

B37543

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

ANNUAL FINANCIAL REPORT

2009

JENNINGS NORTHWEST REGIONAL UTILITIES

JENNINGS COUNTY, INDIANA



**FILED**  
09/22/2010



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utility Manager	Jeffrey Fish	01-01-09 to 12-31-10
Treasurer	Caddie Mathis	01-01-09 to 12-31-10
President of the Board	Edwin Whitaker	01-01-09 to 12-31-10
Office Manager	Dan Wooton	01-01-09 to 12-31-10



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

TO: THE OFFICIALS OF THE JENNINGS NORTHWEST  
REGIONAL UTILITIES, JENNINGS COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of the Jennings Northwest Regional Utilities (District), as of and for the year ended December 31, 2009, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the business-type activities and the aggregate remaining fund of the District as of December 31, 2009, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated August 3, 2010, 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 and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. 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.

The District has not presented Management's Discussion and Analysis, or Budgetary Comparison Schedules 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 required parts 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

August 3, 2010



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE JENNINGS NORTHWEST  
REGIONAL UTILITIES, JENNINGS COUNTY, INDIANA

We have audited the financial statements of the business-type activities, and the aggregate remaining fund information of the Jennings Northwest Regional Utilities (District), as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 3, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Compliance and Other Matters

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 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the District's management, the Board of Trustees, 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

August 3, 2010

JENNINGS NORTHWEST REGIONAL UTILITIES  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u> Charges for Services	<u>Totals</u>
Business-type activities:			
Water Utility	\$ 669,367	\$ 727,945	\$ 58,578
Wastewater Utility	<u>2,097,872</u>	<u>1,066,129</u>	<u>(1,031,743)</u>
Total business-type activities	<u>\$ 2,767,239</u>	<u>\$ 1,794,074</u>	<u>(973,165)</u>
General receipts:			
Net proceeds from borrowings			1,222,258
Investment earnings			<u>4,559</u>
Total general receipts			<u>1,226,817</u>
Change in net assets			253,652
Net assets - beginning			<u>917,396</u>
Net assets - ending			<u>\$ 1,171,048</u>
 <u>Assets</u>			
Cash and investments			\$ 849,845
Restricted assets:			
Cash and investments			<u>321,203</u>
Total assets			<u>\$ 1,171,048</u>
 <u>Net Assets</u>			
Restricted for:			
Debt service			\$ 280,932
Other purposes			40,271
Unrestricted			<u>849,845</u>
Total net assets			<u>\$ 1,171,048</u>

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

JENNINGS NORTHWEST REGIONAL UTILITIES  
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, 2009

	Water Utility	Wastewater Utility	Totals
Operating receipts:			
Metered/measured	\$ 695,469	\$ 1,023,003	\$ 1,718,472
Penalties	16,852	21,769	38,621
Miscellaneous	<u>15,624</u>	<u>21,357</u>	<u>36,981</u>
 Total operating receipts	 <u>727,945</u>	 <u>1,066,129</u>	 <u>1,794,074</u>
Operating disbursements:			
Salaries and wages	117,225	313,338	430,563
Employee pensions and benefits	37,883	94,417	132,300
Purchased water	251,511	-	251,511
Purchased power	1,850	109,794	111,644
Repair and maintenance	-	30,630	30,630
Material and supplies	30,596	63,076	93,672
Contractual services	35,564	49,367	84,931
Rents	52	181	233
Transportation	9,244	10,897	20,141
Insurance claims and expense	10,827	32,382	43,209
Advertising	123	1,182	1,305
Refunds	407	618	1,025
Equipment and capital improvements	3,623	912,016	915,639
Miscellaneous	<u>6,775</u>	<u>11,478</u>	<u>18,253</u>
 Total operating disbursements	 <u>505,680</u>	 <u>1,629,376</u>	 <u>2,135,056</u>
 Excess (deficiency) of operating receipts over operating disbursements	 <u>222,265</u>	 <u>(563,247)</u>	 <u>(340,982)</u>
Nonoperating receipts (disbursements):			
Investment income	1,129	3,430	4,559
Net proceeds from borrowings	-	1,222,258	1,222,258
Debt service of principal	(94,116)	(224,172)	(318,288)
Interest disbursements	<u>(69,571)</u>	<u>(244,324)</u>	<u>(313,895)</u>
 Total nonoperating receipts (disbursements)	 <u>(162,558)</u>	 <u>757,192</u>	 <u>594,634</u>
 Excess of receipts over (disbursements) and nonoperating receipts (disbursements)	 59,707	 193,945	 253,652
 Cash and investment fund balance - beginning	 <u>346,121</u>	 <u>571,275</u>	 <u>917,396</u>
 Cash and investment fund balance - ending	 <u>\$ 405,828</u>	 <u>\$ 765,220</u>	 <u>\$ 1,171,048</u>
 <u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 168,570	\$ 681,275	\$ 849,845
Restricted assets:			
Cash and investments	<u>237,258</u>	<u>83,945</u>	<u>321,203</u>
 Total cash and investment assets - December 31	 <u>\$ 405,828</u>	 <u>\$ 765,220</u>	 <u>\$ 1,171,048</u>
 <u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 220,351	\$ 60,581	\$ 280,932
Other purposes	16,907	23,364	40,271
Unrestricted	<u>168,570</u>	<u>681,275</u>	<u>849,845</u>
 Total cash and investment fund balance - December 31	 <u>\$ 405,828</u>	 <u>\$ 765,220</u>	 <u>\$ 1,171,048</u>

