

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
ALLEN COUNTY, INDIANA

January 1, 2012 to December 31, 2013



**FILED**

09/26/2014



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Tom Fox (Vacant) Kenneth Neumeister	01-01-12 to 02-28-13 03-01-13 to 05-14-13 05-15-13 to 12-31-14
Treasurer	Win Rood	01-01-12 to 12-31-14
President of the Board	Ric Zehr	01-01-12 to 12-31-14
Office Manager	Laura Spuller	01-01-12 to 12-31-14



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**INDEPENDENT AUDITOR'S REPORT**

TO: THE OFFICIALS OF THE ALLEN COUNTY REGIONAL WATER  
AND SEWER DISTRICT, ALLEN COUNTY, INDIANA

***Report on the Financial Statement***

We have audited the accompanying financial statement of the Allen County Regional Water and Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2012 to December 31, 2013, and the related notes to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statement 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 District's internal control. Accordingly, we express no such opinion. An audit also 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As discussed in Note 1 of the financial statement, the District prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance 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, 2012 to December 31, 2013.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the District for the period of January 1, 2012 to December 31, 2013, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated August 21, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

***Accompanying Information***


*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the District's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in

INDEPENDENT AUDITOR'S REPORT  
(Continued)

accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the District's financial statement. 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 statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

  
Paul D. Joyce, CPA  
State Examiner

August 21, 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 THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE ALLEN COUNTY REGIONAL WATER  
AND SEWER DISTRICT, ALLEN COUNTY, INDIANA

We have audited, 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, the financial statement of the Allen County Regional Water and Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2012 to December 31, 2013, and the related notes to the financial statement, and have issued our report thereon dated August 21, 2014, wherein we noted the District followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the District'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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002 to be material weaknesses.



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

***Compliance and Other Matters***


As part of obtaining reasonable assurance about whether the District's financial statement is free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002.

***Allen County Regional Water and Sewer District's Response to Findings***

The District's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

August 21, 2014

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## FINANCIAL STATEMENT AND ACCOMPANYING NOTES

The financial statement and accompanying notes were approved by management of the District. The financial statement and notes are presented as intended by the District.

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ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended December 31, 2012 and 2013

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12	Receipts	Disbursements	Cash and Investments 12-31-13
Allen County Regional Water & Sewer District Debt Service Reserve	\$ 406,359	\$ 70,548	\$ 11,825	\$ 465,082	\$ 89,283	\$ -	\$ 554,365
Allen County Regional Water & Sewer District Bond & Interest	287,549	900,742	967,562	220,729	1,286,549	1,001,217	506,061
Allen County Regional Water & Sewer District Construction	326,424	1,461,430	1,583,642	204,212	7,911,175	7,860,372	255,015
Allen County Regional Water & Sewer District Operating	385,350	1,896,394	1,576,101	705,643	1,834,965	1,535,489	1,005,119
Allen County Regional Water & Sewer District Payroll	5	78,037	77,558	484	76,071	76,054	501
Allen County Regional Water & Sewer District Improvement	293,022	449,600	252,123	490,499	236,136	55,339	671,296
Allen County Regional Water & Sewer District Seed Money	-	138,353	-	138,353	3,000	63,093	78,260
Totals	<u>\$ 1,698,709</u>	<u>\$ 4,995,104</u>	<u>\$ 4,468,811</u>	<u>\$ 2,225,002</u>	<u>\$ 11,437,179</u>	<u>\$ 10,591,564</u>	<u>\$ 3,070,617</u>

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

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT

**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 statement presents the financial information for the District.

**B. Basis of Accounting**

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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 statement. The aggregate receipts may include the following sources:

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Utility fees which are comprised mostly of charges for current 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.

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. 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.

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.

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

**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 statement. 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 Capitol 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.



ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 5. Subsequent Event**

The District withdrew from PERF on February 5, 2014, with an effective date of January 31, 2014. The District paid, as required by PERF, a remaining amount of \$2,850 to adequately fund the pension liability. Employees who are members of PERF are immediately vested in the accrued pension portion of the retirement benefit upon withdrawal. The District Board members then approved a 9.5 percent salary increase to the Executive Director to personally invest in another retirement plan effective February 8, 2014.

**Note 6. Combined Funds**

Funds related to Bond and Interest and Debt Service Reserve were reported individually in the current financial statement but were combined into one fund for the prior financial statement.

