

**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, 2010 to December 31, 2011



**FILED**  
05/10/2012



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	3-4
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 .....	5-6
Statement of Net Assets .....	7
Statement of Revenues, Expenses, and Other Changes in Fund Net Assets .....	8
Statement of Cash Flows .....	9
Notes to Financial Statements .....	10-17
Audit Result and Comment: Deficiency in Internal Controls – Segregation of Duties .....	18
Supplemental Audit of Federal Awards: Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	20-21
Schedule of Expenditures of Federal Awards .....	22
Notes to Schedule of Expenditures of Federal Awards .....	23
Schedule of Findings and Questioned Costs .....	24-25
Auditee Prepared Schedules: Summary Schedule of Prior Audit Findings .....	26
Corrective Action Plan .....	27
Exit Conference .....	28

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	James C. Crown	01-01-10 to 12-31-12
Superintendent	Michael J. Darter	01-01-10 to 12-31-12
Treasurer	Larry Dunn	01-01-10 to 05-23-10
	John James	05-24-10 to 06-23-10
	Larry Holderly	06-24-10 to 07-21-10
	Thomas A. Pasquale	07-22-10 to 12-31-10
	Wayne Garrison	01-01-11 to 08-10-11
	Thomas A. Pasquale	08-11-11 to 12-31-12
President of the Board of Trustees	Curtis Garrison	01-01-10 to 12-31-10
	Thomas A. Pasquale	01-01-11 to 12-31-12



**STATE OF INDIANA**  
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ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

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

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 Twin Lakes Regional Sewer District (District), as of and for the years ended December 31, 2010 and 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over reporting. Accordingly we express no such opinion. 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 respective financial position of the Twin Lakes Regional Sewer District as of December 31, 2010 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 15, 2012, 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.

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

STATE BOARD OF ACCOUNTS

March 15, 2012



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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 Twin Lakes Regional Sewer District (District), as of and for the years ended December 31, 2010, and 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 15, 2012. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in item 2011-1 of the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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 grants 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, others within the entity, 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

March 15, 2012

TWIN LAKES REGIONAL SEWER DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2010 And 2011

<u>Assets</u>	<u>2010</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 296,490	\$ 373,673
Accounts receivable	424,498	380,768
Accounts receivable - other	457,571	542,491
Inventories	<u>128,735</u>	<u>128,947</u>
Total current assets	<u>1,307,294</u>	<u>1,425,879</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Debt service reserve cash and investments	1,380,000	1,536,000
Bond and interest cash and investments	1,444,335	1,567,435
Construction cash and investments	<u>385,631</u>	<u>279,073</u>
Total restricted assets:	<u>3,209,966</u>	<u>3,382,508</u>
Deferred charges	<u>210,278</u>	<u>336,347</u>
Capital assets:		
Land, improvements to land and construction in progress	1,976,692	8,017,813
Other capital assets (net of accumulated depreciation)	<u>47,383,287</u>	<u>45,916,767</u>
Total capital assets	<u>49,359,979</u>	<u>53,934,580</u>
Total noncurrent assets	<u>52,780,223</u>	<u>57,653,435</u>
Total assets	<u>54,087,517</u>	<u>59,079,314</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	47,547	95,296
Contracts payable	72,160	995,775
Wages payable	36,318	18,123
Loans payable - White County	120,000	90,000
Current liabilities payable from restricted assets:		
Revenue bonds payable	645,000	681,000
Accrued interest payable	<u>644,842</u>	<u>681,875</u>
Total current liabilities	<u>1,565,867</u>	<u>2,562,069</u>
Noncurrent liabilities:		
Revenue bonds payable (net of amortized discounts)	34,538,130	40,451,409
Bond anticipation note payable	<u>1,652,929</u>	<u>-</u>
Total noncurrent liabilities	<u>36,191,059</u>	<u>40,451,409</u>
Total liabilities	<u>37,756,926</u>	<u>43,013,478</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	12,523,920	12,802,171
Restricted for debt service	2,824,335	3,103,435
Unrestricted	<u>982,336</u>	<u>160,230</u>
Total net assets	<u>\$ 16,330,591</u>	<u>\$ 16,065,836</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, 2010 And 2011

