

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

WESTERN WAYNE REGIONAL SEWAGE DISTRICT

WAYNE COUNTY, INDIANA

January 1, 2010 to December 31, 2012



FILED
05/30/2013

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|------------------------|---------------------------------------|--|
| Superintendent | Darlene A. Druley | 01-01-10 to 12-31-13 |
| Office Manager | Carolyn Willis | 01-01-10 to 09-26-12 |
| Treasurer | Waunalea Dungan Gary Rubendall | 01-01-10 to 12-31-11 01-01-12 to 12-31-13 |
| President of the Board | Terry L. Patterson Waunalea Dungan | 01-01-10 to 12-31-11 01-01-12 to 12-31-13 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE WESTERN WAYNE REGIONAL
SEWAGE DISTRICT, WAYNE COUNTY, INDIANA

We have examined the accompanying financial statements of the Western Wayne Regional Sewage District (District), for the period of January 1, 2010 to December 31, 2012. 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 effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis noted above is a different basis than that used in the prior period.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the District for the period of January 1, 2010 to December 31, 2012.

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 period of January 1, 2010 to December 31, 2012, 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 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.

STATE BOARD OF ACCOUNTS

March 4, 2013

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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.

WESTERN WAYNE REGIONAL SEWAGE 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 | \$ 475,619 | \$ 786,771 | \$ 813,379 | \$ 449,011 |
| Bond And Interest | 97,397 | 114,396 | 113,815 | 97,978 |
| Depreciation | 85,234 | 31,026 | 52,073 | 64,187 |
| System Rehab | 54,395 | 60,688 | 25,000 | 90,083 |
| Totals | <u>\$ 712,645</u> | <u>\$ 992,881</u> | <u>\$ 1,004,267</u> | <u>\$ 701,259</u> |

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

WESTERN WAYNE REGIONAL SEWAGE 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 | \$ 449,011 | \$ 753,732 | \$ 628,701 | \$ 574,042 |
| Bond And Interest | 97,978 | 113,659 | 121,325 | 90,312 |
| Depreciation | 64,187 | 37,690 | - | 101,877 |
| System Rehab | 90,083 | 45,601 | 23,575 | 112,109 |
| Totals | <u>\$ 701,259</u> | <u>\$ 950,682</u> | <u>\$ 773,601</u> | <u>\$ 878,340</u> |

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

WESTERN WAYNE REGIONAL SEWAGE DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Year Ended December 31, 2012

| Fund | Cash and Investments 01-01-12 | Receipts | Disbursements | Cash and Investments 12-31-12 |
|-------------------|-------------------------------------|----------------|----------------|-------------------------------------|
| Operating | \$ 574,042 | \$ 715,441 | \$ 520,143 | \$ 769,340 |
| Bond And Interest | 90,312 | 94,031 | 184,343 | - |
| Depreciation | 101,877 | 19,587 | - | 121,464 |
| System Rehab | 112,109 | 45,281 | 9,841 | 147,549 |
| Totals | <u>878,340</u> | <u>874,340</u> | <u>714,327</u> | <u>1,038,353</u> |

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

WESTERN WAYNE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The District was established under the laws of the State of Indiana. The District operates under an appointed governing board.

The accompanying financial statements present the financial information for the District.

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include the following sources:

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.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

WESTERN WAYNE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the District. It includes all expenditures for the reduction of the principal and interest of the District's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

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

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The District may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the District. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the District. The money accounted for in a specific fund may only be 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.

WESTERN WAYNE REGIONAL 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; 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.

Note 4. Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

WESTERN WAYNE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the District's Annual Reports for years prior to 2011 can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the District's Annual Report information for years 2011 and later 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.

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

| | Operating | Bond And Interest | Depreciation | System Rehab | Totals |
|--|-------------------|-------------------------|------------------|------------------|-------------------|
| Cash and investments - beginning | \$ 475,619 | \$ 97,397 | \$ 85,234 | \$ 54,395 | \$ 712,645 |
| Receipts: | | | | | |
| Utility fees | 768,555 | - | - | - | 768,555 |
| Other receipts | <u>18,216</u> | <u>114,396</u> | <u>31,026</u> | <u>60,688</u> | <u>224,326</u> |
| Total receipts | <u>786,771</u> | <u>114,396</u> | <u>31,026</u> | <u>60,688</u> | <u>992,881</u> |
| Disbursements: | | | | | |
| Debt service - principal and interest | - | 112,815 | - | - | 112,815 |
| Utility operating expenses | 806,127 | - | - | - | 806,127 |
| Other disbursements | <u>7,252</u> | <u>1,000</u> | <u>52,073</u> | <u>25,000</u> | <u>85,325</u> |
| Total disbursements | <u>813,379</u> | <u>113,815</u> | <u>52,073</u> | <u>25,000</u> | <u>1,004,267</u> |
| Excess (deficiency) of receipts over disbursements | <u>(26,608)</u> | <u>581</u> | <u>(21,047)</u> | <u>35,688</u> | <u>(11,386)</u> |
| Cash and investments - ending | <u>\$ 449,011</u> | <u>\$ 97,978</u> | <u>\$ 64,187</u> | <u>\$ 90,083</u> | <u>\$ 701,259</u> |

