

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

EXAMINATION REPORT

OF

LAKE OF THE WOODS REGIONAL SEWER DISTRICT

MARSHALL COUNTY, INDIANA

January 1, 2009 to December 31, 2010



FILED
10/05/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jonathan G. Oswald	01-01-09 to 12-31-11
President of the District Board	Joseph Skelton William Reed	01-01-09 to 12-31-10 01-01-11 to 12-31-11



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF LAKE OF THE WOODS REGIONAL
SEWER DISTRICT, MARSHALL COUNTY, INDIANA

We were engaged to examine the financial statement of Lake of the Woods Regional Sewer District (District), for the period of January 1, 2009 to December 31, 2010. The District's management is responsible for the financial statement.

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 statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the District prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis noted above is a different basis than that used in the prior year.

The District did not provide an Annual Report for 2009, or properly maintain accounting records that show reconciled fund balances. The District's records do not permit the application of other examination procedures to ascertain if the financial statement is fairly stated.

Since the District did not provide an Annual Report for 2009 or properly maintain accounting records that show reconciled fund balances, and we were not able to apply other examination procedures to satisfy ourselves as to whether the financial statement is fairly stated, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial statement.

The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, 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 financial statements. They have not been subjected to the examination procedures applied to the financial statement and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the District's management and the Board of Trustees, 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 22, 2011

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FINANCIAL STATEMENT

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For The Year Ended December 31, 2010

	<u>Cash and Investments 01-01-09</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Investments 12-31-09</u>
General	<u>\$ 661,889</u>	<u>\$ 26,669</u>	<u>\$ -</u>	<u>\$ 688,558</u>
	<u>Cash and Investments 01-01-10</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Investments 12-31-10</u>
General	<u>\$ 654,172</u>	<u>\$ 176,285</u>	<u>\$ 502,392</u>	<u>\$ 328,065</u>

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

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT

Note 1. 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.

The accompanying financial statement presents the financial information for the District (primary government), and does not include financial information for any of the District's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the District (primary government).

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the District.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the District. It includes all expenditures for the reduction of the principal and interest of the District's general obligation indebtedness.

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The District may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the District. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the District. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the District in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the District submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the District in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. *Deposits and Investments*

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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 statutes authorize 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 5. *Risk Management*

The District may be 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; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the District to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the District by recording as a disbursement and replacement items purchased.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the District's Annual Report can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	General
Cash and investments - beginning	\$ <u>654,172</u>
Receipts:	
Taxes	257
Licenses and permits	1,000
Other receipts	<u>175,028</u>
Total receipts	<u>176,285</u>
Disbursements:	
Personal services	20,546
Other disbursements	<u>481,846</u>
Total disbursements	<u>502,392</u>
Deficiency of receipts over disbursements	<u>(326,107)</u>
Cash and investments - ending	<u><u>\$ 328,065</u></u>

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2010

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:	
Capital assets, not being depreciated:	
Land	\$ 221,158
Buildings	147,145
Improvements other than buildings	4,647,346
Machinery and equipment	<u>272,441</u>
Total business-type activities capital assets	<u>\$ 5,288,090</u>

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

The District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type activities:		
Notes and loans payable:		
State revolving fund - construction and financing of sewage works	\$ <u>538,000</u>	\$ <u>185,000</u>

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS

PAYROLL DEDUCTIONS

Yearly bonuses were paid to some employees without payroll deductions for taxes.

The bonuses were not included in a salary ordinance, resolution, or schedule.

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)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

One 2009 paycheck for one employee was not included in her YTD wages and YTD taxes withheld, and was not included on her 2009 W-2 form.

This same paycheck was not reported on the District's 3rd quarter 941 form, resulting in an underpayment of taxes of \$38.57.

The District should contact the Internal Revenue Service for information on how to resolve these matters.

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)

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)

UNDERPAYMENT/OVERPAYMENT OF PAYROLL TAXES

The 941 payments for the first two months of each quarter did not include the employer's share of FICA and Medicare taxes due. The difference was paid the third month of each quarter. However, the District could be assessed penalties and interest for late payment of taxes.

March 2010 state and local taxes were overpaid \$8.75. December 2010 state and local taxes were overpaid \$217.90. The District should contact the Indiana Department of Revenue for information on obtaining a refund of these amounts.

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

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

CONDITION OF RECORDS

The bank account balances were not reconciled to the fund balances. The fund balances did not include the beginning fund balances as of January 1, resulting in inaccurate ending balances. The two funds listed on the Annual Report and the financial statements at the end of 2008 were recorded as one fund in 2009 and 2010.

The outstanding check lists as of December 31, 2009 and December 31, 2010, did not include one check for \$215.86 that was listed as outstanding as of December 31, 2008. Check number 3300 dated August 24, 2006, for \$215.86 did not clear the bank in 2009 or 2010. The Office Manager contacted the payee. The payee says the check was cashed and the money was received. Therefore, the District's Office Manager is going to void the check and receipt it back into the fund from which it was written.

Indiana Code 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."

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

ANNUAL REPORT

No Annual Report was filed for the year 2009. The 2010 Annual Report contained errors that included incorrect beginning and ending balances, and incorrect receipts and disbursements by fund. A similar comment appeared in prior Reports B35041, B30212, and B25785.

The financial statement presented for the year ending December 31, 2009, consists of the December 31, 2008 ending balance, used as the January 1, 2009 beginning balance, and the bank balance as of December 31, 2009, used as the ending balance. The difference between the ending and beginning balances is shown as a receipt.

Indiana Code 5-11-1-4(a) 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."

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 2)

PENALTIES NOT CHARGED ON OFFICIALS'/EMPLOYEES' CUSTOMER ACCOUNTS

Penalties were not always charged to the District's officials and employees who paid their sewer bills after the due date.

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)

LAKE OF THE WOODS REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2011, with Jonathan G. Oswald, Treasurer; Christine Egenlauf, Office Manager; and William Reed, President of the District Board. The officials concurred with our findings.