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

JENNINGS NORTHWEST REGIONAL UTILITIES  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
As Of And For The Year Ended December 31, 2009

	<u>Agency Funds</u>
Cash and investment fund balance - ending	<u>\$ 12,294</u>

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

JENNINGS NORTHWEST REGIONAL UTILITIES  
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 an appointed governing board and provides water treatment and wastewater treatment services.

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

Primary Government: Jennings Northwest Regional Utilities

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. It includes all funds of the reporting entity except for fiduciary funds. 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, fund equity, receipts, and disbursements. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The District reports the following major enterprise funds:

The Water Utility Fund accounts for the operation of the water distribution system.

The Wastewater Utility Fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection 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 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. 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.

JENNINGS NORTHWEST REGIONAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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) or other departments or agencies primarily within the government (internal service funds).

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The District does not have any internal service funds.

When both restricted and unrestricted resources are available for use, the District's policy is to use restricted resources first then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. 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.

3. Capital Assets

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

4. Long-Term Debt

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

JENNINGS NORTHWEST REGIONAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

5. Equity Classification

Government-Wide Statements

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."

Fund Financial Statements

Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund 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 in the fund financial statements have been eliminated or reclassified.

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.

JENNINGS NORTHWEST REGIONAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

II. Detailed Notes on All Funds

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. IC 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 District does not have a deposit policy for custodial credit risk. At December 31, 2009, the District had deposit balances in the amount of \$1,175,955.

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.

III. Other Information

A. 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; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Loan Payable - State Revolving Fund Loan

Per provisions in an agreement with the Indiana Finance Authority for a loan under the State Revolving Fund loan program, the District has a \$4,000,000 line of credit. As of December 31, 2009, \$869,258 had been drawn down and the District still had \$3,130,742 available to borrow. The loan from the State Revolving Loan Fund is anticipated to be forgiven at maturity.

C. Receipts Pledged

Water Utility Receipts Pledged

The District has pledged future operating receipts, net of specified operating expenditures, to repay revenue bonds issued in 2005. Proceeds from the bonds provided financing for Water Utility acquisition. The bonds are payable solely from operating receipts and are payable through 2022.

JENNINGS NORTHWEST REGIONAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Subsequent Events

1. Refunding of Bond Issue

On February 25, 2010, the District entered into an agreement with Indiana Finance Authority for a loan not to exceed \$6,070,000. This loan is to be used for the refunding of the outstanding Sewage Works Revenue Bonds of 2004.

2. Construction Contracts

In 2010, the District began construction of a Wastewater Improvement Project. The total cost of the project is estimated to be \$17,380,000 which is funded by loans from the State Revolving Loan Fund totaling \$10,240,000 and a Disaster Recovery Grant from the Indiana Office of Community and Rural Affairs in the amount of \$7,140,000. The loans from the State Revolving Loan Fund are anticipated to be forgiven at maturity.

