

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

FINANCIAL STATEMENTS AND  
FEDERAL SINGLE AUDIT REPORT  
OF

RURAL HUNTINGTON REGIONAL  
WATER AND SEWER DISTRICT  
HUNTINGTON COUNTY, INDIANA

January 1, 2010 to December 31, 2011



**FILED**  
09/27/2012



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utility Manager	David F. Hacker	01-01-10 to 12-31-12
Treasurer	James D. Wall	01-01-10 to 12-31-12
President of the District Board	Bruce A. Stanton	01-01-10 to 12-31-12



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

TO: THE OFFICIALS OF THE RURAL HUNTINGTON REGIONAL WATER  
AND SEWER DISTRICT, HUNTINGTON COUNTY, INDIANA

We have audited the accompanying financial statements of the Rural Huntington Regional Water and Sewer District (District), for the years ended December 31, 2010 and 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 of accounting 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.

In accordance with Government Auditing Standards, we have also issued a report dated September 18, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Our audit was conducted for the purpose of forming an opinion on the District's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the District's financial statements. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and 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 auditing procedures applied by us in the audit of 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, others within the entity, federal awarding agencies, and pass-through entities 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

September 18, 2012



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE RURAL HUNTINGTON REGIONAL WATER  
AND SEWER DISTRICT, HUNTINGTON COUNTY, INDIANA

We have audited the financial statements of the Rural Huntington Regional Water and Sewer District (District), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated September 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be material weaknesses.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's management, District Board, others within the entity, federal awarding agencies, and pass-through entities 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

September 18, 2012

## 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.

RURAL HUNTINGTON REGIONAL WATER AND SEWER 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
Operating	\$ 220,512	\$ 41,568	\$ 174,820	\$ 87,260
Construction	-	1,707,355	1,702,355	5,000
Bond and Interest	-	19,804	2	19,802
Totals	<u>\$ 220,512</u>	<u>\$ 1,768,727</u>	<u>\$ 1,877,177</u>	<u>\$ 112,062</u>

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

RURAL HUNTINGTON REGIONAL WATER AND SEWER 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
Operating	\$ 87,260	\$ 126,388	\$ 134,789	\$ 78,859
Bond and Interest	19,802	79,227	44,384	54,645
Construction	5,000	863,817	867,468	1,349
Totals	<u>\$ 112,062</u>	<u>\$ 1,069,432</u>	<u>\$ 1,046,641</u>	<u>\$ 134,853</u>

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

RURAL HUNTINGTON REGIONAL WATER AND 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.

*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 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.

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

Penalties which include fees received for late payments.

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.

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements include 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.

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. 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.

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**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; 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.

## 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/](http://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 audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

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

RURAL HUNTINGTON REGIONAL WATER AND 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>Construction</u>	<u>Bond and Interest</u>	<u>Totals</u>
Cash and investments - beginning	\$ 220,512	\$ -	\$ -	\$ 220,512
Receipts:				
Intergovernmental	-	343,355	-	343,355
Utility fees	40,641	-	-	40,641
Other receipts	<u>927</u>	<u>1,364,000</u>	<u>19,804</u>	<u>1,384,731</u>
Total receipts	<u>41,568</u>	<u>1,707,355</u>	<u>19,804</u>	<u>1,768,727</u>
Disbursements:				
Debt service - principal and interest	107,225	415,000	-	522,225
Capital outlay	1,920	1,287,355	-	1,289,275
Utility operating expenses	45,875	-	2	45,877
Other disbursements	<u>19,800</u>	<u>-</u>	<u>-</u>	<u>19,800</u>
Total disbursements	<u>174,820</u>	<u>1,702,355</u>	<u>2</u>	<u>1,877,177</u>
Excess (deficiency) of receipts over disbursements	<u>(133,252)</u>	<u>5,000</u>	<u>19,802</u>	<u>(108,450)</u>
Cash and investments - ending	<u>\$ 87,260</u>	<u>\$ 5,000</u>	<u>\$ 19,802</u>	<u>\$ 112,062</u>

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011

	<u>Operating</u>	<u>Bond and Interest</u>	<u>Construction</u>	<u>Totals</u>
Cash and investments - beginning	\$ 87,260	\$ 19,802	\$ 5,000	\$ 112,062
Receipts:				
Utility fees	119,870	-	-	119,870
Penalties	1,277	-	-	1,277
Other receipts	<u>5,241</u>	<u>79,227</u>	<u>863,817</u>	<u>948,285</u>
Total receipts	<u>126,388</u>	<u>79,227</u>	<u>863,817</u>	<u>1,069,432</u>
Disbursements:				
Debt service - principal and interest	-	44,384	-	44,384
Capital outlay	9,930	-	867,468	877,398
Utility operating expenses	45,655	-	-	45,655
Other disbursements	<u>79,204</u>	<u>-</u>	<u>-</u>	<u>79,204</u>
Total disbursements	<u>134,789</u>	<u>44,384</u>	<u>867,468</u>	<u>1,046,641</u>
Excess (deficiency) of receipts over disbursements	<u>(8,401)</u>	<u>34,843</u>	<u>(3,651)</u>	<u>22,791</u>
Cash and investments - ending	<u>\$ 78,859</u>	<u>\$ 54,645</u>	<u>\$ 1,349</u>	<u>\$ 134,853</u>

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2011

Government or Enterprise	Accounts Payable	Accounts Receivable
Water and Sewer District	\$ -	\$ 20,276

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
 SCHEDULE OF LEASES AND DEBT  
 December 31, 2011

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Water and Sewer District: Revenue bonds	Wastewater infrastructure	<u>\$ 1,364,000</u>	<u>\$ 69,977</u>

RURAL HUNTINGTON REGIONAL WATER AND SEWER 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.