	<u>2010</u>	<u>2011</u>
Operating revenues:		
Unmetered water revenue:		
Residential and commercial	\$ 4,094,586	\$ 4,157,220
Penalties	71,769	66,089
Other	<u>80,898</u>	<u>87,222</u>
Total operating revenues	<u>4,247,253</u>	<u>4,310,531</u>
Operating expenses:		
Salaries and wages	501,634	434,076
Employee pensions and benefits	174,033	223,163
Purchased power	260,783	273,957
Sludge removal	52,440	51,695
Chemicals	14,190	16,462
Materials and supplies	215,877	250,328
Contractual services	304,184	184,112
Communication and postage expense	48,371	44,964
Transportation expenses	23,147	29,418
Insurance expense	28,683	33,828
Regulatory commission expenses	31,269	52,815
Depreciation and amortization	1,505,667	1,499,013
Miscellaneous expenses	<u>20,574</u>	<u>23,439</u>
Total operating expenses	<u>3,180,852</u>	<u>3,117,270</u>
Operating income	<u>1,066,401</u>	<u>1,193,261</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	32,563	47,242
Miscellaneous revenue	10,324	3,683
Interest expense	(1,495,039)	(1,500,633)
Miscellaneous expense	<u>(7,938)</u>	<u>(8,308)</u>
Total nonoperating expenses	<u>(1,460,090)</u>	<u>(1,458,016)</u>
Income (loss) before contributions	(393,689)	(264,755)
Capital contributions	<u>32,994</u>	<u>-</u>
Income (loss) before special and extraordinary items	(360,695)	(264,755)
Special and extraordinary items:		
Indiana Beach adjustment (Note III C)	<u>(402,092)</u>	<u>-</u>
Change in net assets	(762,787)	(264,755)
Total net assets - beginning	17,028,911	16,330,591
Prior Period Adjustment - Correction of Error (Note II G)	<u>64,467</u>	<u>-</u>
Adjusted net assets - beginning	<u>17,093,378</u>	<u>16,330,591</u>
Total net assets - ending	<u>\$ 16,330,591</u>	<u>\$ 16,065,836</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, 2010 And 2011

	<u>2010</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,454,123	\$ 4,354,262
Payments to suppliers and contractors	(1,297,295)	(1,136,644)
Payments to employees	(465,316)	(452,271)
Other receipts (uses)	<u>342,941</u>	<u>(84,920)</u>
Net cash provided by operating activities	<u>3,034,453</u>	<u>2,680,427</u>
Cash flows from noncapital financing activities:		
Net miscellaneous nonoperating revenue (expense)	<u>(399,706)</u>	<u>(4,625)</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	-	6,585,513
Capital contributions	32,994	-
Acquisition and construction of capital assets	(1,414,182)	(5,150,000)
Bond issue costs paid	-	(139,466)
Principal paid on capital debt	(691,000)	(2,390,823)
Interest paid on capital debt	(1,484,038)	(1,441,437)
Proceeds from bond anticipation note	<u>1,302,929</u>	<u>62,894</u>
Net cash provided (used) by capital and related financing activities	<u>(2,253,297)</u>	<u>(2,473,319)</u>
Cash flows from investing activities:		
Interest received	<u>32,563</u>	<u>47,242</u>
Net increase in cash and cash equivalents	414,013	249,725
Cash and cash equivalents, January 1	<u>3,092,443</u>	<u>3,506,456</u>
Cash and cash equivalents, December 31	<u>\$ 3,506,456</u>	<u>\$ 3,756,181</u>
Reconciliation of cash and cash equivalents:		
Unrestricted cash and cash equivalents	\$ 296,490	\$ 373,673
Restricted cash and cash equivalents:		
Debt service reserve cash and investments	1,380,000	1,536,000
Bond and interest cash and investments	1,444,335	1,567,435
Construction cash and investments	<u>385,631</u>	<u>279,073</u>
Cash and cash equivalents, December 31	<u>\$ 3,506,456</u>	<u>\$ 3,756,181</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 1,066,401</u>	<u>\$ 1,193,261</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,505,667	1,499,013
(Increase) decrease in assets:		
Accounts receivable	206,870	43,731
Accounts receivable - other	342,941	(84,920)
Inventories	476	(212)
Increase (decrease) in liabilities:		
Accounts payable	(124,220)	47,749
Wages payable	<u>36,318</u>	<u>(18,195)</u>
Total adjustments	<u>1,968,052</u>	<u>1,487,166</u>
Net cash provided by operating activities	<u>\$ 3,034,453</u>	<u>\$ 2,680,427</u>
Noncash investing, capital and financing activities:		
Capital asset trade-ins	\$ 8,744	\$ -
Change in capital assets acquired through contracts payable	4,368	923,615

