

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

FINANCIAL STATEMENTS AND
FEDERAL SINGLE AUDIT REPORT
OF

MICHIANA AREA COUNCIL OF GOVERNMENTS
ST. JOSEPH COUNTY, INDIANA

July 1, 2012 to June 30, 2013



FILED
03/14/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Sandra M. Seanor	07-01-12 to 06-30-14
Fiscal Accounting Manager	Deborah Gardner	07-01-12 to 06-30-14
President of the Board	Dick Moore	01-01-12 to 12-31-12
	David Wood	01-01-13 to 12-31-13
	Judy Stone	01-01-14 to 12-31-14



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the MACOG's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MACOG's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the MACOG as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 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 accounting principles generally accepted in the United States of America, 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.

Other 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 accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 expenditure of federal awards is fairly stated, in all material respects in relation to the basic financial statements as a whole

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2014, on our consideration of the MACOG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MACOG's internal control over financial reporting and compliance.


Paul D. Joyce, CPA
State Examiner

January 30, 2014



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INDEPENDENT AUDITOR'S 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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the MACOG's basic financial statements and have issued our report thereon dated January 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MACOG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MACOG's internal control. Accordingly, we do not express an opinion on the effectiveness of the MACOG's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

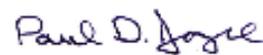
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

January 30, 2014

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FINANCIAL STATEMENTS

The financial statements and accompanying notes were prepared by management of the MACOG. The financial statements and notes are presented as intended by the MACOG.

MICHIANA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF NET POSITION
June 30, 2013

Assets

Current assets:	
Cash and cash equivalents	\$ 3,550,422
Investments	500,070
Interest receivable	614
Accounts receivable	37,764
Due from federal and state grants	1,173,561
Prepaid items	<u>66,520</u>
 Total current assets	 <u>5,328,951</u>
Capital assets:	
Capital assets (net of accumulated depreciation)	<u>3,275,334</u>
 Total assets	 <u>8,604,285</u>

Liabilities

Current liabilities:	
Accounts payable	451,185
Accrued payroll and withholdings payable	83,837
Compensated absences	<u>13,517</u>
 Total current liabilities	 <u>548,539</u>
Noncurrent liabilities:	
Pension liability	<u>28,480</u>
 Total liabilities	 <u>577,019</u>

Net Position

Net investment in capital assets	3,275,334
Unrestricted	<u>4,751,932</u>
 Total net position	 <u>\$ 8,027,266</u>

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

MICHIANA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As Of And For The Year Ended June 30, 2013

Operating revenues:	
Federal and state grants	\$ 3,938,122
Other local governmental grants	503,891
Funds exchanged	500,000
Transit fares	498,293
Other	<u>23,526</u>
Total operating revenues	<u>5,463,832</u>
Operating expenses:	
Salaries and wages	842,893
Employee pensions and benefits	478,817
Contractual services	2,448,976
Legal expense	15,458
Conference training	26,937
Telephone expense	15,590
Materials and supplies	31,913
Maintenance and repairs	104,424
Memberships and subscriptions	5,739
Printing, reproduction, and publication	58,376
Mileage and travel	27,819
Postage expense	15,220
Office rent expense	56,247
Furniture and equipment	15,360
Advertising expense	141,670
Depreciation	1,071,420
Miscellaneous expenses	23,921
In-kind Service	498,293
(Over) under applied fringe benefits and indirect costs	<u>(34,008)</u>
Total operating expenses	<u>5,845,065</u>
Operating income (loss)	<u>(381,233)</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	5,905
Gain on disposal of assets	<u>22,730</u>
Total nonoperating revenues (expenses)	<u>28,635</u>
Income (loss) before contributions	(352,598)
Capital contributions	<u>112,216</u>
Change in net position	(240,382)
Total net position - beginning (restated)	<u>8,267,648</u>
Total net position - ending	<u><u>\$ 8,027,266</u></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, 2013

Cash flows from operating activities:	
Receipts from customers and users	\$ 5,465,300
Payments to suppliers and contractors	(3,402,454)
Payments to employees	(1,259,814)
Other operating expenses	<u>34,008</u>
Net cash provided (used) by operating activities	<u>837,040</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(288,599)
Proceeds from sale of capital assets	<u>22,730</u>
Net cash provided (used) by capital and related financing activities	<u>(265,869)</u>
Cash flows from investing activities:	
Investments purchased	(500,070)
Interest received	<u>6,172</u>
Net cash provided (used) by investing activities	<u>(493,898)</u>
Net increase in cash and cash equivalents	77,273
Cash and cash equivalents, July 1	<u>3,473,149</u>
Cash and cash equivalents, June 30	<u><u>\$ 3,550,422</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	<u>\$ (381,233)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	1,071,420
(Increase) decrease in assets:	
Accounts receivable	12,950
Due from federal and state grants	(11,482)
Prepaid items	19,925
Increase (decrease) in liabilities:	
Accounts payable	52,113
Accrued payroll and withholdings payable	60,042
Compensated absence payable	1,854
Pension liability	<u>11,451</u>
Total adjustments	<u>1,218,273</u>
Net cash provided (used) by operating activities	<u><u>\$ 837,040</u></u>
Noncash investing, capital and financing activities:	
Capital assets contributed	\$ 112,216
Obsolete capital asset activated	1,891
Capital asset disposals	93,374

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 Position; Statement of Revenues, Expenses, and Changes in Net Position; 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.

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 MACOG's enterprise fund 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 Position or Equity

1. Deposits and Investments

The 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 MACOG 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.

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.

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

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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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 – the 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 – the 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.

