

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

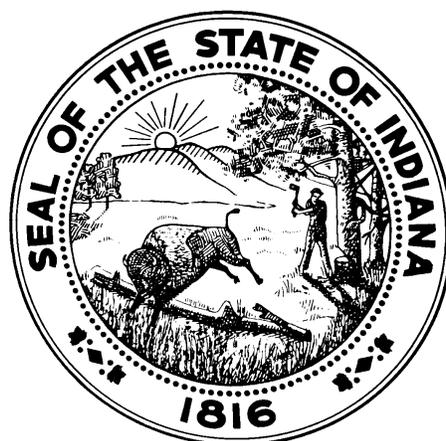
AUDIT REPORT

OF

MISHAWAKA MUNICIPAL UTILITIES

ST. JOSEPH COUNTY, INDIANA

January 1, 2007 to December 31, 2007



**FILED**  
09/15/2008



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CITY AND UTILITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Jeffrey L. Rea	01-01-04 to 12-31-11
Controller	Yvonne Milligan	01-01-07 to 12-31-08
Utility General Manager	James M. Schrader	01-01-07 to 12-31-08
Electric Department Manager	Eric Uitdenhowen	01-01-07 to 12-31-08
Wastewater Department Manager	Karl Kopec	01-01-07 to 12-31-08
Water Department Manager	Bruno Timboli	01-01-07 to 12-31-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF MISHAWAKA MUNICIPAL UTILITIES

We have audited the records of Mishawaka Municipal Utilities for the period from January 1, 2007 to December 31, 2007, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of the City of Mishawaka for the year 2007.

STATE BOARD OF ACCOUNTS

May 22, 2008

MISHAWAKA MUNICIPAL UTILITIES  
AUDIT RESULTS AND COMMENTS

2006 WASTEWATER REVENUE BONDS – ARBITRAGE (Applies to the Wastewater Utility)

In December 2006, the Mishawaka Wastewater Utility issued Sewage Works Revenue Bonds of 2006, Series A in the amount of \$8,450,000 at average interest rates of 3.625% to 4%. Proceeds of this bond issue were invested by the City in normal City held sweep accounts and earned interest at an average interest rate of 5.48%. This results in an approximate excess of \$116,480 of interest earned over interest expended for 2007. At May 14, 2008, \$6,782,883 of these proceeds remained in the Sewage Utility Construction Fund. Because these bonds are tax-exempt bonds issued by a municipal government, they are regulated by Internal Revenue Code Sections 103 and 148 to 150 in regards to arbitrage. Arbitrage is a term applied to the resulting excess, when interest earnings on the proceeds of tax-exempt debt exceed the interest expense on the same tax-exempt debt. Any excess interest earnings may be a taxable revenue of the utility.

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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 Cities and Towns, Chapter 7)

MATERIAL AND SUPPLY INVENTORY (Applies to the Electric Utility)

Controls over the recording and accounting for the material and supply inventory did not timely identify differences between actual inventory on hand and the inventory recorded on the Utility's accounting records. For December 31, 2007, the actual value of material and supply inventory was \$1,788,114 while the General Ledger cited a balance of \$1,836,974, a difference of \$48,860. Although this represents a difference of only 2.7% there were individual types of inventory that had vast differences.

Auditors, along with Utility employees, researched a specific inventory wire type and found the following: shipping dates per delivery tickets did not always agree with invoice dates; issuance of inventory items out of stock and not yet in service at year end were unaccounted for; differences between items recorded on Job Cost Sheets at the Electric Department and the Job Cost Sheet information posted to the General Ledger. These items related to one type of wire account for a difference of \$245,659 between the actual wire on hand at year end and the amount reflected on the General Ledger. We did not research differences in other types of inventory.

These differences, and the cumulative difference for all material and supply inventory types, are accounted for on the General Ledger at year end through a net adjustment to expense accounts. Although this causes the material and supply inventory account on the General Ledger to agree with the actual inventory value, some of these entries would be more appropriately accounted for in Work-in-Progress Accounts or Accounts Payable.

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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

MISHAWAKA MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on May 22, 2008, with Jeffrey L. Rea, Mayor; Yvonne Milligan, Controller; Rebecca S. Miller, Deputy Controller; and James M. Schrader, Utility General Manager. The officials concurred with our audit findings.