

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

LIBERTY REGIONAL WASTEWATER DISTRICT

DELAWARE COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
09/21/2012

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	Kathy May	01-01-10 to 12-31-12
Superintendent	Jerry Zearbaugh	01-01-10 to 12-31-12
Treasurer	Peggy Selvey Jennifer Devine	01-01-10 to 12-31-11 01-01-12 to 12-31-12
President of the Board	Ronald Barrett	01-01-10 to 12-31-12



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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE LIBERTY REGIONAL WASTEWATER
DISTRICT, DELAWARE COUNTY, INDIANA

We have examined the financial statements of the Liberty Regional Wastewater District (District), for the period of January 1, 2010 to December 31, 2011. 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, 2010 and 2011, on the basis of accounting described in Note 1.

The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, 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, District Board, 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

July 17, 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.

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

Fund	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
PAYROLL	\$ -	\$ 78,910	\$ 78,910	\$ -
SEWAGE OPERATING	268,933	1,211,188	1,000,176	479,945
SEWAGE UTL BOND & INT	74,081	227,975	279,819	22,237
SEWAGE UTL CONSTRUCTION	-	464,150	470,407	(6,257)
SEWAGE WORKS	9,591	59,286	4	68,873
SEWAGE DEBT SERVICE	213,093	5,090	333	217,850
Totals	<u>\$ 565,698</u>	<u>\$ 2,046,599</u>	<u>\$ 1,829,649</u>	<u>\$ 782,648</u>

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

LIBERTY REGIONAL WASTEWATER DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2011

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11
PAYROLL	\$ -	\$ 153,619	\$ 153,619	\$ -
SEWAGE OPERATING	479,945	1,154,088	1,080,628	553,405
SEWAGE UTL BOND & INT	22,237	247,981	231,346	38,872
SEWAGE DEBT SERVICE	217,850	6,793	-	224,643
SEWAGE UTL CONSTRUCTION	(6,257)	1,195,152	1,193,364	(4,469)
SEWAGE WORKS	68,873	809	-	69,682
Totals	<u>\$ 782,648</u>	<u>\$ 2,758,442</u>	<u>\$ 2,658,957</u>	<u>\$ 882,133</u>

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

LIBERTY REGIONAL WASTEWATER 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.

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 the following sources:

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.

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

Penalties which include fees received for late payments.

LIBERTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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.

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

LIBERTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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 3. 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 any replacement items purchased.

Note 4. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

LIBERTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the District's 2010 Annual Report can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the District's 2011 Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

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 approved by management of the District. It is presented as intended by the District.

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

	PAYROLL	SEWAGE OPERATING	SEWAGE UTL BOND & INT	SEWAGE UTL CONSTRUCTION	SEWAGE WORKS	SEWAGE DEBT SERVICE	TOTALS
Cash and investments - beginning	\$ -	\$ 268,933	\$ 74,081	\$ -	\$ 9,591	\$ 213,093	\$ 565,698
Receipts:							
Intergovernmental	-	-	-	14,100	-	-	14,100
Utility fees	-	1,096,288	-	-	-	-	1,096,288
Other receipts	78,910	114,900	227,975	450,050	59,286	5,090	936,211
Total receipts	78,910	1,211,188	227,975	464,150	59,286	5,090	2,046,599
Disbursements:							
Debt service - principal and interest	-	31,433	221,290	-	-	-	252,723
Capital outlay	-	-	-	470,407	-	-	470,407
Utility operating expenses	-	767,821	58,529	-	4	333	826,687
Other disbursements	78,910	200,922	-	-	-	-	279,832
Total disbursements	78,910	1,000,176	279,819	470,407	4	333	1,829,649
Excess (deficiency) of receipts over disbursements	-	211,012	(51,844)	(6,257)	59,282	4,757	216,950
Cash and investments - ending	\$ -	\$ 479,945	\$ 22,237	\$ (6,257)	\$ 68,873	\$ 217,850	\$ 782,648

