

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

EXAMINATION REPORT
OF

MAYSVILLE REGIONAL WATER
AND SEWER DISTRICT
ALLEN COUNTY, INDIANA

January 1, 2008 to December 31, 2009



FILED
01/03/2011

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OFFICIALS

Office

Official

Term

Office Manager

Brookie Biglands

01-01-08 to 12-31-10

President of the Board

James Perrin

01-01-08 to 12-31-10



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE MAYSVILLE REGIONAL WATER
AND SEWER DISTRICT, ALLEN COUNTY, INDIANA

We have examined the financial information presented herein of the Maysville Regional Water and Sewer District (District), for the period of January 1, 2008 to December 31, 2009. 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, 2008 and 2009, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

November 17, 2010

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2008 And 2009

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Proprietary Funds:				
Water Utility:				
Operating (Note 4)	\$ 197,837	\$ 1,963	\$ 54,192	\$ 145,608
Bond and interest (Note 4)	-	53,714	53,714	-
Meter deposit	20,944	780	180	21,544
Reserve	54,000	-	-	54,000
Total Water Utility	272,781	56,457	108,086	221,152
Wastewater Utility:				
Operating (Note 4)	379,132	18,577	-	397,709
Bond and Interest	-	122,815	122,815	-
Sinking Fund Bank of New York (BONY) (Note 4)	65,537	103,015	83,338	85,214
Debt Service Reserve BONY (Note 4)	27,000	21,179	42	48,137
Construction BONY (Note 4)	266,213	3,319	239,940	29,592
2005C BONY	-	13,807	13,807	-
Total Wastewater Utility	737,882	282,712	459,942	560,652
Fiduciary Fund:				
Clearing Account (Note 4)	50,870	474,184	443,896	81,158
Totals	\$ 1,061,533	\$ 813,353	\$ 1,011,924	\$ 862,962
	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Proprietary Funds:				
Water Utility:				
Operating	\$ 145,608	\$ 14,880	\$ 88,513	\$ 71,975
Bond and interest	-	54,005	54,005	-
Meter deposit	21,544	300	32	21,812
Reserve	54,000	-	-	54,000
Total Water Utility	221,152	69,185	142,550	147,787
Wastewater Utility:				
Operating	397,709	2,676	199,076	201,309
Bond and Interest	-	88,228	88,228	-
Sinking Fund Bank of New York (BONY)	85,214	70,599	87,827	67,986
Debt Service Reserve BONY	48,137	17,686	-	65,823
Construction BONY	29,592	9	29,454	147
Total Wastewater Utility	560,652	179,198	404,585	335,265
Fiduciary Fund:				
Clearing Account	81,158	658,302	590,568	148,892
Totals	\$ 862,962	\$ 906,685	\$ 1,137,703	\$ 631,944

The accompanying notes are an integral part of the financial information.

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District provides the following services: water and wastewater.

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. Restatements and Reclassifications

For the years ended December 31, 2008 and December 31, 2009, certain changes have been made to the financial statements to more appropriately reflect the financial activity of the District. The schedule below presents a summary of restated beginning balances. In addition, cash transactions and balances from the Bank of New York trust accounts, which were not on the District's records, were added to the financial statements.

Fund Name	Balance as Reported December 31, 2007	Fund Restatement or Reclassification	New Funds	Balance as Restated January 1, 2008
Water Utility:				
Operating	\$ 222,302.00	\$ (24,465.00)	\$ -	\$ 197,837.00
Bond and interest	33,528	(33,528)	-	-
Wastewater Utility:				
Operating	366,296	12,836	-	379,132
Sinking Fund Bank of New York (BONY)	-	-	65,537	65,537
Debt Service Reserve BONY	-	-	27,000	27,000
Construction BONY	-	-	266,213	266,213
Fiduciary Funds:				
Payroll	5,713	(5,713)	-	-
Clearing	-	50,870	-	50,870

Note 5. Subsequent Event

The District increased water and wastewater rates effective August 23, 2010.

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
 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	\$ 15,500
Buildings	59,000
Improvements other than buildings	2,443,247
Machinery and equipment	<u>10,124</u>
Total Water Utility capital assets	<u>2,527,871</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	45,500
Buildings	129,000
Improvements other than buildings	3,432,281
Machinery and equipment	<u>45,024</u>
Total Wastewater Utility capital assets	<u>3,651,805</u>
Total business-type activities capital assets	<u>\$ 6,179,676</u>

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
 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:		
Waterworks Revenue Bonds of 1995	\$ 755,000	\$ 53,638
Wastewater Utility:		
Loans payable:		
State Revolving Fund Loan	1,137,000	88,212
Total business-type activities debt	<u>\$ 1,892,000</u>	<u>\$ 141,850</u>

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS

ANNUAL REPORTS

Annual reports for 2008 and 2009 were not prepared by the District. A similar comment appeared in the prior Report B34007

Prior to modification during the 2009 legislative session, IC 5-11-1-4 stated in part:

"(a) 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. Except as provided by subsection (b), these reports shall be prepared, verified, and filed with the state examiner not later than thirty (30) days after the close of each fiscal year."

Effective beginning with the annual report covering the year 2009, IC 5-11-1-4 states:

"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. The reports must be filed electronically, in a manner prescribed by the state examiner that is compatible with the technology employed by the political subdivision."

PRESCRIBED FORMS

The following prescribed or approved forms were not always in use. A similar comment appeared in the prior Report B34007.