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

| | Operating | Bond And Interest | Depreciation | System Rehab | Totals |
|--|-------------------|-------------------------|-------------------|-------------------|-------------------|
| Cash and investments - beginning | \$ 449,011 | \$ 97,978 | \$ 64,187 | \$ 90,083 | \$ 701,259 |
| Receipts: | | | | | |
| Utility fees | 738,269 | - | - | - | 738,269 |
| Other receipts | 15,463 | 113,659 | 37,690 | 45,601 | 212,413 |
| Total receipts | <u>753,732</u> | <u>113,659</u> | <u>37,690</u> | <u>45,601</u> | <u>950,682</u> |
| Disbursements: | | | | | |
| Debt service - principal and interest | - | 121,325 | - | - | 121,325 |
| Capital outlay | - | - | - | 23,575 | 23,575 |
| Utility operating expenses | 446,151 | - | - | - | 446,151 |
| Other disbursements | 182,550 | - | - | - | 182,550 |
| Total disbursements | <u>628,701</u> | <u>121,325</u> | <u>-</u> | <u>23,575</u> | <u>773,601</u> |
| Excess (deficiency) of receipts over disbursements | <u>125,031</u> | <u>(7,666)</u> | <u>37,690</u> | <u>22,026</u> | <u>177,081</u> |
| Cash and investments - ending | <u>\$ 574,042</u> | <u>\$ 90,312</u> | <u>\$ 101,877</u> | <u>\$ 112,109</u> | <u>\$ 878,340</u> |

WESTERN WAYNE REGIONAL SEWAGE DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2012

| | Operating | Bond And Interest | Depreciation | System Rehab | Totals |
|--|------------|-------------------------|--------------|-----------------|--------------|
| Cash and investments - beginning | \$ 574,042 | \$ 90,312 | \$ 101,877 | \$ 112,109 | \$ 878,340 |
| Receipts: | | | | | |
| Utility fees | 701,589 | - | - | - | 701,589 |
| Other receipts | 13,852 | 94,031 | 19,587 | 45,281 | 172,751 |
| Total receipts | 715,441 | 94,031 | 19,587 | 45,281 | 874,340 |
| Disbursements: | | | | | |
| Debt service - principal and interest | 32,651 | 184,343 | - | - | 216,994 |
| Capital outlay | - | - | - | 9,841 | 9,841 |
| Utility operating expenses | 339,330 | - | - | - | 339,330 |
| Other disbursements | 148,162 | - | - | - | 148,162 |
| Total disbursements | 520,143 | 184,343 | - | 9,841 | 714,327 |
| Excess (deficiency) of receipts over disbursements | 195,298 | (90,312) | 19,587 | 35,440 | 160,013 |
| Cash and investments - ending | \$ 769,340 | \$ - | \$ 121,464 | \$ 147,549 | \$ 1,038,353 |

WESTERN WAYNE REGIONAL SEWAGE DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2012

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>Primary Government</u> | <u>Ending Balance</u> |
|--|---------------------------|
| Governmental activities: | |
| Capital assets, not being depreciated | |
| Land | \$ 185,230 |
| Buildings | 1,066,808 |
| Improvements other than buildings | 4,966,870 |
| Machinery and equipment | <u>1,868,756</u> |
| Total governmental activities, capital assets not being depreciated | <u>\$ 8,087,664</u> |

WESTERN WAYNE REGIONAL SEWAGE DISTRICT
OTHER REPORT

The report presented herein was prepared in addition to another official report prepared for the individual District office listed below:

Office Manager

WESTERN WAYNE REGIONAL SEWAGE DISTRICT
EXAMINATION RESULTS AND COMMENTS

COMPENSATION

The District did not have a labor contract, salary ordinance, resolution, or salary schedule adopted by the governing board as required.

The District's employees did not maintain Employee Service Records. The District had a practice of paying their employees for four weeks of vacation in addition to a weekly salary. Only two employees perform all duties for the District, including collection system operation which can often require daily attention. Since there were no service records, we were unable to calculate actual vacation days used for the examination period.

The District Board minutes dated March 19, 2011, indicated that as of that date, "employees could not get paid for vacations. Vacation must be taken or will be lost." However, both employees received checks in the summers of 2011 and 2012 equivalent to four week's pay in addition to their weekly paychecks.

February 14, 2013, the District Board met in Special Session and amended the March 19, 2011 minutes to retroactively allow the vacation pay for 2011 and 2012.

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)

INTERNAL CONTROLS

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient:

1. Checks were written from the Equipment and Operating bank accounts and deposited into a "Debit Account" without the approval of the governing board. A total of \$11,000 was deposited in the year 2010. The \$11,000 consisted of \$5,000 from the Equipment Fund and \$6,000 from the Operating Fund. The "Debit Account" was opened by the Office Manager, Carolyn Willis, on March 2, 2010. The deposited funds were posted as expenditures in the Simplified Cash Journal and all oversight of the funds was circumvented due to the lack of accountability for the "Debit Account."
2. Items were purchased on behalf of the District with the debit card from the "Debit Account," however, none of these disbursements were posted to the accounting records or approved by the governing board. Documentation was subsequently provided for some of the purchases.

WESTERN WAYNE REGIONAL SEWAGE DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

3. Carolyn Willis, Office Manager, had sole custody of the debit card and the bank statements. The bank statements of the "Debit Account" were not presented for examination, nor was this account on the District's bank reconciliation. Duplicate bank statements had to be obtained from the bank.
4. The Treasurer of the District did not co-sign the checks. The same individual that is writing, signing, disbursing, and posting the checks to the accounting records is also receiving and reconciling the bank statements. Therefore, there was no separation of duties creating a lack of internal controls over cash.

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, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.

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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CAPITAL ASSET RECORDS

The District did not maintain sufficient detailed records of capital assets for its Utility Plant in Service accounts. There were no additions or disposals reflected in the capital asset records during the entire examination period; however, the accounting records of the District reflected major capital assets purchases.

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

WESTERN WAYNE REGIONAL SEWAGE DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on March 4, 2013, with Waunalea Dungan, President of the Board, and Gary Rubendall, Treasurer.