

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

ANNUAL FINANCIAL REPORT

OF

MICHIANA AREA COUNCIL OF GOVERNMENTS

ST. JOSEPH COUNTY, INDIANA

July 1, 2011 to June 30, 2012



FILED
02/25/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	5-6
Statement of Net Assets	7
Statement of Revenues, Expenses, and Other Changes in Fund Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10-15
Required Supplementary Information: Schedule of Funding Progress	16
Supplemental Audit of Federal Awards: 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	18-19
Schedule of Expenditures of Federal Awards	20
Note to Schedule of Expenditures of Federal Awards.....	21
Schedule of Findings and Questioned Costs	22
Exit Conference.....	23

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Sandra M. Seanor	07-01-11 to 06-30-13
Fiscal Accounting Manager	Rosemary Barbara	07-01-11 to 06-30-13
Policy Board Chairman	Frank Lucchese Dick Moore David Wood	01-01-11 to 12-31-11 01-01-12 to 12-31-12 01-01-13 to 12-31-13



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE MICHIANA AREA COUNCIL
OF GOVERNMENTS, ST. JOSEPH COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Michiana Area Council of Governments (MACOG), as of and for the year ended June 30, 2012, which collectively comprise MACOG's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of MACOG's management. Our responsibility is to express opinions 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 MACOG's internal control over financial 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for MACOG, as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2013, on our consideration of MACOG'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.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that Government Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MACOG's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), as listed in the Table of Contents, are presented for purposes of additional analysis and are 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 records 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 as a whole.



Bruce Hartman
State Examiner

February 7, 2013



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

TO: THE OFFICIALS OF THE MICHIANA AREA COUNCIL
OF GOVERNMENTS, ST. JOSEPH COUNTY, INDIANA

We have audited the financial statements of the business-type activities of the Michiana Area Council of Governments (MACOG), as of and for the year ended June 30, 2012, which collectively comprise MACOG's basic financial statements and have issued our report thereon dated February 7, 2013. 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

In planning and performing our audit, we considered MACOG'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 MACOG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MACOG's internal control over financial reporting.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the MACOG's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MACOG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

This report is intended solely for the information and use of MACOG's management, Policy Board, others within the entity, and 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.



Bruce Hartman
State Examiner

February 7, 2013

MICHIANA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF NET ASSETS
June 30, 2012

Assets

Current assets:	
Cash and cash equivalents	\$ 3,473,149
Interest receivable	881
Accounts receivable	50,714
Due from federal and state grants	1,162,079
Prepaid items	<u>86,445</u>
 Total current assets	 <u>4,773,268</u>
Capital assets:	
Capital assets (net of accumulated depreciation)	<u>3,945,939</u>
 Total assets	 <u>8,719,207</u>

Liabilities

Current liabilities:	
Accounts payable	487,233
Accrued payroll and withholdings payable	23,795
Compensated absences	<u>11,663</u>
 Total current liabilities	 <u>522,691</u>
Noncurrent liabilities:	
Pension liability	<u>17,029</u>
 Total liabilities	 <u>539,720</u>

Net Assets

Invested in capital assets, net of related debt	3,945,939
Unrestricted	<u>4,233,548</u>
 Total net assets	 <u>\$ 8,179,487</u>

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

MICHIANA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended June 30, 2012

Operating revenues:	
Federal and state grants	\$ 4,484,911
Other local governmental grants	608,682
Other	<u>528,302</u>
Total operating revenues	<u>5,621,895</u>
Operating expenses:	
Salaries and wages	783,508
Employee pensions and benefits	401,732
Contractual services	2,152,975
Legal expense	14,324
Conference training	43,560
Telephone expense	11,937
Materials and supplies	33,287
Maintenance and repairs	61,040
Memberships and subscriptions	971
Printing, reproduction, and publication	45,498
Mileage and travel	29,188
Postage expense	13,500
Office rent expense	59,533
Furniture and equipment	88,591
Advertising expense	107,553
Depreciation	1,041,215
Miscellaneous expenses	29,745
In-kind Service	506,434
Over/under applied fringe benefits and indirect costs	<u>24,280</u>
Total operating expenses	<u>5,448,871</u>
Operating income	<u>173,024</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	7,884
Loss on disposal of assets	<u>(23,795)</u>
Total nonoperating revenues (expenses)	<u>(15,911)</u>
Change in net assets	157,113
Total net assets - beginning	<u>8,022,374</u>
Total net assets - ending	<u>\$ 8,179,487</u>