LIBERTY REGIONAL WASTEWATER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	PAYROLL	SEWAGE OPERATING	SEWAGE UTL BOND & INT	SEWAGE DEBT SERVICE	SEWAGE UTL CONSTRUCTION	SEWAGE WORKS	TOTALS
Cash and investments - beginning	\$ -	\$ 479,945	\$ 22,237	\$ 217,850	\$ (6,257)	\$ 68,873	\$ 782,648
Receipts:							
Utility fees	-	1,145,959	-	-	-	250	1,146,209
Other receipts	153,619	8,129	247,981	6,793	1,195,152	559	1,612,233
Total receipts	153,619	1,154,088	247,981	6,793	1,195,152	809	2,758,442
Disbursements:							
Debt service - principal and interest	-	-	231,346	-	-	-	231,346
Capital outlay	-	667	-	-	1,005,706	-	1,006,373
Utility operating expenses	-	825,189	-	-	187,658	-	1,012,847
Other disbursements	153,619	254,772	-	-	-	-	408,391
Total disbursements	153,619	1,080,628	231,346	-	1,193,364	-	2,658,957
Excess of receipts over disbursements	-	73,460	16,635	6,793	1,788	809	99,485
Cash and investments - ending	\$ -	\$ 553,405	\$ 38,872	\$ 224,643	\$ (4,469)	\$ 69,682	\$ 882,133

LIBERTY REGIONAL WASTEWATER DISTRICT
SCHEDULE OF RECEIVABLES
December 31, 2011

<u>Government or Enterprise</u>	<u>Accounts Receivable</u>
Governmental activities	\$ -
Wastewater	<u>182,967</u>
Totals	<u>\$ 182,967</u>

LIBERTY REGIONAL WASTEWATER DISTRICT
 SCHEDULE OF LEASES AND DEBT
 December 31, 2011

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Wastewater: GE Capital Solutions	Lease on Skid Steer Loader Backhoe Trailer	\$ 7,999	12-20-11	12-20-16
Total of annual lease payments		<u>\$ 7,999</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Wastewater:			
Revenue bonds	2001 Construction Bond	\$ 1,525,000	\$ 171,425
Revenue bonds	2004 Construction Bond	201,000	21,693
Revenue bonds	2010 Re-Construction and Maintenance	<u>1,640,340</u>	<u>54,621</u>
Total Wastewater		<u>3,366,340</u>	<u>247,739</u>
Totals		<u>\$ 3,366,340</u>	<u>\$ 247,739</u>

LIBERTY REGIONAL WASTEWATER DISTRICT
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2011

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.

	Ending Balance
Wastewater:	
Land	\$ 167,087
Infrastructure	6,893,282
Buildings	116,633
Improvements other than buildings	134,473
Machinery, equipment and vehicles	419,915
Construction in progress	1,195,152
Total capital assets	\$ 8,926,542

LIBERTY REGIONAL WASTEWATER DISTRICT
DELAWARE COUNTY
EXAMINATION RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

The Utility did not properly record over \$1,000,000 in capital assets for the rehabilitation work performed with the SRF loans. As a result the capital asset records are materially misstated.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines for Special Districts, Chapter 10)

SALES TAX

The reimbursements for petty cash included reimbursements for the purchase of items on 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)

CREDIT CARDS

The District is using credit cards to purchase items without an approved 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.
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.

LIBERTY REGIONAL WASTEWATER DISTRICT
DELAWARE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

REFUND OF OVERPAYMENTS

When customers cancel their service with the Wastewater District, the final bill is estimated because water readings have not been received from Indiana American Water Company. If the estimated bill is more than the actual bill when water readings are received the District does not always refund the overpayment to the customer.

Persons, companies or governmental units that have overpaid amounts to a governmental unit are entitled to a repayment or refund by check or warrant. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OFFICIAL BOND

The Crime Prevention Policy for Liberty Regional Waste District was not recorded at the County Recorder's Office.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

LIBERTY REGIONAL WASTEWATER DISTRICT
DELAWARE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 17, 2012, with Jennifer Devine, Treasurer; Kathy May, Office Manager; Jerry Zearbaugh, Superintendent; and Peggy Selvey, former Treasurer. The officials concurred with our findings.