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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

March 27, 2019

Board of Trustees
Jennings Northwest Regional Utilities District – Sewage
3847 County Monroe West
North Vernon, IN 47265


As authorized under Indiana Code 5-11-1, we engaged private examiners under our review to perform the audit of Jennings Northwest Regional Utilities District – Sewage. We have reviewed the audit report opined upon by Crowe LLP, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of Jennings Northwest Regional Utilities District – Sewage as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the Emphasis of Matter Regarding Going Concern paragraph included in the Independent Auditors' Report and further detailed in Note 5.

In our opinion, Crowe LLP prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Report for Jennings Northwest Regional Utilities District – Sewage was prepared in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

JENNINGS NORTHWEST REGIONAL UTILITY DISTRICT
Jennings County, Indiana

FINANCIAL STATEMENTS
December 31, 2017

JENNINGS NORTHWEST REGIONAL UTILITY DISTRICT
Jennings County, Indiana

FINANCIAL STATEMENTS
December 31, 2017

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JENNINGS NORTHWEST REGIONAL UTILITY DISTRICT
SCHEDULE OF OFFICIALS (Unaudited)
December 31, 2017

<u>Office</u>	<u>Official</u>	<u>Term</u>
Financial Controller	Dan B. Wooton	01-01-17 to 12-31-17
President of the Board	Edwin Whitaker	01-01-17 to 12-31-17

INDEPENDENT AUDITOR'S REPORT

Those Charged with Governance
Jennings Northwest Regional Utility District
North Vernon, Indiana

Report on the Financial Statement

We have audited the accompanying statement of receipts, disbursements, and cash and investment balances of Jennings Northwest Regional Utility District (the Unit) as of and for the year ended December 31, 2017, and the related notes (the financial statements).

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6) as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 statements.

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

(Continued)

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

As discussed in Note 1 to the financial statements, the Unit prepares its financial statements 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 statements 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 statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Unit as of December 31, 2017, or changes in net position or cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investment balances of the Unit as of December 31, 2017, and its cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Unit will continue as a going concern. As discussed in Note 5 to the financial statements, the Unit has past due bond principal and interest payments as a result of a declining customer base and increasing facilities repairs expense that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Officials and Supplementary Information Schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
March 19, 2019

JENNINGS NORTHWEST REGIONAL UTILITIES
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
REGULATORY BASIS
For The Year Ended December 31, 2017

<u>Fund</u>	Cash and Investments <u>01-01-17</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash and Investments <u>12-31-17</u>
Water Operating	\$ 36,038	\$ 860,956	\$ 835,341	\$ 61,653
Wastewater	12,568	1,091,420	1,052,055	51,933
Clearing	45,250	1,818,866	1,861,025	3,092
Payroll	<u>26,599</u>	<u>500,897</u>	<u>516,537</u>	<u>10,958</u>
Totals	<u>\$ 120,455</u>	<u>\$ 4,272,139</u>	<u>\$ 4,264,958</u>	<u>\$ 127,636</u>

See accompanying notes to financial statements.

JENNINGS NORTHWEST REGIONAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Jennings Northwest Regional Utility District (the Unit) was established under the laws of the State of Indiana. The Unit operates under an appointed governing board.

The accompanying financial statement presents the financial information for the Unit.

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 (GAAP), 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. The regulatory basis also allows for all investments to be stated at cost, while GAAP requires fair value for qualifying investments.

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.

Receipts: Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Charges for services. Amounts received including, but not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable television receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Other receipts. 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.

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

Personal services. Amounts disbursed 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.

Debt service principal and interest. Amounts disbursed for fixed obligations resulting from financial transactions previously entered into by the Unit. It includes all expenditures for the reduction of the principal and interest of the Unit general obligation indebtedness.

Utility operating expenses. Amounts disbursed for operating the utilities.

Other disbursements. Amounts disbursed for various purposes including, but not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, lease agreements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

(Continued)

JENNINGS NORTHWEST REGIONAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transfers: The Unit may, from time to time, make transfers 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.

Fund Accounting: Separate funds are established, maintained, and reported by the Unit. Each fund is used to account for amounts 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 Unit. The amounts 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 Unit 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 (PDIF). This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Unit to invest in securities including, but not limited to, the following: federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units. Given the limited investment parameters applicable under state statute, certain risks, such as credit, custodial, concentration, and interest rate are not deemed significant.

The Unit held cash deposits with financial institutions that maintained FDIC and PDIF coverages, as applicable. The Unit did not hold investments for any of the year under audit.

NOTE 3 - RISK MANAGEMENT

The Unit may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions 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 Unit 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. The Unit has purchased insurance to address the risks described above.