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 services: wastewater treatment.

The accompanying financial statements present the activities of the District. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

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

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

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 Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts 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.

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

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.

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

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.

2. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method.

3. Restricted Assets

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

4. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 5,000	Straight-line	50 years
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 \$2,995,672. Of that amount, \$86,657 was included as part of the cost of capital assets under construction in connection with the Phase IV wastewater treatment/collection system construction project.

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

5. Compensated Absences

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

7. Restricted Net Assets

The financial statements report \$2,824,335 and \$3,103,435 of restricted net assets for 2010 and 2011, respectively, of which none is restricted by enabling legislation.

II. Detailed Notes on All Funds

A. 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. The District does not have a deposit policy for custodial credit risk. At December 31, 2010 and 2011, the District had deposit balances in the amount of \$3,506,456 and \$3,756,181, respectively.

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.

B. Accounts Receivables - Other

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

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

C. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
2010:				
Capital assets, not being depreciated:				
Land	\$ 203,339	\$ -	\$ -	\$ 203,339
Construction in progress	<u>684,129</u>	<u>1,218,249</u>	<u>129,025</u>	<u>1,773,353</u>
Total capital assets, not being depreciated	<u>887,468</u>	<u>1,218,249</u>	<u>129,025</u>	<u>1,976,692</u>
Capital assets, being depreciated:				
Engineering	9,345,375	259,737	-	9,605,112
Collection system	33,964,671	-	-	33,964,671
Treatment plant and equipment	11,419,752	-	-	11,419,752
Machinery and equipment	<u>786,847</u>	<u>69,590</u>	<u>26,598</u>	<u>829,839</u>
Totals	<u>55,516,645</u>	<u>329,327</u>	<u>26,598</u>	<u>55,819,374</u>
Less accumulated depreciation	<u>7,021,485</u>	<u>1,505,667</u>	<u>91,065</u>	<u>8,436,087</u>
Totals	<u>7,021,485</u>	<u>1,505,667</u>	<u>91,065</u>	<u>8,436,087</u>
Total capital assets, being depreciated, net	<u>48,495,160</u>	<u>(1,176,340)</u>	<u>(64,467)</u>	<u>47,383,287</u>
Total capital assets, net	<u>\$ 49,382,628</u>	<u>\$ 41,909</u>	<u>\$ 64,558</u>	<u>\$ 49,359,979</u>
2011:				
Capital assets, not being depreciated:				
Land	\$ 203,339	\$ -	\$ -	\$ 203,339
Construction in progress	<u>1,773,353</u>	<u>6,041,121</u>	<u>-</u>	<u>7,814,474</u>
Total capital assets, not being depreciated	<u>1,976,692</u>	<u>6,041,121</u>	<u>-</u>	<u>8,017,813</u>
Capital assets, being depreciated:				
Engineering	9,605,112	-	-	9,605,112
Collection system	33,964,671	13,678	-	33,978,349
Treatment plant and equipment	11,419,752	18,815	-	11,438,567
Machinery and equipment	<u>829,839</u>	<u>-</u>	<u>-</u>	<u>829,839</u>
Totals	<u>55,819,374</u>	<u>32,493</u>	<u>-</u>	<u>55,851,867</u>
Less accumulated depreciation	<u>8,436,087</u>	<u>1,499,013</u>	<u>-</u>	<u>9,935,100</u>
Totals	<u>8,436,087</u>	<u>1,499,013</u>	<u>-</u>	<u>9,935,100</u>
Total capital assets, being depreciated, net	<u>47,383,287</u>	<u>(1,466,520)</u>	<u>-</u>	<u>45,916,767</u>
Total capital assets, net	<u>\$ 49,359,979</u>	<u>\$ 4,574,601</u>	<u>\$ -</u>	<u>\$ 53,934,580</u>

