

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

TWIN LAKES REGIONAL SEWER DISTRICT  
WHITE COUNTY, INDIANA

January 1, 2012 to December 31, 2013



**FILED**  
08/29/2014



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	Michael Darter	01-01-12 to 12-31-14
Office Manager	James Crawn	01-01-12 to 12-31-14
Treasurer	Thomas Pasquale Jamie Rough	01-01-12 to 12-31-12 01-01-13 to 12-31-14
President of the Board of Trustees	Thomas Pasquale John A. Mitchell	01-01-12 to 12-31-13 01-01-14 to 12-31-14



## INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TWIN LAKES REGIONAL SEWER DISTRICT, WHITE COUNTY, INDIANA

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

We have audited the accompanying financial statement of the Twin Lakes Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2012 to December 31, 2013, 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, 2012 to December 31, 2013.

***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, 2012 to December 31, 2013, 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 29, 2014, 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 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 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.

  
Paul D. Joyce, CPA  
State Examiner

July 29, 2014



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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 TWIN LAKES REGIONAL SEWER DISTRICT, WHITE 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 Twin Lakes Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2012 to December 31, 2013, and the related notes to the financial statement, and have issued our report thereon dated July 29, 2014, 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 to be a material weakness.



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)

***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 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 item 2013-001.

***Twin Lakes 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.

  
Paul D. Joyce, CPA  
State Examiner

July 29, 2014

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## FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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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TWIN LAKES REGIONAL SEWER DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended December 31, 2012 and 2013

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12	Receipts	Disbursements	Cash and Investments 12-31-13
Sewer Construction Fund	\$ 3,797	\$ 8,089,435	\$ 8,016,558	\$ 76,674	\$ 1,882,692	\$ 1,780,916	\$ 178,450
Sewer Cash In Drawer	500	-	-	500	-	-	500
Sewer Debt Service Reserve	1,536,000	200,000	-	1,736,000	230,438	-	1,966,438
Sewer Operation & Maintenance Fund	371,395	4,629,516	4,594,029	406,882	5,262,769	5,348,016	321,635
Sewer Payroll Fund	330	480,243	480,262	311	666,130	638,838	27,603
Sewer Petty Cash Fund	1,348	53,189	52,594	1,943	34,274	34,630	1,587
Sewer Petty Cash In Drawer	100	-	-	100	-	-	100
Sewer Phase III Fund	275,276	634	-	275,910	55,037	75,655	255,292
Sewer Sinking Fund	1,567,435	3,107,860	2,819,481	1,855,814	3,432,513	3,435,616	1,852,711
Totals	<u>\$ 3,756,181</u>	<u>\$ 16,560,877</u>	<u>\$ 15,962,924</u>	<u>\$ 4,354,134</u>	<u>\$ 11,563,853</u>	<u>\$ 11,313,671</u>	<u>\$ 4,604,316</u>

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

TWIN LAKES 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 Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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:

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.

*E. Disbursements*

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

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.

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

*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. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

**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.

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

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

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.

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.

**Note 5. Pension Plan**

*Public Employees' Retirement Fund*

*Plan Description*

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 District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of 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 Capitol Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.



## 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 Report of the District which is 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.

TWIN LAKES REGIONAL SEWER DISTRICT  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012

	Sewer Construction Fund	Sewer Cash In Drawer	Sewer Debt Service Reserve	Sewer Operation & Maintenance Fund	Sewer Payroll Fund	Sewer Petty Cash Fund	Sewer Petty Cash In Drawer	Sewer Phase III Fund	Sewer Sinking Fund	Totals
Cash and investments - beginning	\$ 3,797	\$ 500	\$ 1,536,000	\$ 371,395	\$ 330	\$ 1,348	\$ 100	\$ 275,276	\$ 1,567,435	\$ 3,756,181
Receipts:										
Other receipts	8,089,435	-	200,000	4,629,516	480,243	53,189	-	634	3,107,860	16,560,877
Total receipts	8,089,435	-	200,000	4,629,516	480,243	53,189	-	634	3,107,860	16,560,877
Disbursements:										
Other disbursements	8,016,558	-	-	4,594,029	480,262	52,594	-	-	2,819,481	15,962,924
Total disbursements	8,016,558	-	-	4,594,029	480,262	52,594	-	-	2,819,481	15,962,924
Excess (deficiency) of receipts over disbursements	72,877	-	200,000	35,487	(19)	595	-	634	288,379	597,953
Cash and investments - ending	\$ 76,674	\$ 500	\$ 1,736,000	\$ 406,882	\$ 311	\$ 1,943	\$ 100	\$ 275,910	\$ 1,855,814	\$ 4,354,134

