

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

JAY COUNTY REGIONAL SEWER DISTRICT
JAY COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
01/09/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Tim Kesler Ralph Frazee	01-01-11 to 01-31-13 02-01-13 to 12-31-14
President of the Board	Gerald Kirby Bob Brelsford Faron Parr	01-01-11 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the Jay County Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, 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, 2011 to December 31, 2012.

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, 2011 to December 31, 2012, 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 November 20, 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 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

November 20, 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 JAY COUNTY REGIONAL SEWER DISTRICT, JAY 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 Jay County Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated November 20, 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 2012-001 and 2012-002 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 item 2012-002.

Jay County Regional 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

November 20, 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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JAY 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
Wastewater Operation and Maintenance	\$ 11,316	\$ 3,376	\$ 11,769	\$ 2,923	\$ 39,184	\$ 36,344	\$ 5,763
Wastewater Revenue	-	11,948	11,948	-	68,821	68,821	-
Wastewater Bond and Interest	-	7,142	-	7,142	26,776	20,054	13,864
Wastewater Debt Service	-	1,431	-	1,431	2,861	-	4,292
Wastewater Construction	-	914,200	875,459	38,741	193,800	218,352	14,189
Totals	<u>\$ 11,316</u>	<u>\$ 938,097</u>	<u>\$ 899,176</u>	<u>\$ 50,237</u>	<u>\$ 331,442</u>	<u>\$ 343,571</u>	<u>\$ 38,108</u>

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

JAY COUNTY REGIONAL 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 include the following sources:

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution, or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

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

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.

JAY COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(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.

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

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

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

F. Interfund Transfers

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

G. Fund Accounting

Separate funds are established, maintained, and reported by the District. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the District. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the District in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the District to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

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.

JAY COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

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

	Wastewater Operation and Maintenance	Wastewater Revenue	Wastewater Bond and Interest	Wastewater Debt Service	Wastewater Construction	Totals
Cash and investments - beginning	\$ 11,316	\$ -	\$ -	\$ -	\$ -	\$ 11,316
Receipts:						
Utility fees	-	11,783	-	-	-	11,783
Penalties	-	165	-	-	-	165
Other receipts	3,376	-	7,142	1,431	914,200	926,149
Total receipts	3,376	11,948	7,142	1,431	914,200	938,097
Disbursements:						
Other services and charges	1,148	-	-	-	-	1,148
Debt service - principal and interest	-	-	-	-	75,000	75,000
Capital outlay	-	-	-	-	800,459	800,459
Utility operating expenses	10,621	-	-	-	-	10,621
Other disbursements	-	11,948	-	-	-	11,948
Total disbursements	11,769	11,948	-	-	875,459	899,176
Excess (deficiency) of receipts over disbursements	(8,393)	-	7,142	1,431	38,741	38,921
Cash and investments - ending	\$ 2,923	\$ -	\$ 7,142	\$ 1,431	\$ 38,741	\$ 50,237

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

	Wastewater Operation and Maintenance	Wastewater Revenue	Wastewater Bond and Interest	Wastewater Debt Service	Wastewater Construction	Totals
Cash and investments - beginning	\$ 2,923	\$ -	\$ 7,142	\$ 1,431	\$ 38,741	\$ 50,237
Receipts:						
Utility fees	-	67,782	-	-	-	67,782
Penalties	-	1,039	-	-	-	1,039
Other receipts	39,184	-	26,776	2,861	193,800	262,621
Total receipts	39,184	68,821	26,776	2,861	193,800	331,442
Disbursements:						
Other services and charges	351	-	-	-	-	351
Debt service - principal and interest	-	-	20,054	-	-	20,054
Capital outlay	-	-	-	-	218,352	218,352
Utility operating expenses	35,993	-	-	-	-	35,993
Other disbursements	-	68,821	-	-	-	68,821
Total disbursements	36,344	68,821	20,054	-	218,352	343,571
Excess (deficiency) of receipts over disbursements	2,840	-	6,722	2,861	(24,552)	(12,129)
Cash and investments - ending	\$ 5,763	\$ -	\$ 13,864	\$ 4,292	\$ 14,189	\$ 38,108

