

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

MEXICO REGIONAL SEWER DISTRICT
MIAMI COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
02/20/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Robert C. Appleton	01-01-11 to 12-31-14
President of the Board	Shirley Leazenby	01-01-11 to 03-31-13
	John Stoeckert	04-01-13 to 06-01-14
	John Stoeckert (Interim)	06-02-14 to 09-22-14
	(Vacant)	09-23-14 to 10-13-14
	Richard D. Hostetler	10-14-14 to 12-31-14



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE MEXICO REGIONAL SEWER DISTRICT, MIAMI COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Mexico Regional Sewer District (Sewer 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 Sewer 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 Sewer 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 Sewer 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 Sewer 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 Sewer 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 October 15, 2014, on our consideration of the Sewer 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 Sewer 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 Sewer 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 Sewer District's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, 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

October 15, 2014



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 MEXICO REGIONAL SEWER DISTRICT, MIAMI 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 Mexico Regional Sewer District (Sewer 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 October 15, 2014, wherein we noted the Sewer 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 Sewer 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 Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sewer 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 Sewer 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 2012-001.

Mexico Regional Sewer District's Response to Findings

The Sewer District's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Sewer 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 Sewer 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 Sewer District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

October 15, 2014

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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

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MEXICO 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 Debt Service	\$ -	\$ 14,090	\$ 10,000	\$ 4,090	\$ 58,228	\$ 23,985	\$ 38,333
Wastewater Operating	-	20,487	14,371	6,116	144,986	131,553	19,549
Wastewater Construction	5,073	1,269,109	1,274,025	157	5,035,267	5,035,056	368
Totals	<u>\$ 5,073</u>	<u>\$ 1,303,686</u>	<u>\$ 1,298,396</u>	<u>\$ 10,363</u>	<u>\$ 5,238,481</u>	<u>\$ 5,190,594</u>	<u>\$ 58,250</u>

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

MEXICO REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Sewer District was established under the laws of the State of Indiana. The Sewer District operates under an appointed governing board.

The accompanying financial statement presents the financial information for the Sewer 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:

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.

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.

MEXICO REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

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 Sewer District. It includes all expenditures for the reduction of the principal and interest of the Sewer 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 Sewer 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 Sewer 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 Sewer 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 Sewer 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. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Sewer District submits a proposed operating budget to the governing board for the following calendar year.

Note 3. 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.

MEXICO REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the Sewer 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 4. Risk Management

The Sewer 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 Sewer 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 5. Subsequent Events

In the summer of 2014, the Sewer District Officials realized that they were having cash flow issues. In an effort to increase revenues, the Sewer District began taking steps towards increasing the monthly sewer rate charged to customers. As of October 14, 2014, the Sewer District Board has not yet voted to increase their rate of \$59.92 per month, but hopes to have a new rate implemented by year end.

SUPPLEMENTARY INFORMATION - UNAUDITED

For additional financial information, the Sewer 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 Report of the Sewer District which is 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 Sewer District. It is presented as intended by the Sewer District.

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

	Wastewater Debt Service	Wastewater Operating	Wastewater Construction	Totals
Cash and investments - beginning	\$ -	\$ -	\$ 5,073	\$ 5,073
Receipts:				
Utility fees	-	20,487	-	20,487
Other receipts	14,090	-	1,269,109	1,283,199
Total receipts	<u>14,090</u>	<u>20,487</u>	<u>1,269,109</u>	<u>1,303,686</u>
Disbursements:				
Other services and charges	-	-	1,065	1,065
Debt service - principal and interest	10,000	-	417,000	427,000
Capital outlay	-	-	855,200	855,200
Other disbursements	-	14,371	760	15,131
Total disbursements	<u>10,000</u>	<u>14,371</u>	<u>1,274,025</u>	<u>1,298,396</u>
Excess (deficiency) of receipts over disbursements	<u>4,090</u>	<u>6,116</u>	<u>(4,916)</u>	<u>5,290</u>
Cash and investments - ending	<u>\$ 4,090</u>	<u>\$ 6,116</u>	<u>\$ 157</u>	<u>\$ 10,363</u>