TWIN LAKES REGIONAL SEWER DISTRICT  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013

	Sewer Construction Fund	Sewer Cash In Drawer	Sewer Debt Service Reserve	Sewer Operation & Maintenance Fund	Sewer Payroll Fund	Sewer Petty Cash Fund	Sewer Petty Cash In Drawer	Sewer Phase III Fund	Sewer Sinking Fund	Totals
Cash and investments - beginning	\$ 76,674	\$ 500	\$ 1,736,000	\$ 406,882	\$ 311	\$ 1,943	\$ 100	\$ 275,910	\$ 1,855,814	\$ 4,354,134
Receipts:										
Other receipts	1,882,692	-	230,438	5,262,769	666,130	34,274	-	55,037	3,432,513	11,563,853
Total receipts	1,882,692	-	230,438	5,262,769	666,130	34,274	-	55,037	3,432,513	11,563,853
Disbursements:										
Other disbursements	1,780,916	-	-	5,348,016	638,838	34,630	-	75,655	3,435,616	11,313,671
Total disbursements	1,780,916	-	-	5,348,016	638,838	34,630	-	75,655	3,435,616	11,313,671
Excess (deficiency) of receipts over disbursements	101,776	-	230,438	(85,247)	27,292	(356)	-	(20,618)	(3,103)	250,182
Cash and investments - ending	\$ 178,450	\$ 500	\$ 1,966,438	\$ 321,635	\$ 27,603	\$ 1,587	\$ 100	\$ 255,292	\$ 1,852,711	\$ 4,604,316

TWIN LAKES REGIONAL SEWER DISTRICT  
SCHEDULE OF PAYABLES AND RECEIVABLES  
December 31, 2013

Government or Enterprise	Accounts Payable	Accounts Receivable
District	<u>\$ 139,964</u>	<u>\$ 433,696</u>

TWIN LAKES REGIONAL SEWER DISTRICT  
SCHEDULE OF LEASES AND DEBT  
December 31, 2013

District	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
District:			
Revenue bonds	Big Monon Bay - Series A/B - Revenue Bond	\$ 4,384,000	\$ 251,603
Revenue bonds	Idaville - Series A/B - Revenue Bond	459,000	28,475
Revenue bonds	Phase I - Revenue Bond	4,468,000	266,688
Revenue bonds	Phase II - Revenue Bond	4,472,000	266,863
Revenue bonds	Phase 3 - Series A - Revenue Bond	6,122,000	342,314
Revenue bonds	Phase 3 - Series C - Revenue Bond	8,480,000	465,604
Revenue bonds	Phase 3 - Series D - Revenue Bond	510,000	28,955
Revenue bonds	Phase 3 - Series B - Revenue Bond	894,000	49,868
Revenue bonds	Phase 4 - Series A - Revenue Bond	8,941,000	419,763
Revenue bonds	Phase 4 - Series B - Revenue Bond	66,200	3,027
Revenue bonds	2006 Snow Ditch Revenue Bond	3,330,000	318,335
Notes and loans payable	Big Monon Bay - White County	30,000	30,000
Totals		<u>\$ 42,156,200</u>	<u>\$ 2,471,495</u>

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TWIN LAKES REGIONAL SEWER DISTRICT  
SCHEDULE OF CAPITAL ASSETS  
December 31, 2013

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>
District:	
Land	\$ 231,809
Infrastructure	55,050,229
Buildings	16,923,510
Machinery, equipment, and vehicles	<u>246,612</u>
Total capital assets	<u>\$ 72,452,160</u>

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE TWIN LAKES REGIONAL SEWER DISTRICT, WHITE COUNTY, INDIANA

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

We have audited the Twin Lakes 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 its major federal program for the period of January 1, 2012 to December 31, 2013. 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.