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

<u>Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Regional Sewer District	<u>\$ 1,061</u>	<u>\$ 2,268</u>

JAY 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		
Regional Sewer District: Revenue bonds	2011 sewer construction	<u>\$ 607,000</u>	<u>\$ 27,663</u>

JAY 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>
Regional Sewer District:	
Construction in progress	<u>\$ 1,144,519</u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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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 JAY COUNTY REGIONAL SEWER DISTRICT, JAY COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the Jay County Regional 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, 2011 to December 31, 2012. 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, 2011 to December 31, 2012.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-004 and 2012-005. Our opinion on the major federal program is not modified with respect to these matters.

The District's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

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.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-003 to be material weaknesses.

The District's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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

November 20, 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 are presented as intended by the District.

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JAY COUNTY REGIONAL SEWER DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended December 31, 2011 and 2012

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 12-31-11	Total Federal Awards Expended 12-31-12
<u>Department of Agriculture</u>					
Water and Waste Program Cluster					
ARRA - Water and Waste Disposal Systems for Rural Communities - ARRA	Direct Grant	10.781			
Grant			IN-704-00-02-Jay	\$ 304,200	\$ 193,800
Loan				<u>610,000</u>	<u>-</u>
Total - Water and Waste Program Cluster				<u>914,200</u>	<u>193,800</u>
Total - Department of Agriculture				<u>914,200</u>	<u>193,800</u>
Total federal awards expended				<u>\$ 914,200</u>	<u>\$ 193,800</u>

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

JAY COUNTY REGIONAL 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 sewer districts shall be conducted biennially. Such audits shall include both years within the biennial period.

JAY COUNTY REGIONAL 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?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

Name of Federal Program or Cluster

Water and Waste Program Cluster

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

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2012-001 - 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. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the District to reduce risks to the achievement of financial reporting objectives. The District has not separated incompatible activities related to receipts, utility billings and collections, disbursements, and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

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

2. **Preparing Financial Statement:** 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, including notes to the financial statement.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the District Board to monitor and assess the quality of the District's system of internal control. The District Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the District at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the District has no process to identify or communicate corrective actions to improve controls.

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)

FINDING 2012-002 - INTERNAL CONTROLS OVER 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.

During the audit of the SEFA, we noted that the District omitted a \$610,000 loan, which is considered a part of the total grant award. Audit adjustments were proposed, accepted by the District, and made to the SEFA presented in this report.

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)

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

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 the 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.
- (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."

Section III - Federal Award Findings and Questioned Costs

FINDING 2012-003 - INTERNAL CONTROLS OVER WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES - ARRA

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities - ARRA

CFDA Number: 10.781

Federal Award Number and Year (or Other Identifying Number): IN-704-00-02-Jay

Pass-Through Entity: Direct Grant

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

Management of the District has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Equipment and Real Property Management; Davis-Bacon Act; Period of Availability; Procurement, Suspension and Debarment; Reporting; and Special Tests And Provisions, including ARRA - Separate Accountability and ARRA - Presentation on the Schedule of Federal Awards. The failure to establish an effective internal control system places the District at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

Monitoring of internal controls over of the District's grant and loan was inadequate to verify proper compliance with federal requirements. The District's Board hired various firms and individuals to assist them in complying with federal requirements of their USDA grant and loan, but failed to monitor these persons to verify that the work was properly completed.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the District.

