

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

FINANCIAL STATEMENTS EXAMINATION REPORT
OF
BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
NOBLE COUNTY, INDIANA
January 1, 2010 to December 31, 2012



FILED
06/12/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Accountant's Report.....	3-4
Financial Statements:	
Statements of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis.....	6-7
Notes to Financial Statements	8-11
Supplementary Information - Unaudited:	
Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis	14-16
Schedule of Payables and Receivables	17
Schedule of Leases and Debt	18
Schedule of Capital Assets.....	19
Examination Results and Comments:	
Official Bond	20
Internal Controls - Customer Billings	20
Approval of Forms	20
Ordinances and Resolutions	20
Exit Conference.....	21
Official Response	22

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Financial Clerk	Linda Kiester	01-01-10 to 12-31-13
President of the Board	David Hawn	01-01-10 to 09-11-10
	Ray McNeal	09-12-10 to 06-08-11
	Tim Tomcik	06-09-11 to 12-31-13



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE BEAR HIGH WOLF LAKE REGIONAL
SEWER DISTRICT, NOBLE COUNTY, INDIANA

We have examined the accompanying financial statements of the Bear High Wolf Lake Regional Sewer 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.

INDEPENDENT ACCOUNTANT'S REPORT
(Continued)

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.

The District's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine the District's response and, accordingly, we express no opinion on it.



Bruce Hartman
State Examiner

May 16, 2013

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.

BEAR HIGH WOLF LAKE REGIONAL 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
Cash Operating	\$ 329	\$ 216,212	\$ 209,024	\$ 7,517
Bond & Interest Reserve	53,110	85,222	84,721	53,611
Improvement	68,635	3,380	30,000	42,015
	<u>24,394</u>	<u>-</u>	<u>24,394</u>	<u>-</u>
Totals	<u>\$ 146,468</u>	<u>\$ 304,814</u>	<u>\$ 348,139</u>	<u>\$ 103,143</u>

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

BEAR HIGH WOLF LAKE REGIONAL 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
Cash Operating	\$ 7,517	\$ 248,739	\$ 243,499	\$ 12,757
Bond & Interest	53,611	63,133	84,700	32,044
Reserve	42,015	5,071	-	47,086
Improvement	-	-	-	-
Totals	<u>\$ 103,143</u>	<u>\$ 316,943</u>	<u>\$ 328,199</u>	<u>\$ 91,887</u>

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

BEAR HIGH WOLF LAKE REGIONAL SEWER 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
Cash Operating	\$ 12,757	\$ 308,818	\$ 285,139	\$ 36,436
Bond & Interest	32,044	105,177	83,655	53,566
Reserve	47,086	16,690	-	63,776
Improvement	-	-	-	-
Totals	<u>\$ 91,887</u>	<u>\$ 430,685</u>	<u>\$ 368,794</u>	<u>\$ 153,778</u>

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

BEAR HIGH WOLF LAKE 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 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 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.

BEAR HIGH WOLF LAKE 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.

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.

BEAR HIGH WOLF LAKE 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.

(This page intentionally left blank.)

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.

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	Cash Operating	Bond & Interest	Reserve	Improvement	Totals
Cash and investments - beginning	\$ 329	\$ 53,110	\$ 68,635	\$ 24,394	\$ 146,468
Receipts:					
Utility fees	192,501	-	-	-	192,501
Penalties	2,588	-	-	-	2,588
Other receipts	21,123	85,222	3,380	-	109,725
Total receipts	<u>216,212</u>	<u>85,222</u>	<u>3,380</u>	<u>-</u>	<u>304,814</u>
Disbursements:					
Personal services	2,650	-	-	-	2,650
Supplies	980	-	-	-	980
Other services and charges	85,275	-	-	-	85,275
Debt service - principal and interest	-	84,721	-	-	84,721
Utility operating expenses	65,911	-	-	-	65,911
Other disbursements	54,208	-	30,000	24,394	108,602
Total disbursements	<u>209,024</u>	<u>84,721</u>	<u>30,000</u>	<u>24,394</u>	<u>348,139</u>
Excess (deficiency) of receipts over disbursements	<u>7,188</u>	<u>501</u>	<u>(26,620)</u>	<u>(24,394)</u>	<u>(43,325)</u>
Cash and investments - ending	<u>\$ 7,517</u>	<u>\$ 53,611</u>	<u>\$ 42,015</u>	<u>\$ -</u>	<u>\$ 103,143</u>

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	Cash Operating	Bond & Interest	Reserve	Improvement	Totals
Cash and investments - beginning	\$ 7,517	\$ 53,611	\$ 42,015	\$ -	\$ 103,143
Receipts:					
Utility fees	243,357	-	-	-	243,357
Penalties	4,786	-	-	-	4,786
Other receipts	596	63,133	5,071	-	68,800
Total receipts	248,739	63,133	5,071	-	316,943
Disbursements:					
Personal services	2,350	-	-	-	2,350
Supplies	985	-	-	-	985
Other services and charges	115,926	-	-	-	115,926
Debt service - principal and interest	-	84,700	-	-	84,700
Utility operating expenses	56,034	-	-	-	56,034
Other disbursements	68,204	-	-	-	68,204
Total disbursements	243,499	84,700	-	-	328,199
Excess (deficiency) of receipts over disbursements	5,240	(21,567)	5,071	-	(11,256)
Cash and investments - ending	\$ 12,757	\$ 32,044	\$ 47,086	\$ -	\$ 91,887