JENNINGS NORTHWEST REGIONAL UTILITIES  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS  
 For The Year Ended December 31, 2009

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>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 4,010
Buildings	17,176
Improvements other than buildings	1,039,483
Machinery and equipment	<u>58,830</u>
Total Water Utility capital assets	<u>1,119,499</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	98,649
Buildings	21,727
Improvements other than buildings	3,519,995
Machinery and equipment	<u>188,104</u>
Total Wastewater Utility capital assets	<u>3,828,475</u>
Total business-type activities capital assets	<u>\$ 4,947,974</u>

JENNINGS NORTHWEST REGIONAL UTILITIES  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2009

The District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Water Utility:		
Revenue bonds:		
Water utility acquisition	\$ 1,530,000	\$ 155,436
Total Water Utility	<u>1,530,000</u>	<u>155,436</u>
Wastewater Utility:		
Revenue bonds:		
Wastewater utility acquisition	970,000	102,425
Wastewater state revolving fund	<u>6,070,000</u>	<u>354,750</u>
Total Wastewater Utility	<u>7,040,000</u>	<u>457,175</u>
Total business-type activities debt	<u>\$ 8,570,000</u>	<u>\$ 612,611</u>

JENNINGS NORTHWEST REGIONAL UTILITIES  
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT NOT FILED TIMELY

An annual financial report for the year 2009 was not filed with the Indiana State Board of Accounts until July 9, 2010.

IC 5-11-1-4 states in part: "The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. . . ."

NONCOMPLIANCE WITH BOND ORDINANCES

The District did not make the required transfers to the Bond and Interest Fund and Debt Reserve Fund for the year 2009. As a result, the Bond and Interest Fund and Debt Reserve Fund were underfunded by \$151,495 and \$407,316, respectively, as of December 31, 2009.

Section 11 of the Wastewater Revenue Bond Ordinance 2002-04, dated August 15, 2002, states in part:

"(b) . . . there shall be credited on the last day of each calendar month from the Revenue Fund to the Bond and Interest Account an amount of the Net Revenue equal to at least one-twelfth of the principal of and at least one-sixth of the interest on all then outstanding bonds payable on the then next succeeding principal and interest payment dates . . ."

"(c) . . . the balance accumulated in the Reserve Account shall equal but not exceed the maximum annual debt service on the . . . Bonds . . . monthly deposits of Net Revenues shall be equal in amount and sufficient to accumulate the Reserve Requirement within five (5) years of the date of delivery of the Bonds."

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

A similar comment was reported in Report B31515.

APPROVAL OF CLAIMS

Claims were paid prior to being certified by the fiscal officer and prior to being allowed by the governing board. It is the District's practice to pay claims every two weeks. The claims are then included on the Accounts Payable Voucher Register presented to the Board at the next board meeting. The fiscal officer also signs the Accounts Payable Voucher Register in lieu of signing the individual claims.

IC 5-11-10-1.6 states:

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;

JENNINGS NORTHWEST REGIONAL UTILITIES  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

"(d) The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the, requirements of this section. The fiscal officer does not incur personal liability for disbursements:

- (1) processed in accordance with this section; and
- (2) for which funds are appropriated and available."

PAYMENT FOR UNUSED VACATION

The Employee Handbook approved by the Board of Trustees on February 25, 2003, states that "employees who have earned at least eighty (80) hours of vacation time are entitled up to forty (40) hours vacation pay in lieu of taking time off for vacation. No other exceptions are permitted except that terminating employees are entitled to be paid for all earned, unused vacation."

It has been the Utilities' practice to pay for unused vacation time in excess of 40 hours. During the year 2009, the Utility Manager and two field crew members were paid for 200 hours, 160 hours, and 80 hours, respectively, for unused vacation time.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

RECORDS TO DATE

The following was noted in the reviewing of the Water Utility and Wastewater Utility records for the period January 1, 2010 to June 30, 2010:

- (1) Financial activity (customer service billings, receipts, disbursements, etc) for the Water and Wastewater Utilities has not been recorded on the General Ledger.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

- (2) Depository reconciliations of the fund balances to the bank account balances were not presented for examination.

