

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

EXAMINATION REPORT  
OF  
GNAW BONE REGIONAL SEWER DISTRICT  
BROWN COUNTY, INDIANA  
January 1, 2008 to December 31, 2009



**FILED**  
01/05/2011



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Charles E. White	01-01-08 to 12-31-10
President of the Board	Ronald C. Smith	01-01-08 to 12-31-10



**STATE OF INDIANA**  
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE GNAW BONE REGIONAL  
SEWER DISTRICT, BROWN COUNTY, INDIANA

We have examined the financial information presented herein of the Gnow Bone Regional 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 18, 2010

GNAW BONE 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, 2008 And 2009

	<u>Cash and Investments 01-01-08</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Investments 12-31-08</u>
Proprietary Fund: General	\$ 2,456	\$ 134,086	\$ 89,786	\$ 46,756
Totals	<u>\$ 2,456</u>	<u>\$ 134,086</u>	<u>\$ 89,786</u>	<u>\$ 46,756</u>
	<u>Cash and Investments 01-01-09</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Investments 12-31-09</u>
Proprietary Fund: General	\$ 46,756	\$ 70,118	\$ 56,625	\$ 60,249
Totals	<u>\$ 46,756</u>	<u>\$ 70,118</u>	<u>\$ 56,625</u>	<u>\$ 60,249</u>

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

GNAW BONE REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District provides wastewater 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.

GNAW BONE REGIONAL 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>	<u>Accumulated Depreciation</u>
Business-type activities:		
Sewer District:		
Capital assets:		
Sewer plant	\$ 485,958	\$ 224,756
Sewer lines	628,023	117,010
Equipment	<u>1,562</u>	<u>364</u>
 Total Sewer District capital assets	 <u>\$ 1,115,543</u>	 <u>\$ 342,130</u>

GNAW BONE REGIONAL SEWER DISTRICT  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2009

The Sewer District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type activities:		
Sewer District:		
State revolving fund loan:		
Sewer lines and treatment	\$ <u>66,052</u>	\$ <u>8,681</u>

GNAW BONE REGIONAL SEWER DISTRICT  
EXAMINATION RESULTS AND COMMENTS

MILEAGE REIMBURSEMENT

During the examination period, the three board members were reimbursed \$935.70 for gasoline purchased rather than for miles traveled relating to District business. Any mileage that relates to district business is to be claimed by filing Mileage Claim, General Form 101.

IC 13-26-4-7(b) states:

"Members of the board are entitled to receive an amount for travel expenses equal to the amount paid to state employees for expenses incurred in the performance of their duties"

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)

SALES TAX

Purchases were observed for which sales tax was paid.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OPTICAL IMAGES OF CHECKS

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.

IC 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 . . ."

Further, IC 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."

GNAW BONE REGIONAL SEWER DISTRICT  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

"(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)."

INTERNAL CONTROLS

The District is making one posting for the total monies deposited each month. There is also evidence that the general ledger is not posted on a monthly basis. This condition improved in 2009.

Records from Brown County Water Utility, reflecting the District's monthly collections and account balances, were not available to compare bank deposits to monthly collections in order to account for all of the District's revenues.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ANNUAL REPORT

Annual reports for 2008 and 2009 were not presented for examination.

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 District did not use the following prescribed or approved forms: Receipt, Form 352; Check, Form 353; Register of Investments, Form 350; and Guarantee Deposit Register, Form 314.

The General Ledger used by the District has not been approved for use to replace Ledger of Receipts, Disbursements and Balances, General Form 358.

A similar comment has appeared in the last two reports.

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)

GNAW BONE REGIONAL SEWER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on November 18, 2010, with Charles E. White, Treasurer, and Frank L. Muzzillo, CPA, Accountant.