural Communities	10.760		<u>\$ 3,487,431</u>	<u>\$ 507,358</u>

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

WEST LAKES REGIONAL SEWER 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 West Lakes Regional Sewer District (Regional Sewer District) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

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

II. Loans Outstanding

The Regional Sewer District had the following loan balance, with continuing federal compliance requirements, outstanding at December 31, 2008 and 2009. This loan balance outstanding is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2008	2009
Water and Wastewater Disposal Systems for Rural Communities	10.760	\$ 3,487,431	\$ 4,256,000

WEST 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
Significant deficiencies 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
Significant deficiencies 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 Wastewater 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

FEDERAL FINDING 2009-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Regional sewer District related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the District to reduce risks to achievement of financial reporting objectives. The Regional Sewer District has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.

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

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Regional Sewer District's audited financial statements and then determining how those identified risks should be managed. The Regional Sewer District has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

3. Monitoring of Controls: Effective internal control over financial reporting requires the Regional Sewer District Board to monitor and assess the quality of the Regional Sewer District's system of internal control. The Regional Sewer District Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Regional Sewer District at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Regional Sewer District has no process to identify or communicate corrective actions to improve controls.

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 objections, 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).

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

WEST LAKES REGIONAL SEWER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

WEST LAKES REGIONAL SEWER DISTRICT

May 17, 2010

The following is the Regional Sewer District's Corrective Action Plan presented as a part of the West Lakes Regional Sewer District report for the period January 1, 2008 to December 31, 2009

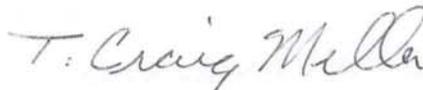
INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The Management of the Regional Sewer District has reviewed the Financial Statement Findings related to their audit for the years 2008 and 2009 and offer the following corrective actions.

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the District to reduce risks to achievement of financial reporting objectives. - The Regional Sewer District will review their office procedures and attempt to institute duties that would involve, at least on a sample basis, reviews of the work being performed by each of the office employees. However, the District is a very small governmental unit and management has determined that the cost associated with employing the 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 internal control structure used by their business office.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the District's audited financial statements and then determining how those identified risks should be managed.-The Regional Sewer District will review their office procedures and attempt to institute duties that would involve, at least on a sample basis, reviews of the work being performed by each of the office employees. However, the District is a very small governmental unit and management has determined that the cost associated with employing the 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 internal control structure used by their business office.
3. Monitoring of Controls: Effective internal control over financial reporting requires the District Board to monitor and assess the quality of the District's system of internal control- The Regional Sewer District will review their office procedures and attempt to institute duties that would involve, at least on a sample basis, reviews of the work being performed by each of the office employees. However, the District is a very small governmental unit and management has determined that the cost associated with employing the 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 internal control structure used by their business office.

T. Craig Miller

Board President



West Lakes Regional Sewer District

WEST LAKES REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on May 17, 2010, with T. Craig Miller, President of the Board; and Cynthia Wick, Treasurer.