***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 the District's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on the 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 its major federal program for the period of January 1, 2012 to December 31, 2013.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 the 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 types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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.

  
Paul D. Joyce, CPA  
State Examiner

July 29, 2014

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

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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TWIN LAKES REGIONAL SEWER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Years Ended December 31, 2012 and 2013

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 12-31-12	Total Federal Awards Expended 12-31-13
<u>DEPARTMENT OF AGRICULTURE</u>					
Water and Waste Program Cluster					
ARRA - Water and Waste Disposal Systems for Rural Communities	Direct Grant	10.781			
USDA - Rural Development - Loan - Phase IV			IN-701-92-18	\$ 2,481,487	\$ -
USDA - Rural Development - Grant - Phase IV			IN-701-00-17	<u>5,601,199</u>	<u>1,882,686</u>
Total - Department of Agriculture				<u>8,082,686</u>	<u>1,882,686</u>
<u>DEPARTMENT OF TRANSPORTATION</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205	CY2010	<u>167</u>	<u>691</u>
Total federal awards expended				<u>\$ 8,082,853</u>	<u>\$ 1,883,377</u>

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

TWIN LAKES 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 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 regional sewer districts shall be conducted biennially. Such audits shall include both years within the biennial period.



TWIN LAKES 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?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	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 Program:

\_\_\_\_\_ Name of Federal Program or Cluster \_\_\_\_\_  
Water and Waste Program Cluster

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 2013-001 - INTERNAL CONTROLS AND COMPLIANCE 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. The Office Manager prepares the SEFA without oversight, review, or approval.

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

During the audit of the SEFA, we noted the following errors: Program Names and Pass-Through Entity Identifying Numbers were not always accurate or were incomplete. Federal awards expended, including loans of \$2,481,487, were excluded from the SEFA. Audit adjustments were proposed, accepted by the District, and were 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 District, 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 in part:

"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."

***Section III - Federal Award Findings and Questioned Costs***

No matters are reportable.

AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the District. The document is presented as intended by the District.

# TWIN LAKES REGIONAL SEWER DISTRICT

"Protecting the Environment Today for Tomorrow's Generations"

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## CORRECTIVE ACTION PLAN

### FINDING 2013-001

Contact Person Responsible for Corrective Action: James Crawn / Michael Darter  
Contact Phone Number: 574.583.5649

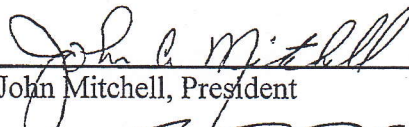
### Description of Corrective Action Plan:

The Twin Lakes Regional Sewer District has implemented internal controls that have reasonable assurance regarding the reliability of the Schedule of Expenditures of Federal Awards (SEFA).

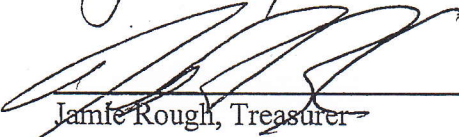
The District shall utilize a checklist to assure a proper system of internal controls to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA).

### Anticipated Completion Date:

The Twin Lakes Regional Sewer District shall complete the Schedule of Expenditures of Federal Awards (SEFA) checklist for the 2014 Gateway financial reporting.

  
\_\_\_\_\_  
John Mitchell, President

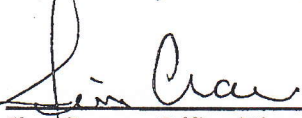
July 29, 2014  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Janife Rough, Treasurer

July 29, 2014  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Mike Darter, District Superintendent

7.29.14  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Jim Crawn, Office/Financial Manager

7.29.14  
\_\_\_\_\_  
Date

#### OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the District. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.