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

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

political subdivision. At June 30, 2013, 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, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 1,960,201	\$ 280,122	\$ 60,511	\$ 2,179,812
Transportation equipment	<u>5,577,210</u>	<u>122,584</u>	<u>32,863</u>	<u>5,666,931</u>
 Totals	 <u>7,537,411</u>	 <u>402,706</u>	 <u>93,374</u>	 <u>7,846,743</u>
 Less accumulated depreciation for:				
Machinery and equipment	1,456,452	333,577	60,511	1,729,518
Transportation equipment	<u>2,135,020</u>	<u>739,734</u>	<u>32,863</u>	<u>2,841,891</u>
 Totals	 <u>3,591,472</u>	 <u>1,073,311</u>	 <u>93,374</u>	 <u>4,571,409</u>
 Total capital assets, net	 <u>\$3,945,939</u>	 <u>\$(670,605)</u>	 <u>\$ -</u>	 <u>\$3,275,334</u>

C. Funds Exchanged

The Statement of Revenues, Expenses, and Changes in Net Position includes \$500,000 funds exchanged. This amount was received by the MACOG from the Greater Lafayette Public Transportation Corporation in exchange for the MACOG transferring \$1,000,000 in available Federal transit fund awards. This transfer or reallocation of future Federal funding was approved by the Indiana Department of Transportation.

D. Transit Fares

The Statement of Revenues, Expenses, and Changes in Net Position includes \$498,293 transit fares and an identical expense account, in-kind service. This amount is the total fares charged by the Elkhart/Goshen transit operator, used to reduce the MACOG funding subsidy.

E. Restatement

The July 1, 2012 net position has been restated from \$8,179,487, as previously reported, to \$8,267,648 to correct for expenses reported for the period July 1, 2011 to June 30, 2012, that occurred in the subsequent period.

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

III. Other Information

A. Risk Management

The 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.

B. Pension Plan

Public Employees' Retirement Fund

Plan Description

The 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 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. The report is available at www.in.gov/inprs/2341.htm or may be obtained by contacting:

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of INPRS. The MACOG's annual pension cost and related information, as provided by the actuary, is presented in this note.

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

Actuarial Information for the Above Plan

Annual required contribution	\$	63,698
Interest on net pension obligation		1,192
Adjustment to annual required contribution		<u>(1,372)</u>
Annual pension cost		63,518
Contributions made		<u>52,067</u>
Increase (decrease) in net pension obligation		11,451
Net pension obligation, beginning of year		<u>17,029</u>
Net pension obligation, end of year	\$	<u><u>28,480</u></u>
Contribution rates:		
Government		9.5%
Plan members		3%
Actuarial valuation date		07-01-12
Actuarial cost method		Entry age normal cost
Amortization method		Level dollar closed amortization period
Amortization period		30 years
Amortization period (from date)		07-01-12
Asset valuation method		4-year smoothing of gains/losses on market value with a 20% corridor

Actuarial Assumptions

Investment rate of return		6.75%
Projected future salary increases:		
Total		3.25% to 4.5%
Attributed to inflation		3.00%
Attributed to merit/seniority		.25% to 1.5%
Cost-of-living adjustments		1.00%

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

Three Year Trend Information			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06-30-10	\$ 36,792	118.0%	\$ 3,885
06-30-11	59,660	78.0%	17,029
06-30-12	63,518	82.0%	28,480

Funded Status and Funding Progress for the above Plan

The funded status of the plan as of July 1, 2012, the most recent actuarial valuation date is as follows:

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)
07-01-12	<u>\$ 662,532</u>	<u>\$ 1,155,524</u>	<u>\$ (492,992)</u>	57%	<u>\$ 897,881</u>	(55%)

The Schedule of Funding Progress, presented as RSI for the above plan 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)
07-01-10	\$ 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%)
07-01-12	662,532	1,155,524	(492,992)	57%	897,881	(55%)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR
FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for The Major Federal Program

We have audited the Michiana Area Council of Governments (MACOG) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2013. The MACOG's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the MACOG's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the MACOG's compliance.

Opinion on The Major Federal Program

In our opinion, the MACOG complied in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR
FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
REQUIRED BY OMB CIRCULAR A-133
(Continued)

Report on Internal Control Over Compliance

Management of the MACOG is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the MACOG's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 the MACOG's internal control over compliance.

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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. 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.


Paul D. Joyce, CPA
State Examiner

January 30, 2014

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were prepared by management of the MACOG. The schedule and note are presented as intended by the MACOG.

MICHIANA AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2013

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	\$ 7,665
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct Grant			
Federal Transit Cluster			
Federal Transit - Formula Grants	20.507	IN-90-x011	178,471
		IN-90-x529	22,383
		IN-90-x610	289,820
		IN-90-x629	632,398
		IN-95-x019	70,234
		IN-95-x030	60,313
		IN-95-x042	54,586
ARRA - Federal Transit - Formula Grants		IN-96-x003	<u>38,433</u>
Total for cluster			<u>1,346,638</u>
Pass-Through Indiana Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	PL-13800918	800,561
		CMAQ-11802325	130,502
		HSIP-12802506	454,397
		HSIP-13800918	53,945
		SPR-13803395	48,973
		STP-12802506	236,333
		STP-13800918	<u>47,092</u>
Total for cluster			<u>1,771,803</u>
Total for federal grantor agency			<u>3,118,441</u>
Total federal awards expended			<u>\$ 3,126,106</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:	Unmodified
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:	Unmodified
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 Program:

Name of Federal Program or Cluster
 Highway Planning and Construction 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 January 30, 2014, with Deborah Gardner, Fiscal Accounting Manager; Sandra M. Seanor, Executive Director; and with Judy Stone, President of the Board. Our audit disclosed no material items that warrant comment at this time.