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

MICHIANA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF CASH FLOWS
As Of And For The Year Ended June 30, 2012

Cash flows from operating activities:	
Receipts from customers and users	\$ 5,144,824
Payments to suppliers and contractors	(2,986,463)
Payments to employees	(1,206,025)
Other operating expenses	<u>(24,280)</u>
Net cash provided by operating activities	<u>928,056</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	<u>(1,014,216)</u>
Cash flows from investing activities:	
Interest received	<u>7,552</u>
Net increase in cash and cash equivalents	(78,608)
Cash and cash equivalents, July 1	<u>3,551,757</u>
Cash and cash equivalents, June 30	<u>\$ 3,473,149</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 173,024</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,041,215
(Increase) decrease in assets:	
Accounts receivable	(13,733)
Due from federal and state grants	(463,338)
Prepaid items	(70,183)
Increase (decrease) in liabilities:	
Accounts payable	268,712
Accrued payroll and withholdings payable	(25,525)
Compensated absence payable	4,740
Pension liability	<u>13,144</u>
Total adjustments	<u>755,032</u>
Net cash provided by operating activities	<u>\$ 928,056</u>
Noncash investing, capital and financing activities:	
Disposal of assets	\$ 393,204

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

MICHIANA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Michiana Area Council of Governments (MACOG) was established April 6, 1970, under the authority of the Interlocal Cooperation Act of the State of Indiana. MACOG is governed by a board consisting of members from each participating political subdivision as described in the by-laws. MACOG fosters a cooperative effort in resolving common interlocal problems such as air pollution, land use, transportation, and water resources.

The accompanying financial statements present the activities of the MACOG. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. MACOG has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are grants. Operating expenses for enterprise funds include the cost of sales and services and administrative costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

MACOG's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes 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.

MICHIANA AREA COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Capital Assets

Capital assets, which include machinery and equipment, and transportation equipment, are reported in the financial statements.

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.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Machinery, equipment and other	\$ 500	Straight-line	5-20 years
Transportation equipment	500	Straight-line	3-10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

4. Compensated Absences

- a. Sick Leave – MACOG employees earn sick leave at the rate of 8 days per fiscal year. Unused sick leave may be accumulated to a maximum of 90 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – MACOG employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Up to 5 unused vacations leave days may be carried from the previous years to be used within the first 90 days of the new fiscal year. Unused vacation leave is paid to employees upon termination.

Vacation leave is accrued when incurred.

No liability is reported for sick leave.

MICHIANA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2012, the bank balances held in financial institutions were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment	\$ 1,383,883	\$ 644,640	\$ 68,322	\$ 1,960,201
Transportation equipment	5,532,516	369,576	324,882	5,577,210
 Totals	 6,916,399	 1,014,216	 393,204	 7,537,411
 Less accumulated depreciation for:				
Machinery and equipment	1,231,988	268,992	44,528	1,456,452
Transportation equipment	1,687,678	772,223	324,881	2,135,020
 Totals	 2,919,666	 1,041,215	 369,409	 3,591,472
 Total capital assets, net	 <u>\$ 3,996,733</u>	 <u>\$ (26,999)</u>	 <u>\$ 23,795</u>	 <u>\$ 3,945,939</u>

III. Other Information

A. Risk Management

MACOG is 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; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

MICHIANA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Pension Plan

Public Employees' Retirement Fund

Plan Description

MACOG contributes to the Indiana Public Employees' Retirement Fund (PERF), 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 the 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 MACOG 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 member's contributions, set by state statute at three 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.

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. The report may be obtained by contacting:

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

Funding Policy

PERF members are required to contribute 3 percent of their annual covered salary. MACOG is required to contribute at an actuarially determined rate the current rate is 6 percent of annual covered payroll. The contribution requirements of plan members are MACOG are established and may be amended by the PERF Board of Finance.

MICHIANA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Annual Pension Cost

For 2012, MACOG's annual pension cost of \$59,660 for PERF was equal to the MACOG's required and actual contributions.