We recommended that the District's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

FINDING 2012-004 - CASH MANAGEMENT - COMPLIANCE REQUIREMENTS

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities - ARRA

CFDA Number: 10.781

Federal Award Number and Year (or Other Identifying Number): IN-704-00-02-Jay

Pass-Through Entity: Direct Grant

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

As a result of the District not establishing an effective internal control system related to Cash Management compliance requirements, federal funds were drawn down in advance without properly determining cash needs. The original drawdown on June 11, 2011, resulted in excessive cash on hand of \$31,900. Additionally, three of the ten draw requests submitted contained errors resulting in additional amounts being accumulated to the cash balance during the grant period. The District did not have policies and procedures in place to ensure that draw requests were for expenses occurring timely after the draw down of funds. The excessive cash balances ranged from \$31,900 to \$40,427 throughout the award period until the last construction payment was made on March 11, 2013.

7 CFR 3016.20 Standards for financial management systems states in part:

"(7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Surplus cash indicates noncompliance with the cash management requirement as set forth by the grant agreement, which could result in the loss of future federal awards.

We recommended that the District officials ensure that the time between the receipt and disbursement of federal funds is minimized according to the grant requirements.

FINDING 2012-005 - REPORTING - COMPLIANCE REQUIREMENTS

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities - ARRA

CFDA Number: 10.781

Federal Award Number and Year (or Other Identifying Number): IN-704-00-02-Jay

Pass-Through Entity: Direct Grant

As part of the grant agreement between the District and the USDA - Rural Development, the District is required to submit an OMB Circular A-133 Audit and Annual Budget and Projected Cash Flow Reports to the USDA - Rural Development. The District has not filed any of these reports, although the OMB Circular A-133 Audit report requirement will be met with the late filing of this 2011-2012 report.

The District has agreed to the USDA - Rural Development's *Letter of Conditions* which states in part:

"A borrower that expends \$500,000 or more in federal financial assistance per fiscal year shall submit an audit performed in accordance with the requirements of OMB Circular A-133 . . . audits shall be submitted no later than 9 months after the end of the fiscal year . . .

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

Annual Budget and Projected Cash Flow: Thirty days prior to the beginning of each fiscal year, you will be required to submit an annual budget and projected cash flow to this office. You should submit two copies of Form RD 442-2, Statement of Budget, Income and Equity, Schedule 1, page 1; and Schedule 2, Projected Cash Flow. The only data required at this time on Schedule 1, page 1, is Columns 2 & 3. All of Schedule 1, page 2 and Schedule 2, Projected Cash Flow will be required. You may submit annual budgets on other financial statements for cash flow projections rather than Form RD 442-2. With the submission of the annual budget, you will be required to provide a current rate schedule, a current listing of the Board of Counsel member and terms."

The District is not in compliance with reporting requirements for this program. Failure to comply with these requirements could cause the District to be ineligible to receive future federal awards.

We recommended that officials prepare all required reports on a timely basis, and that they contact the USDA - Rural Development office regarding whether to file previously required reports.

AUDITEE PREPARED DOCUMENT

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

JAY COUNTY REGIONAL SEWER DISTRICT

224 WEST WATER STREET

PORTLAND, IN 47371

CORRECTIVE ACTION PLAN

FINDING 2012-001—INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person for Corrective Action: Ralph Frazee, Treasurer

Contact Phone Number: 260-726-6909

Description of Corrective Action Plan:

The Jay County Regional Sewer District will segregate oversight duties for the financials so that the accountant/bookkeeper duties can be monitored to detect and prevent misstatements or irregularities. The Treasurer, (Ralph Frazee) will oversee the bank statement reconciliation on a monthly basis to insure that there is a check and balance of income and expenses.

The accountant will prepare a monthly report that shows amounts billed in relation to amounts received from customers of the sewer district.

All checks must be signed by two signatories. At the present time both the treasurer and a second board member sign checks (Ralph Frazee and Joe Sommers).

Claims are presented to the board for approval and must be voted on before payment. Utility bills are the exception due to the short time between billing and payment due time frame.

Accountant will complete Bank Reconciliation

Treasurer will review for accuracy and then will sign off

Bills turned into the Sewer District will be reviewed by the Sewer District Board members and approved by vote and recorded in the minutes.