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#### SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the District's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement 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 audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the District. It is presented as intended by the District.

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

	Allen County Regional Water & Sewer District Debt Service Reserve	Allen County Regional Water & Sewer District Bond & Interest	Allen County Regional Water & Sewer District Construction	Allen County Regional Water & Sewer District Operating	Allen County Regional Water & Sewer District Payroll	Allen County Regional Water & Sewer District Improvement	Allen County Regional Water & Sewer District Seed Money	Totals
Cash and investments - beginning	\$ 406,359	\$ 287,549	\$ 326,424	\$ 385,350	\$ 5	\$ 293,022	\$ -	\$ 1,698,709
Receipts:								
Intergovernmental	-	-	1,401,411	-	-	-	-	1,401,411
Utility fees	-	-	-	1,042,866	-	-	-	1,042,866
Other receipts	70,548	900,742	60,019	853,528	78,037	449,600	138,353	2,550,827
Total receipts	70,548	900,742	1,461,430	1,896,394	78,037	449,600	138,353	4,995,104
Disbursements:								
Personal services	-	-	-	-	66,870	-	-	66,870
Other services and charges	-	-	-	13,264	-	-	-	13,264
Debt service - principal and interest	-	505,613	-	-	-	-	-	505,613
Capital outlay	-	-	1,583,629	613,738	-	194,389	-	2,391,756
Utility operating expenses	-	61,977	-	279,938	10,675	-	-	352,590
Other disbursements	11,825	399,972	13	669,161	13	57,734	-	1,138,718
Total disbursements	11,825	967,562	1,583,642	1,576,101	77,558	252,123	-	4,468,811
Excess (deficiency) of receipts over disbursements	58,723	(66,820)	(122,212)	320,293	479	197,477	138,353	526,293
Cash and investments - ending	\$ 465,082	\$ 220,729	\$ 204,212	\$ 705,643	\$ 484	\$ 490,499	\$ 138,353	\$ 2,225,002

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
For the Year Ended December 31, 2013

	Allen County Regional Water & Sewer District Debt Service Reserve	Allen County Regional Water & Sewer District Bond & Interest	Allen County Regional Water & Sewer District Construction	Allen County Regional Water & Sewer District Operating	Allen County Regional Water & Sewer District Payroll	Allen County Regional Water & Sewer District Improvement	Allen County Regional Water & Sewer District Seed Money	Totals
Cash and investments - beginning	\$ 465,082	\$ 220,729	\$ 204,212	\$ 705,643	\$ 484	\$ 490,499	\$ 138,353	\$ 2,225,002
Receipts:								
Intergovernmental	-	-	6,266,126	-	-	-	-	6,266,126
Utility fees	-	-	-	1,157,518	-	-	-	1,157,518
Other receipts	89,283	1,286,549	1,645,049	677,447	76,071	236,136	3,000	4,013,535
Total receipts	89,283	1,286,549	7,911,175	1,834,965	76,071	236,136	3,000	11,437,179
Disbursements:								
Personal services	-	-	-	-	66,634	-	-	66,634
Other services and charges	-	-	-	13,470	-	-	-	13,470
Debt service - principal and interest	-	404,144	-	-	-	-	-	404,144
Capital outlay	-	-	7,860,372	-	-	-	-	7,860,372
Utility operating expenses	-	-	-	662,930	9,420	-	22,075	694,425
Other disbursements	-	597,073	-	859,089	-	55,339	41,018	1,552,519
Total disbursements	-	1,001,217	7,860,372	1,535,489	76,054	55,339	63,093	10,591,564
Excess (deficiency) of receipts over disbursements	89,283	285,332	50,803	299,476	17	180,797	(60,093)	845,615
Cash and investments - ending	\$ 554,365	\$ 506,061	\$ 255,015	\$ 1,005,119	\$ 501	\$ 671,296	\$ 78,260	\$ 3,070,617

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF PAYABLES AND RECEIVABLES  
December 31, 2013

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Allen County Regional Water & Sewer District	<u>\$ 1,500</u>	<u>\$ 4,850</u>

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF LEASES AND DEBT  
December 31, 2013

