

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

MORGAN COUNTY REGIONAL SEWER DISTRICT

MORGAN COUNTY, INDIANA

January 1, 2010 to December 31, 2012



FILED
09/26/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Deb Verley	01-01-10 to 12-31-13
President of the Board	Jeff Quyle	01-01-10 to 12-31-13



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE MORGAN COUNTY REGIONAL
SEWER DISTRICT, MORGAN COUNTY, INDIANA

We have examined the accompanying financial statements of the Morgan County 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.

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, 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.

Bruce Hartman
State Examiner

August 22, 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.

MORGAN COUNTY 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
Residential Revenue	\$ 6,538	\$ 76,421	\$ 74,445	\$ 8,514
Cash With Fiscal Agent	<u>24,377</u>	<u>27,914</u>	<u>21,070</u>	<u>31,220</u>
Totals	<u>\$ 30,915</u>	<u>\$ 104,335</u>	<u>\$ 95,515</u>	<u>\$ 39,734</u>

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

MORGAN COUNTY REGIONAL SEWER DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
Residential Revenue	\$ 8,514	\$ 57,131	\$ 56,796	\$ 8,849	\$ 64,262	\$ 64,943	\$ 8,168
Cash With Fiscal Agent	<u>31,220</u>	<u>27,993</u>	<u>37,677</u>	<u>21,536</u>	<u>27,742</u>	<u>5,722</u>	<u>43,556</u>
Totals	<u>\$ 39,734</u>	<u>\$ 85,124</u>	<u>\$ 94,473</u>	<u>\$ 30,385</u>	<u>\$ 92,004</u>	<u>\$ 70,665</u>	<u>\$ 51,724</u>

MORGAN COUNTY 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:

Charges for services: which are comprised mostly of charges for current utility 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 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.

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.

MORGAN COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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. Service Agreement

The District entered into a service agreement with Aqua Indiana, Inc., on November 28, 2008. The service agreement provides for Aqua Indiana, Inc., to operate and manage the system until such time as Aqua Indiana, Inc., purchases the system from the District.

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.

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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.

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

	<u>Residential Revenue</u>	<u>Cash With Fiscal Agent</u>	<u>Totals</u>
Cash and investments - beginning	\$ 6,538	\$ 24,377	\$ 30,915
Receipts:			
Charges for services	76,421	-	76,421
Other receipts	<u>-</u>	<u>27,914</u>	<u>27,914</u>
Total receipts	<u>76,421</u>	<u>27,914</u>	<u>104,335</u>
Disbursements:			
Personal services	4,283	-	4,283
Other services and charges	42,206	-	42,206
Debt service principle and interest	-	21,070	21,070
Other disbursements	<u>27,956</u>	<u>-</u>	<u>27,956</u>
Total disbursements	<u>74,445</u>	<u>21,070</u>	<u>95,515</u>
Excess (deficiency) of receipts over disbursements	<u>1,976</u>	<u>6,844</u>	<u>8,820</u>
Cash and investments - ending	<u>\$ 8,514</u>	<u>\$ 31,220</u>	<u>\$ 39,734</u>

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

	<u>Residential Revenue</u>	<u>Cash With Fiscal Agent</u>	<u>Totals</u>
Cash and investments - beginning	\$ 8,514	\$ 31,220	\$ 39,734
Receipts:			
Charges for services	57,131	-	57,131
Other receipts	<u>-</u>	<u>27,993</u>	<u>27,993</u>
Total receipts	<u>57,131</u>	<u>27,993</u>	<u>85,124</u>
Disbursements:			
Other services and charges	27,765	-	27,765
Debt service - principal and interest	27,973	37,677	65,650
Other disbursements	<u>1,058</u>	<u>-</u>	<u>1,058</u>
Total disbursements	<u>56,796</u>	<u>37,677</u>	<u>94,473</u>
Excess (deficiency) of receipts over disbursements	<u>335</u>	<u>(9,684)</u>	<u>(9,349)</u>
Cash and investments - ending	<u>\$ 8,849</u>	<u>\$ 21,536</u>	<u>\$ 30,385</u>

MORGAN COUNTY REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	<u>Residential Revenue</u>	<u>Cash With Fiscal Agent</u>	<u>Totals</u>
Cash and investments - beginning	\$ 8,849	\$ 21,537	\$ 30,386
Receipts:			
Charges for services	64,262	-	64,262
Other receipts	<u>-</u>	<u>27,742</u>	<u>27,742</u>
Total receipts	<u>64,262</u>	<u>27,742</u>	<u>92,004</u>
Disbursements:			
Personal services	810	-	810
Supplies	90	-	90
Other services and charges	36,326	-	36,326
Debt service - principal and interest	27,717	5,722	33,439
Other disbursements	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>64,943</u>	<u>5,722</u>	<u>70,665</u>
Excess (deficiency) of receipts over disbursements	<u>(681)</u>	<u>22,020</u>	<u>21,339</u>
Cash and investments - ending	<u>\$ 8,168</u>	<u>\$ 43,557</u>	<u>\$ 51,725</u>

MORGAN COUNTY REGIONAL SEWER DISTRICT
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 8,010</u>	<u>\$ 25,206</u>

MORGAN COUNTY 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		
Governmental activities: Notes and loans payable	Sewer line construction	\$ 447,000	\$ 10,000
Totals		<u>\$ 447,000</u>	<u>\$ 10,000</u>

MORGAN COUNTY 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>
Governmental activities:	
Infrastructure	<u>\$ 1,298,700</u>
Total capital assets	<u><u>\$ 1,298,700</u></u>

MORGAN COUNTY REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS

CERTIFIED REPORT NOT FILED

The District did not file a certified report of compensation of officers and employees (Form 100-R) with the Indiana State Board of Accounts for 2010 and 2011.

Indiana Code 5-11-13-1 states in part:

"(a) Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts. . . .

(b) The department of local government finance may not approve the budget of a county, city, town, or township or a supplemental appropriation for a county, city, town, or township until the county, city, town, or township files an annual report under subsection (a) for the preceding calendar year."

ANNUAL REPORT

The Annual Reports for 2010, 2011, and 2012, contained a number of errors and did not properly reflect the financial activity of the Morgan County Regional Sewer District. The SRF accounts with The Bank of New York Mellon Trust Company, N.A. were not included in the annual report for the Cash With Fiscal Agent Fund.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

MORGAN COUNTY REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2013, with Deb Verley, Treasurer. The official concurred with our findings.