

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

THRALLS STATION REGIONAL SEWER DISTRICT  
VIGO COUNTY, INDIANA

January 1, 2011 to December 31, 2012



**FILED**  
08/28/2013



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Steve Ackman	01-01-11 to 12-31-13
President of the Board	Pat Goodwin	01-01-11 to 12-31-13



## INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE THRALLS STATION REGIONAL  
SEWER DISTRICT, VIGO COUNTY, INDIANA

### ***Report on the Financial Statement***

We have audited the accompanying financial statement of the Thralls Station Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As discussed in Note 1 of the financial statement, the District prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis of accounting noted above is a different basis than that used in the prior period.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the District for the period of January 1, 2011 to December 31, 2012.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the District for the period of January 1, 2011 to December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated July 30, 2013, 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* in considering the District's internal control over financial reporting and compliance.

***Accompanying Information***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the District's financial statement. 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 statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in

INDEPENDENT AUDITOR'S REPORT  
(Continued)

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 statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the District's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, 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 statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman  
State Examiner

July 30, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE THRALLS STATION REGIONAL  
SEWER DISTRICT, VIGO COUNTY, INDIANA

We have audited, 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, the financial statement of the Thralls Station Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated July 30, 2013, wherein we noted the District followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 statement 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 Finding 2012-1 to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statement is 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

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

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2012-1.

***Thralls Station Regional Sewer District's Response to Findings***

The District's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman  
State Examiner

July 30, 2013

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## FINANCIAL STATEMENT

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

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THRALLS STATION REGIONAL SEWER DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
Thralls Station Regional Sewer District General Fund	\$ 25,614	\$ 2,100,065	\$ 1,900,864	\$ 224,815	\$ 2,635,919	\$ 2,650,865	\$ 209,869
Thralls Station Regional Sewer District DSR	-	23,437	-	23,437	40,178	-	63,615
Thralls Station Regional Sewer District TRSD - Bond & Interest Fund	-	45,412	10,075	35,337	199,932	24,692	210,577
Totals	<u>\$ 25,614</u>	<u>\$ 2,168,914</u>	<u>\$ 1,910,939</u>	<u>\$ 283,589</u>	<u>\$ 2,876,029</u>	<u>\$ 2,675,557</u>	<u>\$ 484,061</u>

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

THRALLS STATION REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT

**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.

The accompanying financial statement presents the financial information for the District.

*B. Basis of Accounting*

The financial statement is 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 statement. 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.

THRALLS STATION REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*E. Disbursements*

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

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. 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.

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 3. 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.

THRALLS STATION REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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 statement. 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 District's 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 statement contained in this report and the financial information presented in the Annual Reports of the 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 District. It is presented as intended by the District.

THRALLS STATION REGIONAL SEWER DISTRICT  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011

	Thralls Station Regional Sewer District General Fund	Thralls Station Regional Sewer District DSR	Thralls Station Regional Sewer District TRSD - Bond & Interest Fund	Totals
Cash and investments - beginning	\$ 25,614	\$ -	\$ -	\$ 25,614
Receipts:				
Intergovernmental	195,100	-	-	195,100
Utility fees	435,043	-	-	435,043
Other receipts	<u>1,469,922</u>	<u>23,437</u>	<u>45,412</u>	<u>1,538,771</u>
Total receipts	<u>2,100,065</u>	<u>23,437</u>	<u>45,412</u>	<u>2,168,914</u>
Disbursements:				
Capital outlay	1,183,320	-	-	1,183,320
Utility operating expenses	143,157	-	-	143,157
Other disbursements	<u>574,387</u>	<u>-</u>	<u>10,075</u>	<u>584,462</u>
Total disbursements	<u>1,900,864</u>	<u>-</u>	<u>10,075</u>	<u>1,910,939</u>
Excess of receipts over disbursements	<u>199,201</u>	<u>23,437</u>	<u>35,337</u>	<u>257,975</u>
Cash and investments - ending	<u>\$ 224,815</u>	<u>\$ 23,437</u>	<u>\$ 35,337</u>	<u>\$ 283,589</u>

THRALLS STATION REGIONAL SEWER DISTRICT  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012

	Thralls Station Regional Sewer District General Fund	Thralls Station Regional Sewer District DSR	Thralls Station Regional Sewer District TRSD - Bond & Interest Fund	Totals
Cash and investments - beginning	\$ 224,815	\$ 23,437	\$ 35,337	\$ 283,589
Receipts:				
Intergovernmental	440,406	-	-	440,406
Utility fees	552,974	-	-	552,974
Other receipts	<u>1,642,539</u>	<u>40,178</u>	<u>199,932</u>	<u>1,882,649</u>
Total receipts	<u>2,635,919</u>	<u>40,178</u>	<u>199,932</u>	<u>2,876,029</u>
Disbursements:				
Capital outlay	2,261,180	-	-	2,261,180
Utility operating expenses	149,576	-	-	149,576
Other disbursements	<u>240,109</u>	<u>-</u>	<u>24,692</u>	<u>264,801</u>
Total disbursements	<u>2,650,865</u>	<u>-</u>	<u>24,692</u>	<u>2,675,557</u>
Excess (deficiency) of receipts over disbursements	<u>(14,946)</u>	<u>40,178</u>	<u>175,240</u>	<u>200,472</u>
Cash and investments - ending	<u>\$ 209,869</u>	<u>\$ 63,615</u>	<u>\$ 210,577</u>	<u>\$ 484,061</u>

