

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

TRI-COUNTY CONSERVANCY DISTRICT

MORGAN COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
10/22/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Financial Clerk	David K. Pasotti	01-01-10 to 12-31-12
President of the Board of Directors	Tim Shrout	01-01-10 to 12-31-12



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TRI-COUNTY CONSERVANCY
DISTRICT, MORGAN COUNTY, INDIANA

We have examined the accompanying financial statements of the Tri-County Conservancy District (District), for the years ended December 31, 2010 and 2011. The financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the financial statements 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.

Our examination 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 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

September 27, 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.

TRI-COUNTY CONSERVANCY 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
Wastewater Utility-Operating	\$ 683,721	\$ 4,007,594	\$ 2,865,448	\$ 1,825,867
Water Utility-Operating	<u>70,395</u>	<u>654,831</u>	<u>658,042</u>	<u>67,184</u>
Totals	<u>\$ 754,116</u>	<u>\$ 4,662,425</u>	<u>\$ 3,523,490</u>	<u>\$ 1,893,051</u>

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

TRI-COUNTY CONSERVANCY 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
Wastewater Utility-Operating	\$ 1,825,867	\$ 2,711,575	\$ 2,090,727	\$ 2,446,715
Water Utility-Operating	<u>67,184</u>	<u>687,645</u>	<u>620,935</u>	<u>133,894</u>
Totals	<u>\$ 1,893,051</u>	<u>\$ 3,399,220</u>	<u>\$ 2,711,662</u>	<u>\$ 2,580,609</u>

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

TRI COUNTY CONSERVANCY 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 elected 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:

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 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.

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.

TRI COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Exceptional Benefit Assessments

Exceptional benefit assessments are levied on the following subdivisions within the Conservancy District commonly known as Heartland Crossing: The Settlement, Section 1; The Sanctuary, Sections 1 & 2; The Villas, Sections 1 and 2; The Landings, Sections 1 and 2; and The Mission, Sections 1 and 2. The assessment was for \$2,300 per lot plus interest at the rate of 7.5 percent payable in equal annual amounts of \$222.50 per lot per year for 20 years beginning in 1998. Exceptional benefits assessments levied are collected by the Morgan County Treasurer and are distributed to the Conservancy District in June and December. Assessments may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

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.

TRI COUNTY CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 any replacement items purchased.

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.

TRI-COUNTY CONSERVANCY DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	<u>Wastewater Utility-Operating</u>	<u>Water Utility- Operating</u>	<u>Totals</u>
Cash and investments - beginning	\$ 683,721	\$ 70,395	\$ 754,116
Receipts:			
Utility fees	1,494,849	379,177	1,874,026
Other receipts	<u>2,512,745</u>	<u>275,654</u>	<u>2,788,399</u>
Total receipts	<u>4,007,594</u>	<u>654,831</u>	<u>4,662,425</u>
Disbursements:			
Debt service - principal and interest	399,466	-	399,466
Utility operating expenses	2,190,982	250,876	2,441,858
Other disbursements	<u>275,000</u>	<u>407,166</u>	<u>682,166</u>
Total disbursements	<u>2,865,448</u>	<u>658,042</u>	<u>3,523,490</u>
Excess (deficiency) of receipts over disbursements	<u>1,142,146</u>	<u>(3,211)</u>	<u>1,138,935</u>
Cash and investments - ending	<u>\$ 1,825,867</u>	<u>\$ 67,184</u>	<u>\$ 1,893,051</u>

TRI-COUNTY CONSERVANCY DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	Wastewater Utility- Operating	Water Utility- Operating	Totals
Cash and investments - beginning	\$ 1,825,867	\$ 67,184	\$ 1,893,051
Receipts:			
Utility fees	1,599,656	382,017	1,981,673
Other receipts	<u>1,111,919</u>	<u>305,628</u>	<u>1,417,547</u>
Total receipts	<u>2,711,575</u>	<u>687,645</u>	<u>3,399,220</u>
Disbursements:			
Debt service - principal and interest	846,782	-	846,782
Utility operating expenses	938,945	211,463	1,150,408
Other disbursements	<u>305,000</u>	<u>409,472</u>	<u>714,472</u>
Total disbursements	<u>2,090,727</u>	<u>620,935</u>	<u>2,711,662</u>
Excess (deficiency) of receipts over disbursements	<u>620,848</u>	<u>66,710</u>	<u>687,558</u>
Cash and investments - ending	<u>\$ 2,446,715</u>	<u>\$ 133,894</u>	<u>\$ 2,580,609</u>

TRI-COUNTY CONSERVANCY DISTRICT
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2011

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater Utility	\$ 106,500	\$ 563,841
Water Utility	27,768	58,810
Totals	\$ 134,268	\$ 622,651

TRI-COUNTY CONSERVANCY DISTRICT
 SCHEDULE OF LEASES AND DEBT
 December 31, 2011

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater Utility: Revenue bonds	Bonds Payable Series 2010	\$ 11,340,000	\$ 845,451
Totals		<u>\$ 11,340,000</u>	<u>\$ 845,451</u>

TRI-COUNTY CONSERVANCY 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 Utility:	
Land	1,171,118
Infrastructure	11,712,442
Buildings	281,263
Improvements other than buildings	177,836
Machinery, equipment and vehicles	108,307
Books and other	1,160,037
Total Wastewater Utility	14,611,003
Water Utility:	
Infrastructure	779,517
Machinery, equipment and vehicles	3,324
Books and other	105,987
Total Water Utility	888,828
Total capital assets	\$ 15,499,831

TRI-COUNTY CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS

CREDIT CARD CLAIMS - LATE FEES AND FINANCE CHARGES

Late fees and finance charges totaling \$733.21 were incurred and subsequently paid by the District due to late payment of thirteen gasoline credit card invoices during the examination period.

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.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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.
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)

TRI-COUNTY CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

COMPENSATION AND BENEFITS

As stated in prior Examination Report B38311, the District does not approve a salary ordinance for the District's employees. There was not an alternate method of approval provided for audit. The salaries and rates paid have been the same for many years.

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 14)

OPTICAL IMAGES OF WARRANTS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

Indiana Code 5-15-6-3 concerning optical imaging of checks, states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Further, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

TRI-COUNTY CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on September 27, 2012, with David K. Pasotti, Financial Clerk; David Smith, Vice Chairman of the Board of Directors; and Rebecca DeVoe Brown, Conservancy District Accountant. The officials concurred with our findings.