

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

K AND H REGIONAL SEWER DISTRICT

CLAY COUNTY, INDIANA

January 1, 2009 to December 31, 2010



FILED
04/27/2012

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	Linda Minnick	01-01-09 to 12-31-12
Treasurer	Scott Sneddon Garry Sneddon	01-01-09 to 07-27-11 07-28-11 to 12-31-12
President of the Board of Directors	James D. Minnick Scott Sneddon	01-01-09 to 07-27-11 07-28-11 to 12-31-12



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF K AND H REGIONAL SEWER DISTRICT, CLAY COUNTY, INDIANA

We have examined the financial statements of K and H Regional Sewer District (District), for the period of January 1, 2009 to December 31, 2010. The District's management is responsible for the financial statements. 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 statements 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 statements 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the District for the years ended December 31, 2009 and 2010, on the basis of accounting described in Note 1.

The Combining Schedules 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 statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the District's management, Board of Directors, and others within the entity 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

March 1, 2012

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FINANCIAL STATEMENTS

The financial statements and accompanying notes were approved by management of the District. The financial statements and notes are presented as intended by the District.

K AND H REGIONAL SEWER DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2009

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Operating	\$ 329,988	\$ 340,482	\$ 347,492	\$ 322,978
Bond & Interest	7,805	86,400	86,302	7,903
Debt Service Reserve	172,496	2,499	-	174,995
Construction	56,016	-	-	56,016
Totals	<u>\$ 566,305</u>	<u>\$ 429,381</u>	<u>\$ 433,794</u>	<u>\$ 561,892</u>

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

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

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
Operating	\$ 322,978	\$ 384,354	\$ 368,625	\$ 338,707
Bond & Interest	7,903	89,660	89,547	8,016
Debt Service Reserve	174,995	1,591	-	176,586
Construction	56,016	-	-	56,016
	<u>561,892</u>	<u>475,605</u>	<u>458,172</u>	<u>579,325</u>
Totals	<u>\$ 561,892</u>	<u>\$ 475,605</u>	<u>\$ 458,172</u>	<u>\$ 579,325</u>

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

K AND H REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS

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 statements present the financial information for 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:

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:

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.

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

K AND H REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Note 3. 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 4. 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 statement. 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.

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SUPPLEMENTARY INFORMATION – UNAUDITED

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

Differences may be noted between the financial information presented in the financial statements contained in this report and the financial information presented in the Annual Reports of the District which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was prepared and/or approved by management of the District. It is presented as intended by the District.

K AND H REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2009

	<u>Operating</u>	<u>Bond & Interest</u>	<u>Debt Service Reserve</u>	<u>Construction</u>	<u>Totals</u>
Cash and investments - beginning	\$ 329,988	\$ 7,805	\$ 172,496	\$ 56,016	\$ 566,305
Receipts:					
Utility fees	336,076	-	-	-	336,076
Other receipts	<u>4,406</u>	<u>86,400</u>	<u>2,499</u>	-	<u>93,305</u>
Total receipts	<u>340,482</u>	<u>86,400</u>	<u>2,499</u>	-	<u>429,381</u>
Disbursements:					
Debt service - principal and interest	-	86,302	-	-	86,302
Utility operating expenses	261,092	-	-	-	261,092
Other disbursements	<u>86,400</u>	-	-	-	<u>86,400</u>
Total disbursements	<u>347,492</u>	<u>86,302</u>	-	-	<u>433,794</u>
Excess (deficiency) of receipts over disbursements	<u>(7,010)</u>	<u>98</u>	<u>2,499</u>	-	<u>(4,413)</u>
Cash and investments - ending	<u>\$ 322,978</u>	<u>\$ 7,903</u>	<u>\$ 174,995</u>	<u>\$ 56,016</u>	<u>\$ 561,892</u>

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

	<u>Operating</u>	<u>Bond & Intererst</u>	<u>Debt Service Reserve</u>	<u>Construction</u>	<u>Totals</u>
Cash and investments - beginning	\$ 322,978	\$ 7,903	\$ 174,995	\$ 56,016	\$ 561,892
Receipts:					
Utility fees	380,626	-	-	-	380,626
Other receipts	<u>3,728</u>	<u>89,660</u>	<u>1,591</u>	<u>-</u>	<u>94,979</u>
Total receipts	<u>384,354</u>	<u>89,660</u>	<u>1,591</u>	<u>-</u>	<u>475,605</u>
Disbursements:					
Debt service - principal and interest	-	89,547	-	-	89,547
Utility operating expenses	278,965	-	-	-	278,965
Other disbursements	<u>89,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,660</u>
Total disbursements	<u>368,625</u>	<u>89,547</u>	<u>-</u>	<u>-</u>	<u>458,172</u>
Excess of receipts over disbursements	<u>15,729</u>	<u>113</u>	<u>1,591</u>	<u>-</u>	<u>17,433</u>
Cash and investments - ending	<u>\$ 338,707</u>	<u>\$ 8,016</u>	<u>\$ 176,586</u>	<u>\$ 56,016</u>	<u>\$ 579,325</u>

K AND H 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>Ending Balance</u>
Regional Sewer District:	
Capital assets, not being depreciated:	
Improvements other than buildings	<u>\$ 2,470,267</u>

K AND H REGIONAL SEWER DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year	Fund/ Department
Revenue bond:			
Sewage Works Improvement	<u>\$ 800,000</u>	<u>\$ 87,597</u>	Bond and Interest Fund

K AND H REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS

PAYROLL ERRORS

The following errors were noted with processing of payroll:

1. Local income taxes were withheld from each employee's pay throughout 2010; however, the prior year's income tax rate was used, which resulted in insufficient amounts being withheld and remitted to the Indiana Department of Revenue for local income taxes.
2. Two of six employees' W-2 forms (Wage and Tax Statements), issued for the year 2010, contained errors in amounts reported.

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 Cities and Towns, Chapter 7)

CERTIFIED REPORT NOT FILED

The District did not file a certified report of compensation of officers and employees (Form 100-R or its equivalent) with the State Board of Accounts for the years 2009 and 2010.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

K AND H REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on March 1, 2012, with Linda Minnick, Office Manager; and Fred Garrison, Secretary of the Board of Directors. The officials concurred with our findings.