THRALLS STATION REGIONAL SEWER DISTRICT  
 SCHEDULE OF LEASES AND DEBT  
 December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Thralls Station Regional Sewer District: Sister of Providence	Lease of land where wastewater treatment plant is located	\$ 43,800	11-01-10	03-31-60
Total of annual lease payments		<u>\$ 43,800</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Thralls Station Regional Sewer District: Notes and loans payable	Construction of a Wastewater plant	\$ 3,089,000	\$ 192,769
Totals		<u>\$ 3,089,000</u>	<u>\$ 192,769</u>

THRALLS STATION REGIONAL SEWER DISTRICT  
 SCHEDULE OF CAPITAL ASSETS  
 December 31, 2012

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.

	Ending Balance
Governmental activities:	
Total governmental activities	-
Thralls Station Regional Sewer District:	
Infrastructure	3,754,330
Improvements other than buildings	50,000
Machinery, equipment, and vehicles	61,294
Total Thralls Station Regional Sewer District	3,865,624
Total capital assets	\$ 3,865,624

THRALLS STATION REGIONAL SEWER DISTRICT  
AUDIT RESULT AND COMMENT

***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

The District did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The District should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: all federal award expenditures were not properly identified by the unit. Audit adjustments were proposed, accepted by the District, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

THRALLS STATION REGIONAL SEWER DISTRICT  
AUDIT RESULT AND COMMENT  
(Continued)

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE THRALLS STATION REGIONAL  
SEWER DISTRICT, VIGO COUNTY, INDIANA

***Report on Compliance for Each Major Federal Program***

We have audited the Thralls Station Regional Sewer District's (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 each of its major federal programs for the period of January 1, 2011 to December 31, 2012. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period of January 1, 2011 to December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

***Report on Internal Control Over Compliance***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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.

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 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman  
State Examiner

July 30, 2013

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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 District. The schedule and note are presented as intended by the District.

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THRALLS STATION REGIONAL SEWER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Years Ended December 31, 2011 and 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>Department of Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
Community Development BlockGrants/State's Program and Non-Entitlement Grants in Hawaii Sewer Works	Indiana Office of Community and Rural Affairs	14.228	CF-08-503	\$ 214,100	\$ 385,900
Total - CDBG - State-Administered CDBG Cluster				<u>214,100</u>	<u>385,900</u>
Total - Department of Housing and Urban Development				<u>214,100</u>	<u>385,900</u>
<u>Environmental Protection Agency</u>					
Capitalization Grants for Clean Water State Revolving Funds					
Sewer Works	Indiana Finance Authority	66.458	WW094584 01	1,276,980	1,812,020
Congressionally Mandated Projects					
Sewer Works	Vigo County Commissioners	66.202	XP-96567601	-	117,929
Total - Environmental Protection Agency				<u>1,276,980</u>	<u>1,929,949</u>
Total federal awards expended				<u>\$ 1,491,080</u>	<u>\$ 2,315,849</u>

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

THRALLS STATION REGIONAL SEWER 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 Thralls Station Regional Sewer District and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. 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 district's shall be conducted biennially. Such audits shall include both years within the biennial period.

THRALLS STATION REGIONAL SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	no
Noncompliance material to financial statement noted?	yes

Federal Awards:

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	CDBG – State Administered CDBG Cluster Capitalization Grants for Clean Water State Revolving Loan Funds

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 Finding**

**FINDING 2012-1 Internal Control over the Schedule of Expenditures of Federal Awards**

The District did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The District should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: all federal award expenditures for the audit period were not accounted for on the SEFA. Audit adjustments were proposed, accepted by the District, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

THRALLS STATION REGIONAL SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Thralls Station Regional Sewer District

One Sisters of Providence

Saint Mary-of-the-Woods, IN 47876

**CORRECTIVE ACTION PLAN**

**Finding 2012-1 Internal Controls over Preparation of the Schedule of Expenditures of Federal Awards**

Auditee Contact Person: Steven Ackman

Title of Contact Person: Treasurer

Phone Number: 812-535-2825

Expected Completion Date: ASAP no later than August 1, 2013

During the SBOA audit I corrected the Core Reporting section "Grants" on the Gateway for Government unit's web site for the reporting years of 2011 and 2012. I have reread the Item Descriptions under the "Grant" section in Gateway and understand better what is asked for and what column information needs to be detailed in.

In the future, if funds are received from State and/or Federal sources, I will make sure financial agreements are received and read to ensure reporting is correct as to if funds received are grants or loans.

I will also use the "Help" tab on the Gateway website yearly as a refresher upon submission under the Annual Financial Report, Frequently Asked Questions, User Guide, and Video Tutorials.

As a final verification, when funds are received during the year, I will confirm the definition of the receipts with our contact at West Central Indiana Economic Development District, Inc., if they are our grant administrators.

  
Pat Goodwin, President

  
Steve Ackman, Treasurer

July 15, 2013

THRALLS STATION REGIONAL SEWER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on July 30, 2013, with Steve Ackman, Treasurer, and Pat Goodwin, President of the Board. The officials concurred with our audit finding.