IC 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

JENNINGS NORTHWEST REGIONAL UTILITIES  
AUDIT RESULTS AND COMMENTS  
(Continued)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the Clearing Account Fund balances to the bank account balances were incorrect.

IC 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

ACCOUNTS RECEIVABLE NOT RECONCILED

The accounts receivable trial balance, which is a detailed listing of utility customer accounts receivable balances, did not reconcile with the accounts receivable balance recorded on the general ledger at December 31, 2009. The following schedule shows the variance between the general ledger accounts receivable balance and the accounts receivable account for the water and wastewater utilities combined at December 31, 2009:

General Ledger	\$ 538,711
Accounts Receivable Trial Balance	<u>473,449</u>
Variance	<u>\$ 65,262</u>

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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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 JENNINGS NORTHWEST  
REGIONAL UTILITIES, JENNINGS COUNTY, INDIANA

Compliance

We have audited the compliance of the Jennings Northwest Regional Utilities (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 year ended December 31, 2009. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 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. 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 year ended December 31, 2009.

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, 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.

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)

A control deficiency in a District's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the District's management, the Board of Trustees, 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

August 3, 2010

JENNINGS NORTHWEST REGIONAL UTILITIES  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Year Ended December 31, 2009

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Finance Authority ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	WW06324003	\$ 869,258
Total federal awards expended			<u>\$ 869,258</u>

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

JENNINGS NORTHWEST REGIONAL UTILITIES  
 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 Jennings Northwest Regional Utilities (District) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. 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.

II. Loans Outstanding

The District had the following loan balance, with continuing federal compliance requirements, outstanding at December 31, 2009. This loan balance outstanding is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Balance
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>\$ 869,258</u>

JENNINGS NORTHWEST REGIONAL UTILITIES  
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  
 Significant deficiencies 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  
 Significant deficiencies 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
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

JENNINGS NORTHWEST REGIONAL UTILITIES  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

JENNINGS NORTHWEST REGIONAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on August 3, 2010, with Jeffrey Fish, Utility Manager; Caddie Mathis, Treasurer; Edwin Whitaker, President of the Board; Dan Wooton, Office Manager; and Mary Ann Gay, District's Attorney. The official response has been made a part of this report and may be found on page 29.



3847 Country Manor West - P.O. Box 18 - North Vernon, Indiana 47265

Office: (812) 346-5500 - Fax: (812) 346-0838 - www.JNRU.org

August 17, 2010

Mr. Ron Robertson  
State Board of Accounts  
348 Muriel Dr.  
Scottsburg, IN 47170

Re: Jennings Northwest Regional Utilities  
Audit Years 2009

Dear Sir:

The Board of Directors of Jennings Northwest Regional Utilities ("JNRU") wishes to respond to an audit issue raised in your 2009 audit report regarding payment to employees for unused vacation time.

JNRU adopted its policy for payment for unused vacation in 2003. Apparently this policy was not filed in 2009 in regard to payment of unused vacation of 160 hours and 80 hours respectively for two of the utilities' field crew members. These payments clearly violate that policy. Unfortunately the utility personnel have had a practice of submitting a general payroll claim to the Board once a month for approval. There is no itemization as to who is paid or for what. The Board intends to formally change this policy immediately to more accurately keep track of payments for employees and payments for unused personal and vacation time.

As to unused vacation pay to the Utility Manager, this also violates the JNRU adopted policy. Since the Utility Manager is granted five weeks vacation, it appears that he took no days off for vacation in 2009. Clearly the Board needs to more carefully scrutinize payments made to utility personnel and intends to adopt written policies to that effect.

If you have additional questions, feel free to contact us.

Sincerely yours,

JNRU BOARD OF TRUSTEES

Handwritten signature of Edwin Whitaker in black ink.

Edwin Whitaker, President

Handwritten signature of Brian Roney in black ink.

Brian Roney, Vice President

Handwritten signature of Cadie Mathis in black ink.

Cadie Mathis, Treasurer

Handwritten signature of Dorothy Vaughn in black ink.

Dorothy Vaughn, Secretary

Handwritten signature of Tom Trulock in black ink.

Tom Trulock, Member