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

Depreciation expense was charged to functions/programs of the District as follows:

	2010	2011
Wastewater	\$ 1,505,667	\$ 1,499,013
Total depreciation expense	\$ 1,505,667	\$ 1,499,013

D. Construction Commitments

Construction work in progress is composed of the following:

Project	2010		2011	
	Expended to December 31	Committed	Expended to December 31	Committed
Phase IV - Buffalo Service Area	\$ 1,773,353	\$ 20,340,647	\$ 7,814,474	\$ 14,299,526
Totals	\$ 1,773,353	\$ 20,340,647	\$ 7,814,474	\$ 14,299,526

E. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Amount
Big Monon Bay Series A, 1999	3.25%	\$ 3,385,000
Big Monon Bay Series B, 1999	3.25%	1,208,000
Idaville Series A, 2002	4.50%	428,000
Idaville Series B, 2002	4.50%	47,000
Phase I Series A, 2004	4.375%	4,603,000
Phase II Series B, 2004	4.375%	4,607,000
Snow Ditch Refunding, 2004	3% to 4.25%	235,000
Snow Ditch Refunding, 2006	4.55%	3,650,000
Phase III Series A, 2007	4.25%	6,277,000
Phase III Series B, 2007	4.25%	918,000
Phase IIIB Series C, 2007	4.125%	8,702,000
Phase IIIB Series D, 2007	4.125%	522,000
Phase IV Series A, 2011	3.375%	6,518,513 (1)
Phase IV Series B, 2011	3.375%	67,000
Total		\$ 41,167,513

(1) Total amount of loan will be \$9,000,000, but as of December 31, 2011, only \$6,518,513 has been drawn down.

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

Revenue bonds debt service requirements to maturity are as follows:

	Wastewater Utility	
	Principal	Interest
2012	\$ 681,000	\$ 1,430,630
2013	782,800	1,399,823
2014	652,800	1,370,176
2015	682,000	1,342,689
2016	713,000	1,313,898
2017	744,000	1,283,826
2018	768,000	1,252,590
2019	802,000	1,220,087
2020	832,000	1,186,331
2021-2025	4,730,900	5,372,182
2026-2030	4,902,100	4,314,370
2031-2035	5,164,300	3,345,843
2036-2040	6,064,800	2,195,428
2041-2045	5,430,500	943,916
2046-2051	1,698,800	1,023,579
Subtotals	34,649,000	28,995,368
Payment schedule not final	6,518,513	- (1)
Totals	<u>\$ 41,167,513</u>	<u>\$ 28,995,368</u>

(1) Total amount of loan will be \$9,000,000, but as of December 31, 2011, only \$6,518,513 has been drawn down.

2. Notes and Loans Payable

The Sewer District has entered into various loans payable with White County. As of December 31, 2011, the balance on these loans was \$90,000. These loans are interest free and can be paid back over an undesignated period of time.

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, 2011, were considered defeased:

	2010	2011
Snow Ditch Series A, 2001	\$ 690,000	\$ 490,000
Snow Ditch Series B, 2001	3,650,000	3,535,000

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

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2010:					
Revenue bonds payable	\$ 35,838,000	\$ -	\$ 611,000	\$ 35,227,000	\$ 645,000
Less bond discount	<u>(52,636)</u>	<u>-</u>	<u>(8,766)</u>	<u>(43,870)</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 35,785,364</u>	<u>\$ -</u>	<u>\$ 602,234</u>	<u>\$ 35,183,130</u>	<u>\$ 645,000</u>
2011:					
Revenue bonds payable	\$ 35,227,000	\$ 6,585,513	\$ 645,000	\$ 41,167,513	\$ 681,000
Less bond discount	<u>(43,870)</u>	<u>-</u>	<u>(8,766)</u>	<u>(35,104)</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 35,183,130</u>	<u>\$ 6,585,513</u>	<u>\$ 636,234</u>	<u>\$ 41,132,409</u>	<u>\$ 681,000</u>

