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**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

AUDIT REPORT  
OF

LAKE SANTEE REGIONAL WASTE  
AND WATER DISTRICT  
DECATUR COUNTY, INDIANA

January 1, 2004 to December 31, 2005



**FILED**  
10/24/2006



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Darrow McCreary	01-01-04 to 12-31-06
Treasurer	David Kinnett	01-01-04 to 12-31-06
President of the Board	William Pearsey	01-01-04 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE LAKE SANTEE REGIONAL WASTE  
AND WATER DISTRICT, DECATUR COUNTY, INDIANA

We have audited the accompanying financial statements of the Lake Santee Regional Waste and Water District (District), as of and for the years ended December 31, 2004 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the District prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 respective cash and investment balances for the business-type activities of the District as of December 31, 2004 and 2005, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated September 11, 2006, 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 and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

September 11, 2006



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

TO: THE OFFICIALS OF THE LAKE SANTEE REGIONAL WASTE  
AND WATER DISTRICT, DECATUR COUNTY, INDIANA

We have audited the financial statements of the Lake Santee Regional Waste and Water District (District), as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated September 11, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

We noted certain immaterial instances of noncompliance that we have discussed with the management of the District on September 11, 2006. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the District on September 11, 2006. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the District's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

September 11, 2006

STATE BOARD OF ACCOUNTS

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2004

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u> <u>Charges for Services</u>	<u>Net Receipt and Changes in Net Assets</u> <u>Business-Type Activities</u>
Business-type activities:			
Wastewater	\$ 328,571	\$ 334,722	\$ 6,151
General receipts:			
Unrestricted investment earnings			1,055
Change in net assets			7,206
Net assets - beginning			218,550
Net assets - ending			<u>\$ 225,756</u>
<u>Assets</u>			
Cash and investments			\$ (27,302)
Restricted assets:			
Cash and investments			<u>253,058</u>
Total assets			<u>\$ 225,756</u>
<u>Net Assets</u>			
Restricted for:			
Debt service			\$ 159,323
Capital outlay			93,735
Unrestricted			<u>(27,302)</u>
Total net assets			<u>\$ 225,756</u>

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Year Ended December 31, 2004

	Wastewater Utility
Operating receipts:	
Penalties	\$ 8,627
Tap fees	12,000
Measured revenue:	
Residential	282,350
Commercial	3,225
Other	<u>28,520</u>
Total operating receipts	<u>334,722</u>
Operating disbursements:	
Equipment and capital improvements	12,064
Collection system - operations and maintenance	11,855
Pumping - operations and maintenance	18,603
Treatment and disposal disbursements - operations and maintenance	54,976
Customer accounts	1,426
Administration and general	65,290
Other	<u>96</u>
Total operating disbursements	<u>164,310</u>
Excess of operating receipts over operating disbursements	<u>170,412</u>
Nonoperating receipts (disbursements):	
Interest and investment receipts	1,055
Debt service of principal	(31,000)
Interest and investment disbursement	<u>(133,261)</u>
Total nonoperating receipts (disbursements)	<u>(163,206)</u>
Excess of operating receipts over operating disbursements and nonoperating receipts (disbursements)	7,206
Cash and investment fund balance - beginning	<u>218,550</u>
Cash and investment fund balance - ending	<u>\$ 225,756</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ (27,302)
Restricted assets:	
Cash and investments	<u>253,058</u>
Total cash and investment assets - December 31	<u>\$ 225,756</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 159,323
Capital outlay	93,735
Unrestricted	<u>(27,302)</u>
Total cash and investment fund balance - December 31	<u>\$ 225,756</u>