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

	Wastewater Debt Service	Wastewater Operating	Wastewater Construction	Totals
Cash and investments - beginning	\$ 4,090	\$ 6,116	\$ 157	\$ 10,363
Receipts:				
Utility fees	-	144,986	-	144,986
Other receipts	58,228	-	5,035,267	5,093,495
Total receipts	58,228	144,986	5,035,267	5,238,481
Disbursements:				
Personal services	-	29,447	-	29,447
Debt service - principal and interest	23,865	5,526	-	29,391
Capital outlay	-	-	5,034,836	5,034,836
Utility operating expenses	-	30,685	-	30,685
Other disbursements	120	65,895	220	66,235
Total disbursements	23,985	131,553	5,035,056	5,190,594
Excess of receipts over disbursements	34,243	13,433	211	47,887
Cash and investments - ending	\$ 38,333	\$ 19,549	\$ 368	\$ 58,250

MEXICO REGIONAL SEWER DISTRICT
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Description of Debt		Ending	Principal and
Type	Purpose	Principal	Interest Due
		Balance	Within One
			Year
Wastewater: Notes and loans payable	Construction of wastewater treatment plant	<u>\$ 1,946,000</u>	<u>\$ 75,605</u>

MEXICO 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>
Wastewater:	
Construction in progress	<u>\$ 6,257,642</u>
Total capital assets	<u><u>\$ 6,257,642</u></u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE MEXICO REGIONAL SEWER DISTRICT, MIAMI COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the Mexico Regional Sewer District's (Sewer 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 Sewer 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 Sewer 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 Sewer 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 Sewer District's compliance.

Opinion on the Major Federal Program

In our opinion, the Sewer 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 item 2012-004. Our opinion on the major federal program is not modified with respect to this matter.

The Sewer District's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Sewer 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 Sewer 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 Sewer 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 Sewer 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 Sewer District's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Sewer 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

October 15, 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 Sewer District. The schedule and note are presented as intended by the Sewer District.

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

Federal Grantor Agency 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			
Wastewater System Construction - Series 2011 A Bonds - ARRA			IN-701-92-01	\$ 782,806	\$ 723,194
Wastewater System Construction - Series 2011 B Bonds - ARRA			IN-701-92-03	440,000	-
Wastewater System Construction - Grant - ARRA			IN-701-00-02	-	4,311,642
				<u> -</u>	<u> -</u>
Total federal awards expended				<u>\$ 1,222,806</u>	<u>\$ 5,034,836</u>

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

MEXICO 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 Sewer 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 regional sewer districts shall be conducted biennially. Such audits shall include both years within the biennial period.

MEXICO 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 Sewer 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 Sewer District to reduce risks to the achievement of financial reporting objectives. The Sewer District has not separated incompatible activities related to receipts (including utility billings and collections), disbursements, and cash and investment balances. Audit evidence was not presented to determine that utility collections are posted to a customer's Subsidiary Ledger by the Sewer District's Billing Clerk, or that the Sewer District is performing any verification of those collections. Disbursements are haphazardly noted

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

and approved within some of the monthly Minutes of the Sewer District's Board meetings, but the approvals do not include all disbursements made by the Sewer District. The Sewer District Board was not aware that financial records were not being maintained by the Sewer District's Clerk, nor were monthly bank reconciliements completed. A majority of the Wastewater Project was completed in 2012, but it was not until August 2014 that the Sewer District Board contracted with an accountant to produce financial records, capital asset records, annual financial statements, and monthly bank reconciliements dating back to October 2010. In addition, there is no evidence that monthly bank reconciliements were performed, nor were there controls in place which would provide an approval of the bank reconciliation. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

2. **Preparing Financial Statement:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Sewer District's audited financial statement and then determining how those identified risks should be managed. The Sewer 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 Sewer District Board to monitor and assess the quality of the Sewer District's system of internal control. The Sewer District Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the Sewer 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 Sewer 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)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

Indiana Code 13-26-7-1 states: "Each district must keep proper records showing the district's finances."

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

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

The Sewer 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 Sewer 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. The Sewer District hired an accountant who independently prepared the SEFA without proper oversight, review, or approval.

