

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

FINANCIAL STATEMENTS AND
FEDERAL SINGLE AUDIT REPORT
OF

SPRINGS VALLEY REGIONAL WATER DISTRICT

ORANGE COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
09/14/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	William H. Harris Roger Wininger William H. Harris	01-01-10 to 12-31-10 01-01-11 to 12-31-11 01-01-12 to 12-31-12
Office Manager	Susan J. Farris	01-01-10 to 12-31-12
Superintendent	Stephen M. Brown	01-01-10 to 12-31-12
President of the Board	Garry Haworth	01-01-10 to 12-31-12



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SPRINGS VALLEY REGIONAL
WATER DISTRICT, ORANGE COUNTY, INDIANA

We have audited the accompanying financial statements of the Springs Valley Regional Water District (Regional Water District), for the years ended December 31, 2010 and 2011. These financial statements are the responsibility of the Regional Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Regional Water 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.

As discussed in Note 1, the Regional Water District prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Regional Water District for the years ended December 31, 2010 and 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated August 22, 2012, on our consideration of the Regional Water 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
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Regional Water District's 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Regional Water District's financial statements. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statements. They have not been subjected to the auditing procedures applied by us in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Regional Water District's management, Water District Board, others within the entity, 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

August 22, 2012



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

TO: THE OFFICIALS OF THE SPRINGS VALLEY REGIONAL
WATER DISTRICT, ORANGE COUNTY, INDIANA

We have audited the financial statements of the Springs Valley Regional Water District (Regional Water District), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated August 22, 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

Management of the Regional Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Regional Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Regional Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Regional Water 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 described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider 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 the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regional Water 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

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

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

This report is intended solely for the information and use of the Regional Water District's management, Water District Board, others within the entity, 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

August 22, 2012

FINANCIAL STATEMENTS

The financial statements and accompanying notes were approved by management of the Regional Water District. The financial statements and notes are presented as intended by the Regional Water District.

SPRINGS VALLEY REGIONAL WATER DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For The Year Ended December 31, 2010

Fund	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
Operating And Maintenance	\$ 266,126	\$ 2,752,420	\$ 2,727,803	\$ 290,743
Construction	507,710	-	47,003	460,707
Improvement	158,002	322	-	158,324
Customer Deposits	38,014	15,460	10,005	43,469
Sinking	76,920	1,502,683	1,300,000	279,603
Debt Service Reserve	451,560	920	-	452,480
Totals	<u>\$ 1,498,332</u>	<u>\$ 4,271,805</u>	<u>\$ 4,084,811</u>	<u>\$ 1,685,326</u>

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

SPRINGS VALLEY REGIONAL WATER DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For The Year Ended December 31, 2011

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11
Operating and Maintenance	\$ 290,743	\$ 1,723,751	\$ 1,823,099	\$ 191,395
Improvement	158,324	214	-	158,538
Customer Deposits	43,469	16,970	18,023	42,416
Sinking	279,603	519,668	257,000	542,271
Debt Service Reserve	452,480	613	-	453,093
Construction	460,707	2,094,000	2,554,707	-
Totals	<u>\$ 1,685,326</u>	<u>\$ 4,355,216</u>	<u>\$ 4,652,829</u>	<u>\$ 1,387,713</u>

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

SPRINGS VALLEY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The District was established under the laws of the State of Indiana. The District operates under an appointed governing board and provide water and general administrative services.

The accompanying financial statements present the financial information for the District.

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts include the following sources:

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

SPRINGS VALLEY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements include the following uses:

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the District. It includes all expenditures for the reduction of the principal and interest of the District's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The District may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the District. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the District. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the District in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the District submits a proposed operating budget to the governing board for the following calendar year.

Note 3. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

SPRINGS VALLEY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

State statutes authorize 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.

Note 4. Risk Management

The District may be 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; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the District to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Regional Water District's 2010 Annual Report can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the Regional Water District's 2011 Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statements contained in this report and the financial information presented in the Annual Reports of the Regional Water District which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Regional Water District. It is presented as intended by the Regional Water District.

SPRINGS VALLEY REGIONAL WATER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	Operating And Maintenance	Construction	Improvement	Customer Deposits	Sinking	Debt Service Reserve	Totals
Cash and investments - beginning	\$ 266,126	\$ 507,710	\$ 158,002	\$ 38,014	\$ 76,920	\$ 451,560	\$ 1,498,332
Receipts:							
Utility fees	1,450,172	-	-	-	-	-	1,450,172
Other receipts	1,302,248	-	322	15,460	1,502,683	920	2,821,633
Total receipts	2,752,420	-	322	15,460	1,502,683	920	4,271,805
Disbursements:							
Debt service - principal and interest	1,626,494	-	-	-	-	-	1,626,494
Capital outlay	44,581	-	-	-	-	-	44,581
Utility operating expenses	473,383	47,003	-	-	-	-	520,386
Other disbursements	583,345	-	-	10,005	1,300,000	-	1,893,350
Total disbursements	2,727,803	47,003	-	10,005	1,300,000	-	4,084,811
Excess (deficiency) of receipts over disbursements	24,617	(47,003)	322	5,455	202,683	920	186,994
Cash and investments - ending	\$ 290,743	\$ 460,707	\$ 158,324	\$ 43,469	\$ 279,603	\$ 452,480	\$ 1,685,326