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Revenue bonds	2007 Revenue Bonds	\$ 1,293,194	\$ 104,580
Revenue bonds	2008 Revenue Bonds	2,559,000	201,104 (1)
Revenue bonds	2012 Refunding Revenue Bonds	1,335,000	188,800
Revenue bonds	2012 Revenue Bonds Series A	5,355,000	250,000 (2)
Revenue bonds	2012 Revenue Bonds Series B	152,000	16,000
Revenue bonds	Forgivable SRF Loan	5,200,000	- (3)
Revenue bonds	Forgivable BAN	1,965,000	- (4)
Total governmental activities		\$ 17,859,194	\$ 760,484

Notes:

- (1) The ending principal balance includes \$118,631 of draws not received as of December 31, 2013
- (2) The ending principal balance includes \$370,244 of draws not received as of December 31, 2013
- (3) Debt to be forgiven June 25, 2014
- (4) Debt to be forgiven July 1, 2015

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ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF CAPITAL ASSETS  
December 31, 2013

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.

	Ending Balance
Governmental activities:	
Land	\$ 92,199
Infrastructure	7,060,544
Buildings	18,200
Machinery, equipment, and vehicles	3,520,450
Construction in progress	13,159,103
	<hr/>
Total capital assets	\$ 23,850,496
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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 ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE ALLEN COUNTY REGIONAL WATER  
AND SEWER DISTRICT, ALLEN COUNTY, INDIANA

***Report on Compliance for the Major Federal Program***

We have audited the Allen County Regional Water and Sewer District's (District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2012 to December 31, 2013. The District'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 programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the District's major federal program 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 District'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 District's compliance.

***Opinion on the Major Federal Program***

In our opinion, the District 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 period of January 1, 2012 to December 31, 2013.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)


***Report on Internal Control Over Compliance***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District'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 our 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 District'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 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.

  
Paul D. Joyce, CPA  
State Examiner

August 21, 2014

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#### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the District. The schedule and note is presented as intended by the District.

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ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended December 31, 2012 and 2013

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-12	Total Federal Awards Expended 12-31-13
<u>ENVIRONMENTAL PROTECTION AGENCY</u>					
Capitalization Grants for Clean Water State Revolving Funds	Indiana Finance Authority	66.458	WW08110202	\$ 46,406	\$ 7,127
			WW091250203	552,300	23,782
			WW12020204	<u>322,405</u>	<u>2,761,047</u>
Total federal awards expended				<u>\$ 921,111</u>	<u>\$ 2,791,956</u>

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

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
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 District and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of water and sewer districts shall be conducted biennially. Such audits shall include both years within the biennial period.

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
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:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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**Section II - Financial Statement Findings**

**FINDING 2013-001 - CONTROLS OVER PREPARING THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The District did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The District should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

During the audit of the SEFA, we noted that the District reported a nonfederal grant in the amount of \$150,000 which should not have been reported on the SEFA. In addition, \$921,111 and \$1,626,067 in federal awards expended were omitted from the SEFA for December 31, 2012, and December 31, 2013, respectively. Audit adjustments were proposed, accepted by the District, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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 controls.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.

ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

***FINDING 2013-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the District related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the District's audited financial statement and then determining how those identified risks should be managed. The District has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements.

The District has not established effective controls to allow for the proper reporting of the District's receipts, disbursements, and cash and investment balances. The financial statement was compiled from information entered by a third party for 2012 and 2013 into the Annual Financial Report. The financial statement presented for audit contained errors and omissions as follows within the Allen County Regional Water & Sewer District Construction fund: (A) For 2012, this fund was adjusted to include \$1,351,411 in additional State Revolving Fund (SRF) receipt and disbursement transactions. (B) For 2013, this fund was adjusted to remove \$134,364 of net SRF receipt and disbursement transactions which corrected errors and the inclusion of 2014 transactions.

The District approved and made the necessary adjustments to correct these errors on the financial statement.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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."

***Section III - Federal Award Findings and Questioned Costs***

No matters are reportable.

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#### AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the District. The document is presented as intended by the District.



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August 18, 2014

***CORRECTIVE ACTION PLAN***

**Federal Finding 2013-001**

1. The District's Finance Committee Chairperson and/or Treasurer will review all work done by a third party in preparing the District's Schedule of Federal Awards on the Annual Report.

**Federal Finding 2013-002**

1. The District's Finance Committee Chairperson and/or Treasurer will review all work done by a third party in preparing the District's Financial Statements on the Annual Report.

*Win F. Rood*

Win F. Rood, Treasurer  
Allen County Regional Water and Sewer District



#### OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the District. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.