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2005

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>	<u>Net (Disbursement) Receipt and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Business-Type Activities</u>
Business-type activities:			
Water	\$ 705,318	\$ -	\$ (705,318)
Wastewater	<u>369,071</u>	<u>393,673</u>	<u>24,602</u>
Total business-type activities	<u>\$ 1,074,389</u>	<u>\$ 393,673</u>	<u>(680,716)</u>
General receipts:			
			857,000
			<u>2,967</u>
			859,967
			<u>179,251</u>
			225,756
			<u>405,007</u>
<u>Assets</u>			
			\$ (31,511)
Restricted assets:			
Cash and investments			<u>436,518</u>
Total assets			<u>\$ 405,007</u>
<u>Net Assets</u>			
Restricted for:			
Debt service			\$ 194,693
Capital outlay			241,825
Unrestricted			<u>(31,511)</u>
Total net assets			<u>\$ 405,007</u>

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Total
Operating receipts:			
Penalties	\$ -	\$ 10,301	\$ 10,301
Tap fees	-	34,800	34,800
Measured revenue:			
Residential	-	322,516	322,516
Commercial	-	3,797	3,797
Other	-	22,259	22,259
	<u>-</u>	<u>393,673</u>	<u>393,673</u>
Total operating receipts	<u>-</u>	<u>393,673</u>	<u>393,673</u>
Operating disbursements:			
Equipment and capital improvements	705,318	55,895	761,213
Collection system - operations and maintenance	-	10,402	10,402
Pumping - operations and maintenance	-	15,557	15,557
Treatment and disposal disbursements - operations and maintenance	-	55,905	55,905
Customer accounts	-	9,959	9,959
Administration and general	-	54,346	54,346
Other	-	2,266	2,266
	<u>705,318</u>	<u>204,330</u>	<u>909,648</u>
Total operating disbursements	<u>705,318</u>	<u>204,330</u>	<u>909,648</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(705,318)</u>	<u>189,343</u>	<u>(515,975)</u>
Nonoperating receipts (disbursements):			
Bond proceeds	857,000	-	857,000
Interest and investment receipts	156	2,811	2,967
Debt service of principal	-	(33,000)	(33,000)
Interest and investment disbursement	-	(131,741)	(131,741)
	<u>857,156</u>	<u>(161,930)</u>	<u>695,226</u>
Total nonoperating receipts (disbursements)	<u>857,156</u>	<u>(161,930)</u>	<u>695,226</u>
Excess of operating receipts over operating disbursements and nonoperating receipts (disbursements)	151,838	27,413	179,251
Cash and investment fund balance - beginning	<u>-</u>	<u>225,756</u>	<u>225,756</u>
Cash and investment fund balance - ending	<u>\$ 151,838</u>	<u>\$ 253,169</u>	<u>\$ 405,007</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ -	\$ (31,511)	\$ (31,511)
Restricted assets:			
Cash and investments	151,838	284,680	436,518
	<u>151,838</u>	<u>284,680</u>	<u>436,518</u>
Total cash and investment assets - December 31	<u>\$ 151,838</u>	<u>\$ 253,169</u>	<u>\$ 405,007</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ -	\$ 194,693	\$ 194,693
Capital outlay	151,838	89,987	241,825
Unrestricted	<u>-</u>	<u>(31,511)</u>	<u>(31,511)</u>
Total cash and investment fund balance - December 31	<u>\$ 151,838</u>	<u>\$ 253,169</u>	<u>\$ 405,007</u>

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District was established under the laws of the State of Indiana. The District operates under a board of Trustees.

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

Primary Government

In determining the financial reporting entity, the District complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements.

The District reports the following major proprietary funds:

The water and wastewater utility funds account for the operation of the water and sewer systems.

C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds).

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

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

4. Equity Classification

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the District's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

E. Receipts and Disbursements

Operating Receipts and Disbursements

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government enterprise funds.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

II. Stewardship, Compliance and Accountability

Cash and Investment Balance Deficits

At December 31, 2004 and 2005, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2004	2005
Wastewater Operating Fund	\$ 27,302	\$ 31,511

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the District had the following investments:

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Investment Type	Primary Government Market Value
Investment Pools	\$ 59,304

Investment Policies

Indiana Code 5-13-9 authorizes the District to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the District and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the District may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy for custodial credit risk for investments. At December 31, 2005, the District held investments in various investment pools in the amount of \$59,304. Of these investments \$59,304 were held by the counterparty's trust department or agent but not in the District's name.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District must follow state statute and limit the stated final maturities of the investments to no more than two years.