F. Restricted Assets

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

	2010	2011
Revenue bond debt service reserve	\$ 1,380,000	\$ 1,536,000
Revenue bond and interest account	1,444,335	1,567,435
Revenue bond construction account	<u>385,631</u>	<u>279,073</u>
Total restricted assets	<u>\$ 3,209,966</u>	<u>\$ 3,382,508</u>

G. Restatements

For the year ended December 31, 2009, certain changes have been made to the financial statements to more appropriately reflect financial activity of the District. A prior period adjustment in the amount of \$64,467 represents depreciation expense that was taken on assets that had already been fully depreciated.

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. 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 May 12, 2011. The District has approximately 6,145 customers. Phase IV, when completed, will bring on an additional 1,100 customers.

C. Extraordinary Item

During 2010, a dispute between the Sewer District and the Indiana Beach Conservancy District (IBCD), with regard to a 2008 agreement, was resolved by order of the White County Superior Court. As a result of the court ordered resolution, the Sewer District transferred infrastructure and certain current and certified delinquent receivables totaling \$568,255 to IBCD and received a \$166,163 cash payment from IBCD. The net amount of \$402,092 is reported as an extraordinary loss on the Statement of Revenues, Expenses, and Other Changes in Fund Net Assets.

D. Pension Plan

Public Employees' Retirement Fund

District employees participate in the Indiana Public Employees' Retirement Fund as part of White County's plan.

The Indiana Public Employees' Retirement Fund (PERF), is 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 this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the County 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 members' contributions, set by state statute at 3 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.

INPRS 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. That report may be obtained by contacting:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

TWIN LAKES REGIONAL SEWER DISTRICT  
AUDIT RESULT AND COMMENT

***DEFICIENCY IN INTERNAL CONTROLS - SEGREGATION OF DUTIES***

Control activities should be selected and developed at various levels to reduce risks of error and/or fraud on the financial statements. The District has not separated incompatible activities related to the area of financial statement revenues. 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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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)

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](http://www.in.gov/sboa)

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH 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 could have a direct and material effect on each of its major federal program for the year ended December 31, 2011. The District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied in all material respects with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133 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.

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The District's response to the findings identified in our audit is described in the accompanying 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 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

March 15, 2012

TWIN LAKES REGIONAL SEWER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended December 31, 2010 and 2011

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Total Federal Awards Expended 12-31-10	Total Federal Awards Expended 12-31-11
<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 II		\$ 32,994	\$ -
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781		
USDA - Rural Development - Loan - Phase IV-A		-	6,518,513
USDA - Rural Development - Loan - Phase IV-B		-	67,000
		<u>                    </u>	<u>                    </u>
Total federal awards expended		<u>\$ 32,994</u>	<u>\$ 6,585,513</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 on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America which is the basis of accounting used in the presentation of the financial statements. Accordingly, the amount of federal awards expended is based on when the federal funds were actually disbursed. 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, 2011.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Loans Outstanding</u>
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 37,282,513</u>



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

Section II – Financial Statement Findings

***FINDING 2011-1 - 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 recommended 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 are reportable.

TWIN LAKES REGIONAL SEWER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

# TWIN LAKES REGIONAL SEWER DISTRICT

"Protecting the Environment Today for Tomorrow's Generations"

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## Corrective Action Plan 2010- 2011 Audit

March 15, 2012

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

### Finding No. 2011-1, DEFICIENCIES IN INTERNAL CONTROLS

Auditee Contact Person: Jim Crawn  
Title of Contact Person: Office/Financial Manager  
Phone Number: 574-583-5649  
Expected Completion Date: December 2012

#### Corrective Action Planned:

The management of Twin Lakes Regional Sewer District has reviewed the Financial Statement Findings related to their audit for the years 2010 – 2011 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 15, 2012, with James C. Crown, Office Manager; Michael J. Darter, Superintendent; Thomas A. Pasquale, Treasurer and President of the Board of Trustees; and John Mitchell, Vice President of the Board of Trustees. The officials concurred with our audit finding.