

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

EXAMINATION REPORT
OF
FRIENDSHIP REGIONAL SEWER DISTRICT
RIPLEY COUNTY, INDIANA
January 1, 2004 to December 31, 2005



FILED
02/28/2007

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OFFICIALS

Office

Official

Term

Treasurer

Mary M. Nickell

01-01-04 to 12-31-07

President of the Board

Glen Kamman

01-01-04 to 12-31-07



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE FRIENDSHIP REGIONAL SEWER DISTRICT, RIPLEY COUNTY, INDIANA

We have examined the financial information presented herein of the Friendship Regional Sewer District (District), for the period of January 1, 2004 to December 31, 2005. The District's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the District for the years ended December 31, 2004 and 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

January 24, 2007

FRIENDSHIP REGIONAL SEWER DISTRICT
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL PROPRIETARY FUND TYPES
As Of And For The Years Ended December 31, 2004 And 2005

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Proprietary:				
Operating	\$ 23,324	\$ 143,846	\$ 146,656	\$ 20,514
Bond and Interest	30,888	28,332	27,620	31,600
Reserve	15,788	3,318	-	19,106
Improvement	34,940	7,258	-	42,198
Sales Tax Refund	11,824	-	11,043	781
	<u>116,764</u>	<u>182,754</u>	<u>185,319</u>	<u>114,199</u>
Totals	<u>\$ 116,764</u>	<u>\$ 182,754</u>	<u>\$ 185,319</u>	<u>\$ 114,199</u>

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Proprietary:				
Operating	\$ 20,514	\$ 143,809	\$ 146,956	\$ 17,367
Bond and Interest	31,600	28,332	27,376	32,556
Reserve	19,106	3,506	-	22,612
Improvement	42,198	7,518	-	49,716
Sales Tax Refund	781	-	781	-
	<u>114,199</u>	<u>183,165</u>	<u>175,113</u>	<u>122,251</u>
Totals	<u>\$ 114,199</u>	<u>\$ 183,165</u>	<u>\$ 175,113</u>	<u>\$ 122,251</u>

The accompanying notes are an integral part of the schedules.

FRIENDSHIP REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District operates under an appointed governing board and provides wastewater collection, treatment and removal services.

Note 2. Fund Accounting

The District uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were 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 statute (IC 5-13-9) authorizes the District to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 4. Long-Term Debt

The District issued revenue bonds for the acquisition and construction of major capital facilities. The outstanding principal at December 31, 2005, was \$454,000.

Note 5. Major Customer

The District's major customer is the National Muzzle Loader Rifle Association (NMLRA). The NMLRA provides approximately 54% of the District's annual revenue.

FRIENDSHIP REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS

PRESCRIBED FORMS NOT IN USE

The following prescribed or approved forms were not in use.

1. Simplified Cash Journal- Municipal Wastewater Utility (Utility Form 323)
2. General Check (General Form 353)
3. General Fixed Asset Group (General Form 369)

A similar comment was made in prior Report B23932.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CONFLICT OF INTEREST DISCLOSURE STATEMENTS

Anthony Wood is a member of the Sewer District Board and has a contract as the District's Certified Operator. Mr. Wood's spouse, Laurie Wood, is paid by the District to provide bookkeeping services for the District.

On July 12, 2005, the District's Board of Trustees accepted a conflict of interest statement disclosure filed by Anthony Wood; however, the statement was incomplete. The conflict of interest statement disclosure was not approved by the Ripley County Board of Commissioners and was not filed with the State Board of Accounts and with the Ripley County Clerk of the Circuit Court.

In 2005, Kamman Builders/Glen Kamman was paid \$832 for re-roofing a storage building. Glen Kamman is the President of the District's Board of Trustees. A conflict of interest statement for Mr. Kamman was not presented for examination and a copy of the statement was not on file with the State Board of Accounts or the Ripley County Clerk of the Circuit Court.

A similar comment was made in prior Report B23932.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . ."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (1) If the: (C) public servant makes a disclosure under subsection (d)(1) through (d)(6)."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15)

FRIENDSHIP REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase; and (7) contain, if the public servant is appointed, the written approval of the elected public servant (if any)...that appointed the public servant."

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . ."

"(k) As used in this section, 'dependent' means . . . (1) The spouse of a public servant."

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The District did not comply with directives of the IRS. The District did not withhold taxes from compensation paid to board members, the bookkeeper, or the certified operator and did not pay employment taxes. An Internal Revenue Service Form 1099-MISC was issued rather than Internal Revenue Service Form W-2.

A similar comment was made in prior Report B23932.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, 10)

OPTICAL IMAGES OF WARRANTS AND DEPOSITS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks. The financial institution also did not return optical images of deposit slips with the monthly bank statements.

Indiana Code 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

FRIENDSHIP REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Further, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise: and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

INTEREST ON INVESTMENTS

Interest earned on a certificate of deposit was automatically added to the principal and included in the amount rolled over at maturity.

A certificate of deposit may be renewed for an additional term if authorized by the governing board, without the original certificate of deposit being paid by the depository and a warrant being issued for the purchase of a new certificate of deposit. However, if renewed, the interest due the political subdivision shall be paid to the treasurer at each maturity date, so the records will reflect the true financial condition and the amount invested at all times. The interest shall not be added to the original deposit and reinvested by the depository. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 15)

FRIENDSHIP REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on January 24, 2007, with Mary M. Nickell, Treasurer; and Glen Kamman, President of the Board.