Investment Type	Investment Maturities (in Years)  Less Than 1
U.S. Treasuries and Securities	\$ 59,304

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Rating	District's <u>Investments</u> Investment Pools
Unrated	\$ 59,304

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

IV. Other Information

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

**Lake Santee Regional Waste & Water District  
Notes to Financial Statements**

**Utility Plant in Service**

Utility plant in service, at cost, consisted of the following at December 31:

	2005	2004
Plant Sewers	\$203,007	\$203,007
Treatment and Disposal Equipment	509,129	505,951
Collection Sewers – Force	959,710	942,710
Pumping Equipment	2,038,911	2,020,194
Laboratory Equipment	10,005	10,005
Power Generation Equipment	45,877	45,877
Furniture and Fixtures	8,634	8,634
Transportation Equipment	12,577	12,577
Other Plant and Equipment	312,695	312,695
Land	55,011	55,011
Construction Work in Process	210,603	9,857
Power Operated Equipment, Tools and Shop	132,703	132,703
Capitalized Interest	147,504	147,504
Structures	1,009,994	1,009,994
	<hr/>	<hr/>
Totals	<u>\$ 5,656,360</u>	<u>\$ 5,416,719</u>

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DEBT

For The Year Ended December 31, 2005

	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities:		
Water Utility		
Revenue bonds:		
2005 Waterworks Revenue Bonds	\$ 625,000	\$ -
2005 Waterworks Revenue Bonds	<u>235,000</u>	<u>-</u>
Total Water Utility	<u>860,000</u>	<u>-</u>
Wastewater Utility		
Revenue bonds:		
1999 Sewage Works Revenue Bonds	<u>2,757,000</u>	<u>34,000</u>
Total Wastewater Utility	<u>2,757,000</u>	<u>34,000</u>
Total business-type activities	<u><u>\$ 3,617,000</u></u>	<u><u>\$ 34,000</u></u>

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
AUDIT RESULTS AND COMMENTS

INVESTMENTS NOT AUTHORIZED BY STATUTE

The District has investments with Hilliard Lyons that include certificates of deposit with out-of-state financial institutions.

Investments should only be made in accordance with statute. Expenses related to any unauthorized investments may be the personal obligation of the responsible official or employee.

Losses related to investments and investment procedures which are not authorized by statute may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 15)

OVERDRAWN FUND BALANCES

The Wastewater Operating Fund was overdrawn in by \$27,301.72 at December 31, 2004, and \$31,511.42 at December 31, 2005.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE LAKE SANTEE REGIONAL WASTE  
AND WATER DISTRICT, DECATUR COUNTY, INDIANA

Compliance

We have audited the compliance of the Lake Santee Regional Waste and Water District (District ) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2004 and 2005. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied in all material respects with the requirements referred to above that are applicable to its major federal program for the years ended December 31, 2004 and 2005.

Internal Control Over Compliance

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the District's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

September 11, 2006

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Years Ended December 31, 2004 and 2005

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-05
<u>U.S. DEPARTMENT OF AGRICULTURAL</u>			
Direct Grant			
Water and Waste Disposal Loans and Grants	10.770		
Water Utility Project			\$ <u>619,972</u>

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

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Lake Santee Regional Waste and Water District (District) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

II. Loans Outstanding

The District had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2005. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005
Water and Waste Disposal Loans and Grants	10.770	<u>\$ 625,000</u>

LAKE SANTEE REGIONAL WASTE AND 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?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.770	Water and Waste Disposal Loans and Grants

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2006, with Darrow McCreary, Director; William Pearsey, President of the Board; and David Kinnett, Treasurer. The officials concurred with our audit findings.