	<u>Ending Balance</u>
Water and Sewer District:	
Land	\$ 18,436
Improvements other than Buildings	<u>2,289,491</u>
Total capital assets	<u>\$ 2,307,927</u>

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
AUDIT RESULTS AND COMMENTS

***INTERNAL CONTROLS***

We noted several deficiencies in the internal control system of the District related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses.

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the District to reduce risks to achievement of financial reporting objectives. The District has not separated incompatible activities related to receipts, utility billings and collections, disbursements, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the District's audited financial statements and then determining how those identified risks should be managed. The District has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the District Board to monitor and assess the quality of the District's system of internal control. The District Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the District at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the District has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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)

***CONDITION OF RECORDS***

The following items concerning condition of records were noted during the audit:

1. An adequate detail of receipts and disbursements supporting the entries to the Summary Trial Balance was not presented for audit making it difficult to verify the District's financial statements.
2. The District started billing customers in August 2010, creating 17 months of billings during the audit period. The "Customer Billing Register" was not presented for 5 of 17 months. The "Daily Deposit Report" was not presented for 6 of 17 months.

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 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 2)

Public records, financial statement information and supporting information generated through a computer system should be printed out on paper, printed to disk or maintained on-line at the end of each reporting year and retained for audit. Information must be maintained in a manner that will allow access for audit and public inquiry on equipment of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

**BANK ACCOUNT RECONCILIATIONS**

Depository reconciliations of the Construction Fund balance to the bank account balance were not presented for examination. Depository reconciliation of the Operating Fund balance to the bank account balance was inaccurate at December 31, 2011.

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."

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)

**DEPOSITS**

The following debt service transfers were made from the District operating checking account to the District bond payment savings account. However, the checks were erroneously deposited into the personal savings account of the District's Utility Manager.

<u>Check</u>	<u>Date</u>	<u>Amount</u>
1198	02-10-11	\$ 6,600
1203	03-10-11	6,600

A \$13,201.50 deposit, which includes \$1.50 interest, was made April 11, 2011, into the District bond payment savings account by the Utility Manager to correct these errors.

Indiana Code 5-13-6-1(d) states in part:

". . . all local officers . . . 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. . . ."

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
AUDIT RESULTS AND COMMENTS  
(Continued)

***SUPPORTING DOCUMENTATION***

Eleven of thirty-five payments made during 2010 and twelve of seventy-nine payments made during 2011 from the Operating Fund were not supported by adequate documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE RURAL HUNTINGTON REGIONAL WATER  
AND SEWER DISTRICT, HUNTINGTON COUNTY, INDIANA

Compliance

We have audited Rural Huntington Regional Water and Sewer District's (District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the years ended December 31, 2010 and 2011. The District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the years ended December 31, 2010 and 2011.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the District's management, District Board, others within the entity, federal awarding agencies, and pass-through entities 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

September 18, 2012

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the District. The schedule and note are presented as intended by the District.

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Years Ended December 31, 2010 and 2011

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-10	Total Federal Awards Expended 12-31-11
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760			
Loan		92-1	\$ 1,364,000	\$ -
Grant		92-2	<u>338,355</u>	<u>867,468</u>
Total federal awards expended			<u>\$ 1,702,355</u>	<u>\$ 867,468</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

***Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Rural Huntington Regional Water and Sewer District and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of districts shall be conducted biennially. Such audits shall include both years within the biennial period.

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Program:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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**Section II – Financial Statement Findings**

**FINDING 2011-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the District related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses.

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the District to reduce risks to achievement of financial reporting objectives. The District has not separated incompatible activities related to receipts, utility billings and collections, disbursements, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the District's audited financial statements and then determining how those identified risks should be managed. The District has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the District Board to monitor and assess the quality of the District's system of internal control. The District Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the District at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the District has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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)

***Section III – Federal Award Findings and Questioned Costs***

No matters are reportable.

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
P.O. Box 5066  
Huntington, IN 46750

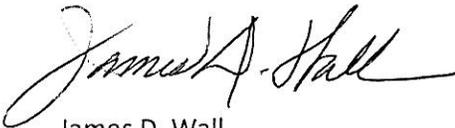
Corrective Action Plan

FEDERAL FINDING 2011-1 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Auditee Contact Person:	James D. Wall
Title of Contact Person:	Treasurer
Phone Number:	260-356-0418
Expected Completion Date:	January 1, 2013

Corrective Action:

As it regards internal controls over financial transactions and reporting of the Rural Huntington Regional Water and Sewer District, our plan is to increase District Board oversight of the day-to-day operations.



James D. Wall  
Treasurer  
Date: 9/18/12

RURAL HUNTINGTON REGIONAL WATER AND SEWER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2012, with James D. Wall, Treasurer; David F. Hacker, Utility Manager; and Bruce A. Stanton, President of the District Board.