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	Cash Operating	Bond & Interest	Reserve	Improvement	Totals
Cash and investments - beginning	\$ 12,757	\$ 32,044	\$ 47,086	\$ -	\$ 91,887
Receipts:					
Utility fees	304,228	-	-	-	304,228
Penalties	3,946	-	-	-	3,946
Other receipts	644	105,177	16,690	-	122,511
Total receipts	<u>308,818</u>	<u>105,177</u>	<u>16,690</u>	<u>-</u>	<u>430,685</u>
Disbursements:					
Personal services	2,600	-	-	-	2,600
Supplies	653	-	-	-	653
Other services and charges	73,940	-	-	-	73,940
Debt service - principal and interest	-	83,655	-	-	83,655
Utility operating expenses	86,079	-	-	-	86,079
Other disbursements	121,867	-	-	-	121,867
Total disbursements	<u>285,139</u>	<u>83,655</u>	<u>-</u>	<u>-</u>	<u>368,794</u>
Excess (deficiency) of receipts over disbursements	<u>23,679</u>	<u>21,522</u>	<u>16,690</u>	<u>-</u>	<u>61,891</u>
Cash and investments - ending	<u>\$ 36,436</u>	<u>\$ 53,566</u>	<u>\$ 63,776</u>	<u>\$ -</u>	<u>\$ 153,778</u>

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Business-type activities	<u>\$ 17,427</u>	<u>\$ 6,940</u>

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
 SCHEDULE OF LEASES AND DEBT
 December 31, 2012

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Business-type activities:			
Notes and loans payable	Rural Development	\$ 1,287,000	\$ 83,586
Totals		<u>\$ 1,287,000</u>	<u>\$ 83,586</u>

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
 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>Ending Balance</u>
Business-type activities:	
Land	\$ 2,125
Buildings	67,970
Improvements other than buildings	4,016,459
Machinery, equipment, and vehicles	<u>32,800</u>
Total business-type activities	<u>4,119,354</u>
Total capital assets	<u><u>\$ 4,119,354</u></u>

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS

OFFICIAL BOND

The District did not have an official bond for the financial clerk for the years 2011 and 2012.

A financial clerk shall execute a surety bond in the manner prescribed by the IDEM Order creating the regional sewer district dated July 17, 1996.

INTERNAL CONTROLS - CUSTOMER BILLINGS

Internal controls over the customer billings were insufficient. Several landowners within the service area are not being billed. Some landowners with vacant lots are paying a monthly debt service fee plus a billing fee, while some landowners with vacant lots are paying nothing. At the inception of the district, customers were billed a debt service charge until the sewer system was processing waste. The current rate ordinance does not contain a vacant lot fee. Some customers with vacant lots elected to continue paying the debt service charge to avoid high connection fees when they built on the vacant lots. We requested a listing of these customers and their consent agreements or applications. District officials were not able to provide us with this information.

District officials should review each parcel of property within the District's geographical boundaries and determine which properties are or should be connected to the sewer system.

District officials should review each customer's account and determine that each customer is being billed in accordance with the rate ordinance.

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)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

APPROVAL OF FORMS

Prescribed or approved checks are not being used by the District.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 21)

ORDINANCES AND RESOLUTIONS

Adequate transfers to the Reserve Fund have not been made nor has an adequate balance in the fund been maintained in order to fulfill requirements of the bond ordinances. Also, the District currently has no monies in an Improvement Fund. Although the bond ordinance does not state a required amount, it does state an Improvement Fund should be maintained for future repairs and improvements to be fiscally responsible.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on May 16, 2013, with Tom Tomcik, President of the Board; Mark Goodrich, Board member; and Linda Kiester, Financial Clerk. The Official Response has been made a part of this report and may be found on page 22.

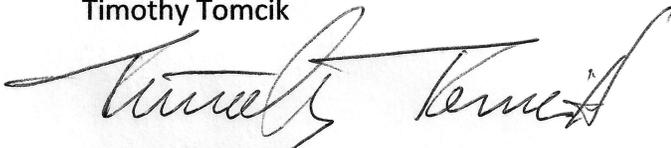
To: Mr. Bruce Hartman, CPA
State Examiner

Bear, High, Wolf Lake RSD
Official Response

May 16, 2013

We are aware of the issues brought up in the audit. We are currently waiting for a ruling from IDEM to reorganize our Board of Trustees and when we have the new board in place we will address these issues with the help of our attorney and engineer.

Timothy Tomcik

A handwritten signature in black ink, appearing to read 'Timothy Tomcik', written in a cursive style.

Board President