SPRINGS VALLEY REGIONAL WATER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	Operating and Maintenance	Improvement	Customer Deposits	Sinking	Debt Service Reserve	Construction	Totals
Cash and investments - beginning	\$ 290,743	\$ 158,324	\$ 43,469	\$ 279,603	\$ 452,480	\$ 460,707	\$ 1,685,326
Receipts:							
Intergovernmental	-	-	-	-	-	2,094,000	2,094,000
Utility fees	1,466,228	-	-	-	-	-	1,466,228
Other receipts	257,523	214	16,970	519,668	613	-	794,988
Total receipts	1,723,751	214	16,970	519,668	613	2,094,000	4,355,216
Disbursements:							
Debt service - principal and interest	449,483	-	-	-	-	-	449,483
Capital outlay	173,822	-	-	-	-	-	173,822
Utility operating expenses	605,977	-	-	-	-	-	605,977
Other disbursements	593,817	-	18,023	257,000	-	2,554,707	3,423,547
Total disbursements	1,823,099	-	18,023	257,000	-	2,554,707	4,652,829
Excess (deficiency) of receipts over disbursements	(99,348)	214	(1,053)	262,668	613	(460,707)	(297,613)
Cash and investments - ending	\$ 191,395	\$ 158,538	\$ 42,416	\$ 542,271	\$ 453,093	\$ -	\$ 1,387,713

SPRINGS VALLEY REGIONAL WATER DISTRICT
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2011

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Water	<u>\$ -</u>	<u>\$ 87,989</u>

SPRINGS VALLEY REGIONAL WATER DISTRICT
SCHEDULE OF LEASES AND DEBT
December 31, 2011

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Springs Valley Regional Water District:			
Revenue bonds	2003 Revenue Bond	\$ 75,000	\$ 76,478
Revenue bonds	2004 Revenue Bond	4,829,000	227,305
Revenue bonds	2009 Revenue Bond	<u>2,144,000</u>	<u>85,559</u>
Totals		<u>\$ 7,048,000</u>	<u>\$ 389,342</u>

SPRINGS VALLEY REGIONAL WATER DISTRICT
SCHEDULE OF CAPITAL ASSETS
December 31, 2011

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

	<u>Ending Balance</u>
Springs Valley Regional Water District:	
Land	\$ 21,730
Buildings	265,906
Improvements other than buildings	7,575,059
Machinery, equipment and vehicles	<u>1,038,240</u>
Total capital assets	<u>\$ 8,900,935</u>

SPRINGS VALLEY REGIONAL WATER DISTRICT
AUDIT RESULT AND COMMENT

CAPITAL ASSET RECORDS

The District does not maintain sufficient detailed records of capital assets for its Utility Plant in Service accounts. Upon purchase, the costs of the capital assets are added to an aggregate Utility Plant in Service account, and to subsidiary accounts for land, buildings, etc., in the General Ledger. However, records providing historical costs for some of the District's capital assets are not available, and records classifying and summarizing the District's capital assets are incomplete. Deletions or disposals of capital assets are not always recorded.

Every governmental unit should have a complete inventory of all fixed assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

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

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

Two employees are responsible for the collection of monies, issuing receipts, preparing and making deposits, posting receipt transactions, and preparing the monthly bank reconciliations. One employee is also responsible for preparing payroll claims, writing payroll checks and posting the various payroll records.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE SPRINGS VALLEY REGIONAL
WATER DISTRICT, ORANGE COUNTY, INDIANA

Compliance

We have audited Springs Valley Regional Water District's (Regional Water District) compliance 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 its major federal program for the years ended December 31, 2010 and 2011. The Regional Water 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 Regional Water District's management. Our responsibility is to express an opinion on the Regional Water 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 Regional Water 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 Water District's compliance with those requirements.

In our opinion, the Regional Water 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 years ended December 31, 2010 and 2011.

Internal Control Over Compliance

Management of the Regional Water 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 Water District's internal control over compliance with requirements that could have a direct and material effect on a major federal program 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 Regional Water District's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
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 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 a 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.

This report is intended solely for the information and use of the Regional Water District's management, Water District Board, others within the entity, 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

August 22, 2012

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the Regional Water District. The schedule and note are presented as intended by the Regional Water District.

SPRINGS VALLEY REGIONAL WATER 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</u>			
Direct grant			
Water and Waste Disposal Systems for Rural Communities	10.760		
Direct Loan		\$ -	\$ 2,094,000

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

SPRINGS VALLEY REGIONAL WATER DISTRICT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Springs Valley Regional Water 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 Indiana Code (IC 5-11-1 et seq.), audits of water district's shall be conducted biennially. Such audits shall include both years within the biennial period.

SPRINGS VALLEY REGIONAL WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiency identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Programs:

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

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

Auditee qualified as low-risk auditee?	no
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SPRINGS VALLEY REGIONAL WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

FINDING 2011-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

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

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

Two employees are responsible for the collection of monies, issuing receipts, preparing and making deposits, posting receipt transactions, and preparing the monthly bank reconciliations. One employee is also responsible for preparing payroll claims, writing payroll checks and posting the various payroll records.

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 that the Regional Water District design, implement, and properly monitor procedures that would ensure that the internal control deficiencies noted are adequately corrected.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

SPRINGS VALLEY REGIONAL WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



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August 22, 2012

Federal Finding 2011-1, Internal Controls Over Financial Transactions

The 2011 biannual audit of the Springs Valley Regional Water District included a finding for internal controls. It was recommended the District segregate the duties of collections, posting of transactions, preparation of bank deposits, and monthly bank reconcilements. However, due to the limited number of employees and cost effectiveness, the District will accept the possible risks associated with the lack of segregated duties. It has been a priority of the District to insure these risks are minimal through monthly inspections of bank statements and collections and disbursements at Board meetings. The Board may implement additional monitoring procedures by the District Superintendent in the future to further insure minimal risks.

Yours Truly

Charles D. Hicks

Board Member

SPRINGS VALLEY REGIONAL WATER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2012, with Charles D. Hicks, Water District Board member; Susan J. Farris, Office Manager; and Stephen M. Brown, Superintendent. The officials concurred with our audit findings.