Prescribed Check 353
Guarantee Deposit Register, Form 314

The software system-generated reports currently in use by the District were not approved by the State Board of Accounts.

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)

OFFICIAL BONDS

The District did not have any bond in effect for officers, trustees, or employees having power to dispense money of the district.

The IDEM Order dated December 4, 1974, states under Item 5: "That the Board of Trustees shall provide sufficient bond for all officers, trustees, or employees who have any power to dispense funds of the district. Said bond, as a minimum, shall be in an amount equal to, plus 10% of, those funds anticipated to be received by the district during the fiscal year of the district, divided by six, which amount shall be determined annually by the Board of Trustees"

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

CONFLICT OF INTEREST

Jim Perrin holds two positions at the Maysville Regional Water and Sewer District: Board President and Maintenance Operator. A Uniform Conflict of Interest Disclosure Statement was not presented for examination.

IC 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 . . . (3) If the public servant; (A) is an elected public servant . . . and (B) 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) 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. . . ."

"(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 any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

DISBURSEMENT DEFICIENCIES

The following deficiencies were found during the review of disbursements:

1. A disbursement of \$7,900 for a used pump was approved by the board to be personally purchased by the board president and then reimbursed. This expenditure should have gone through the District's normal accounts payable process instead of being handled as a reimbursement.
2. There were numerous disbursements made from statements instead of original invoices, especially when items were purchased on a credit card.

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

3. Accounts Payable Claims did not contain signature for proof of goods and services received.
4. Late fees were paid.
5. The District is not filing IRS form W9. There were vendors which received payments that looked as though they may require an IRS form 1099-MISC, but this was not verified by unit.

IC 5-11-10-1.6(c) states:

"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;
- (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 . . ."

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. 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, Chapter 10)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CREDIT CARDS

The District is using credit cards in some instances to purchase items and does not have a credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ACCOUNTS RECEIVABLE CONTROL

At December 31, 2008, and December 31, 2009, the general ledger accounts receivable balance did not agree with the aging report. There was a similar comment in prior Report B34007.

When utility records are kept on a cash or single-entry, basis, a separate control account should be carried on General Ledger Sheet, General Form No. 315, in the front of the Consumer's Ledger. This account will be debited with the total monthly billing to all customers for utility services including penalties and sales tax. This account will be credited with the total accounts receivable collections, penalties and sales tax shown by the Register of Daily Cash Receipts-Consumers.

When utility records are kept on an accrual or double-entry basis the Accounts Receivable account in the General Ledger serves as a control of all individual accounts in the Consumer's Ledger and the foregoing procedure would not be applicable. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 22)

DEPOSITS

We noted instances where receipts were deposited later than the next business day.

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

IC 5-13-6-1(c) states:

"Except as provided in subsection (d), all local officers, except township trustees, who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the several local boards of finance that have jurisdiction of the funds. The public funds collected by township trustees shall be deposited in the designated depository on or before the first and fifteenth day of each month. Public funds deposited under this subsection shall be deposited in the same form in which they were received."

BAD DEBT EXPENSE AND ADJUSTMENTS

The District does not have a written policy for bad debts, uncollectible accounts receivable, or any adjustments to record balances.

We noted numerous bad debts written off in 2008, 2009, and 2010. These bad debts should be retroactively approved by the District Board. The bad debt write offs were documented in the accounts receivable records as "bad debt expenses", "balance forwarded" or "general adjustments."

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CONDITION OF RECORDS

During review of the District's records we found the following deficiencies:

The Account Structure of the District's records does not comply with the chart of accounts and accounting system prescribed by the State Board of Accounts. The Maysville Regional Water and Sewer District should follow the Class C utilities, or cash basis method of accounting.

The District's records are a hybrid of cash and accrual basis and do not actually balance. The assets do not equal the liabilities and equity; therefore the debits do not equal the credits. The bank reconciliations performed by the District reconcile to the cash accounts in the general ledger; however, the District's records, as a whole, are not in balance.

We noted that the District is using a "clearing account" which is the actually the main checking account and most transactions run through this account. It contains Water, Sewer, and Payroll transactions and balances. It does not, however, "clear out." At the end of the year, there is an equity balance.

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

The Water Utility should have separate funds for Operating, Bond and Interest, Customer Deposits, and Debt Service Reserve. These separate funds are necessary to comply with the Water Utility Bond Ordinance for the 1995 Bonds.

The Wastewater Utility should have separate funds for Operating, Bond and Interest, Debt Service Reserve and Construction. Some of these accounts are actually held at the Bank of New York in trust accounts. These trust accounts are for the State Revolving Fund (SRF) debt and construction transactions. The District's general ledger does not include these transactions and balances from the Bank of New York trust accounts; therefore, the ledger is not a complete representation of the District's cash balances and transactions. These separate funds are necessary to comply with the Wastewater Utility bond ordinance.

At all times, the manual and/or 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)

IC 13-26-7-1 states: "Each district must keep proper records showing the district's finances." The District is encouraged to use the chart of accounts and accounting system prescribed by the State Board of Accounts for use by municipal utilities as outlined in Chapter 23 of this manual. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

MAYSVILLE REGIONAL WATER AND SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on November 17, 2010, with James Perrin, President of the Board; Joshua Roth, District Board member; and Brookie Biglands, Office Manager. The officials concurred with our findings.