Annual required contribution	\$	59,701
Interest on net pension obligation		272
Adjustment to annual required contribution		(313)
		59,660
Annual pension cost		59,660
Contributions made		46,516
Increase (decrease) in net pension obligation		13,144
Net pension obligation, beginning of year		3,885
Net pension obligation, end of year	\$	17,029

Contribution rates:

Government		6%
Plan members		3%
Actuarial valuation date		07-01-11
Actuarial cost method		Entry age normal cost
Amortization method		Level dollar, closed, Amortization period
Amortization period		30 years
Amortization period (from date)		07-01-11
Asset valuation method		75% of expected actuarial value plus 25% of market value

Actuarial Assumptions		PERF
Investment rate of return		7.25%
Projected future salary increases:		
Total		4%
Cost-of-living adjustments		1.5%

Three Year Trend Information

Year Ending		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
06-30-09	\$	35,903	112.0%	\$	10,488
06-30-10		36,792	118.0%		3,885
06-30-11		59,660	78.0%		17,029

MICHIANA AREA COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Funded Status and Funding Progress for the Above Plan

The funded status of each plan as of July 1, 2011, the most recent actuarial valuation date is as follows:

Retirement Plan	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	(Unfunded) AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	(Unfunded) AAL or (Funding Excess) as a Percentage of Covered Payroll ((a-b)/c)
PERF	\$ 774,538	\$ 1,105,824	\$ (331,286)	70%	\$ 804,366	(41%)

The Schedule of Funding Progress, presented as RSI for the above plans following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

MICHIANA AREA COUNCIL OF GOVERNMENTS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	(Unfunded) Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-09	1,056,911	963,193	93,718	110%	731,508	13%
07-01-10	871,681	1,007,732	(136,051)	86%	765,596	(18%)
07-01-11	774,538	1,105,824	(331,286)	70%	804,366	(41%)

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 MICHIANA AREA COUNCIL
OF GOVERNMENTS, ST. JOSEPH COUNTY, INDIANA

Compliance

We have audited the compliance of the Michiana Area Council of Governments (MACOG) 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 each of its major federal programs for the year ended June 30, 2012. MACOG'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 MACOG's management. Our responsibility is to express an opinion on MACOG'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 MACOG'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 MACOG's compliance with those requirements.

In our opinion, MACOG complied in all material respects with the requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of MACOG 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 MACOG's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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 MACOG'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 over compliance 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 MACOG's management, Policy Board, and 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.



Bruce Hartman
State Examiner

February 7, 2013

MICHIANA AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2012

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Direct Grant			
Economic Development-Support for Planning Organizations	11.302	06-86-05381	\$ 16,843
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct Grant			
Federal Transit Cluster			
Federal Transit-Formula Grants	20.507	IN-90-x528	83,427
		IN-90-x529	41,510
		IN-90-x557	91,064
		IN-90-x011	149,529
		IN-90-x610	<u>971,374</u>
Total for program			<u>1,336,904</u>
ARRA - Federal Transit-Formula Grants		IN-96-x003	<u>647,000</u>
Total for cluster			<u>1,983,904</u>
Pass-Through Indiana Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	PL-11802325	500,427
		PL-12802506	354,164
		CMAQ-09801629	27,323
		CMAQ-11802325	54,292
		HSIP-12802506	354,473
		SPR-12804053	34,439
		STP-06020981	58,130
		STP-12802506	<u>101,066</u>
Total for cluster			<u>1,484,314</u>
Total for federal grantor agency			<u>3,468,218</u>
<u>ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management			
ARRA - Water Quality Management Planning	66.454	ARN #A305-10-20	<u>47,000</u>
Total federal awards expended			<u>\$ 3,532,061</u>

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

MICHIANA AREA COUNCIL OF GOVERNMENTS
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 Michiana Area Council of Governments (primary government) and is presented in conformity with accounting principles generally accepted in the United States of America which is the basis of accounting used in the presentation of the financial statements. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

MICHIANA AREA COUNCIL OF GOVERNMENTS
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?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

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

Identification of Major Programs:

Name of Federal Program or Cluster

Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

MICHIANA AREA COUNCIL OF GOVERNMENTS
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2013, with Sandra M. Seanor, Executive Director; Rosemary Barbara, Fiscal Accounting Manager; and Deborah M. Gardner, Fiscal Accounting Manager. Our audit disclosed no material items that warrant comment at this time.