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)

Section III - Federal Award Findings and Questioned Costs

FINDING 2012-003 - INTERNAL CONTROLS FOR 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-701-92-01, IN-701-92-03,
and IN-701-00-02

Pass-Through Entity: Direct Grant

Management of the Sewer 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 Sewer 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 Sewer District's Wastewater System Construction grant and loans was inadequate to verify proper compliance with federal requirements. The Sewer District's Board hired various firms and individuals to assist them in complying with federal requirements of their USDA grant and loans but failed to monitor these persons to verify that the work was properly completed. In addition, the

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

Sewer District Board was not aware that financial records were not being maintained by the Sewer District's Clerk, nor were monthly bank reconcilements completed. A majority of the Wastewater Project was completed in 2012, but it was not until August 2014 that the Sewer District Board contracted with an accountant to produce financial records, capital asset records, annual financial statements, and monthly bank reconcilements dating back to October 2010.

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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Sewer District.

We recommended that the Sewer District's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

FINDING 2012-004 - 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-701-92-01, IN-701-92-03,
and IN-701-00-02

Pass-Through Entity: Direct Grant

As part of the grant agreement between the Sewer District and the USDA - Rural Development, the Sewer District is required to submit an OMB Circular A-133 Audit, an Annual Budget and Projected Cash Flow, as well as Quarterly Reports to the USDA - Rural Development. The Sewer 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.

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

The Sewer 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 . . ."

"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."

"Quarterly Reports - Borrowers receiving their first loan from RD, will be required to submit two copies of Form RD 442-2, Schedule 1, page 1, columns 2-6, as appropriate, and page 2. You may submit historical quarterly financial statements on a format other than Form RD 442-2. This information should be received in the servicing office thirty days after the end of each of the first three quarters of the fiscal year."

The Sewer District is not in compliance with reporting requirements for this program. Failure to comply with these requirements could cause the Sewer 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.

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AUDITEE PREPARED DOCUMENT

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

MEXICO REGIONAL SEWER DISTRICT
P.O. BOX 96
MEXICO, INDIANA 46958

October 15, 2014

CORRECTIVE ACTION PLAN

FINDING 2012-001

Contact Person Responsible for Corrective Action: Richard Hostetler, Board President
Contact Phone Number: 1-765-633-1110

Description of Corrective Action Plan:

The collection and deposit of collections is performed by First Farmers Bank and Trust and the District Treasurer.

The posting of collections is performed by First Farmers Bank and Trust.

The postings of the records and bank reconcilements are performed by the clerk.

Checks are written and posted by the clerk, but approved and signed by the Treasurer.

All disbursements are approved by the District Board.

A new clerk has been hired with the proper training and knowledge required for this position.

A full district board is now in force and will maintain the proper oversight over financial recordkeeping and daily operations of the MRSD.

Anticipated Completion Date: 10/1/14

FINDING 2012-002

Contact Person Responsible for Corrective Action: Richard Hostetler, Board President

Contact Phone Number: 1-765-633-1110

MRSD has hired a clerk with the proper training and knowledge in order to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations and compliance with laws and regulations. The Schedule of Expenditures of Federal Awards will be reviewed and approved by the district board.

Anticipated Completion Date: 12/31/14

FINDING 2012-003

Contact Person Responsible for Corrective Action: Richard Hostetler, Board President

Contact Phone Number: 1-765-633-1110

MRSD has hired a clerk with the proper training and knowledge in order to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations and compliance with laws and regulations. Records are now up to date, bank reconcilements performed and

capital asset records are maintained. Segregation of duties is in place as aforementioned under Finding 2012-001. The district board has been made aware of their responsibility in assuring that laws and regulations are followed as stipulated by the State Board of Accounts and the Department of Agriculture, as per the grant agreement.

Anticipated Completion Date: 10/14/14

FINDING 2012-004

Contact Person Responsible for Corrective Action: Richard Hostetler, Board President
Contact Phone Number: 1-765-633-1110

The current clerk and the board have been made aware of the failure to comply in submitting their quarterly reports and their annual budget and cash flow to USDA Rural Development. The clerk is in the process of compiling the information necessary to complete the delinquent reports. The board will monitor the reporting process closely in the future.

Anticipated Completion Date: 12/01/14

Robert C. Appeltin
(Signature)

Treasurer
(Title)

10-14-2014
(Date)

OTHER REPORT

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