Anticipated Completion Date: Some in place now, but all will be affirmed at December 8, 2014 board meeting

FINDING 2012-002 – INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person for Corrective Action: Ralph Frazee, Treasurer

Contact Phone Number: 260-726-6909

Description of Corrective Action Plan:

Effective November 21, 2014 the accountant/bookkeeper will assume duties of Grant Compliance Coordinator. She is taking training from USDA on the proper methods to monitor and complete reports needed to stay in compliance.

The accountant/bookkeeper will prepare financial statements that will be reviewed by both the Treasurer and a designated board member for completeness before presentation to the whole board for approval and noted in the board minutes.

The treasurer will oversee reports for cash receipts and disbursements for proper internal control.

An inventory of assets has been collated and will be monitored and reported as required by Federal programs or CFDA.

Anticipated Completion Date: December 8, 2014

FINDING 2012-003 – INTERNAL CONTROLS OVER WATER AND WASTEWATER DISPOSAL SYSTEMS FOR RURAL COMMUNITIES – ARRA

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities – ARRA

CFDA Number: 10.781

Federal Award Number and Year: IN-704-00-02-Jay

Pass Through Entity: Direct Grant

Contact Person for Corrective Action: Ralph Frazee, Treasurer

Contact Phone Number: 260-726-6909

The Vice President will take over duties of Grant Administrator.

The Grant Administrator will monitor all claims for payment and audit the vouchers which will be turned over for payment. Claims must go through the complete board for approval and be signed off in the minutes before the Treasurer and a second board member will sign the check.

The Grants Administrator will maintain the inventory of assets as required by the Federal guidelines. Since completion of the Regional Sewer District project the Grant Administrator will work with the Grant Compliance Coordinator to maintain compliance with Federal guidelines for the grant.

Anticipated Completion Date: December 8, 2014

FINDING 2012-004 – CASH MANAGEMENT – COMPLIANCE REQUIREMENTS

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities – ARRA

CFDA Number: 10.781

Federal Award Number and Year: IN-704-00-02- JAY

Pass Through Entity: Direct Grant

Contact Person for Corrective Action: Ralph Frazee, Treasurer

Contact Phone Number: 260-726-6909

The treasurer will oversee that the accountant/bookkeeper will make payments to the federal government on a timely basis.

The Vice-President of the Regional Sewer Board will be the Grant Administrator. The Grant Administrator will monitor cash balances to insure compliance with the cash management requirements as set forth by the grant agreement, which could result in loss of future federal awards.

Anticipated Completion Date: Plan will be in place by December 8, 2014.

FINDING 2012-005 – COMPLIANCE REQUIREMENTS

Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal systems for Rural Communities
CFDA Number 10.781
Federal Award Number and Year: IN-704-00-02-Jay
Pass-Through Entity: Direct Grant

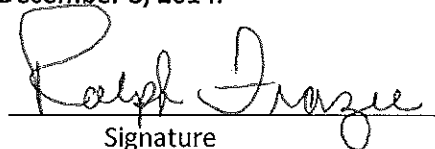
Contact Person for Corrective Action: Ralph Frazee, Treasurer
Contact Phone Number: 260-726-6909

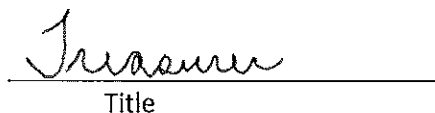
The Grant Coordinator is scheduled to take training with the USDA for reporting compliance requirements as required by OMB Circular A-133.

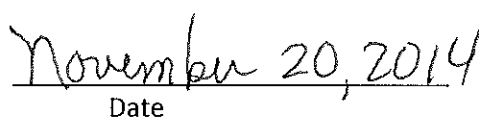
The accountant/bookkeeper is in contact with the USDA Rural Development regarding past due reports and is filing past due reports as required.

The President of the Regional Sewer Board will oversee that each of the duties assigned for the segregation of duties has been properly filled and request quarterly updates on the progress and compliance with Federal reporting requirements.

Anticipated Completion Date: Plan will be in place by December 8, 2014.


Signature


Title


Date

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/>.