NOTE 4 - DEBT

In 2005, the Unit issued \$1,855,000 of bonds to refund previous Waterworks bonds. The 2005 bonds mature on September 1, 2022 and have interest rates ranging from 3.00% to 4.70% with level debt service requirements averaging \$155,000 a year. At the December 31, 2017, the amount of principal outstanding was \$750,000. The outstanding balance at December 31, 2017 includes unpaid principal of \$60,000 on the September 1, 2017 term bond. Interest has not been paid since September 1, 2017. The Unit made partial principal and interest payments during the year under audit.

(Continued)

NOTE 5 –GOING CONCERN AND MANAGEMENT PLANS

Pertinent conditions and events giving rise to the assessment of substantial doubt relate to the Unit not making scheduled payments on the Unit's bonds as described below:

- **September 1, 2017 Term Bonds** -During the year ended December 31, 2017, the Unit did not make the required September 1, 2017 bond principal payments and was delinquent by \$60,000 on the bonds. During the year ended December 31, 2018, the Unit paid \$20,000 on September 1, 2018 applied to the term bond, leaving \$40,000 unpaid as of the date of this report.
- **September 1, 2018 Term Bonds** - During the year ended December 31, 2018, the Unit made a March 1, 2018 principal payment of \$60,000 on the \$125,000 of term bonds due September 1, 2018, but did not make a payment of \$65,000 due on September 1, 2018. Subsequently, on March 1, 2019, the Unit made a payment of \$20,000 on the term bonds, leaving a balance of \$45,000 unpaid as of the date of this report.
- **September 1, 2019 Term Bonds** – These terms bonds require \$130,000 in semi-annual payments of \$65,000. No payment been made on the March 1, 2019 installment of principal due, which was \$65,000.

An event notice was issued on May 3, 2018 related to delinquency of principal and interest payment and unscheduled draw on debt service reserves. The event notice indicated that a portion of the principal and interest payments due September 1, 2017 and principal and interest payments due March 1, 2018 were not made and the moneys held in the Debt Service Reserve Account were drawn upon and used during calendar year 2017 to pay portions of principal and interest on the bonds.

As of the date of this report, the delinquent portion principal is \$150,000 and the total outstanding balance of principal is \$650,000. The \$650,000 includes a \$435,000 term bond due on September 1, 2022 with scheduled semiannual principal and interest payments of approximately \$80,000, or approximately \$160,000 per year from March 1, 2020 through September 1, 2022. Total interest due for the period from September 1, 2017 until maturity is approximately \$110,000, of which approximately \$44,000 is past due. There are no remaining debt service reserves.

The missed bond payments are partially a result of a declining customer base, increased repairs and maintenance costs on facilities and infrastructure, coupled with no increase in customer rates for several years.

Management's plans to address to currently due, and future, bond payments, includes the following actions and plans:

- The Unit has reported implementing a 2019 budget that includes an additional \$20,000 per month for the Unit to make payments on delinquent debt and then on current and future debt service.
- The Unit Board resolved to engage an advisor to perform a rate study to determine the adequacy of current rates related to future operations.
- Management is currently in the process of applying for a \$10,000,000 grant and loan agreement with the USDA to fund construction and improvements. Management has reported that the improvements will reduce facility maintenance costs in the future.

SUPPLEMENTAL SCHEDULES (Unaudited)

JENNINGS NORTHWEST REGIONAL UTILITIES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2017

	Water Operating	Wastewater	Clearing	Payroll	Totals
Cash and investments - beginning	\$ 36,038	\$ 12,568	\$ 45,250	\$ 26,599	\$ 120,455
Receipts:					
Charges for services	860,956	1,091,420	-	-	1,952,376
Other receipts-clearing account	-	-	1,818,866	-	1,818,866
Other receipts-payroll account	-	-	-	500,897	500,897
Total receipts	<u>860,956</u>	<u>1,091,420</u>	<u>1,818,866</u>	<u>500,897</u>	<u>4,272,139</u>
Disbursements:					
Personal services	126,669	380,006	-	-	506,675
Debt service - principal and interest	78,539	-	-	-	78,539
Utility operating expenses	630,133	672,049	-	-	1,302,182
Other disbursements-clearing account	-	-	1,861,025	-	1,861,025
Other disbursements-payroll account	-	-	-	516,537	516,537
Total disbursements	<u>835,341</u>	<u>1,052,055</u>	<u>1,861,025</u>	<u>516,537</u>	<u>4,264,958</u>
Excess (deficiency) of receipts over disbursements	<u>25,615</u>	<u>39,365</u>	<u>(42,158)</u>	<u>(15,640)</u>	<u>7,181</u>
Cash and investments - ending	<u>\$ 61,653</u>	<u>\$ 51,933</u>	<u>\$ 3,092</u>	<u>\$ 10,958</u>	<u>\$ 127,636</u>

JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2017

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Water Utility	\$ -	\$ 105,276
Wastewater Utility	-	<u>166,870</u>
	<u>\$ -</u>	<u>\$ 272,146</u>

JENNINGS NORTHWEST REGIONAL UTILITIES
 SCHEDULE OF LEASES AND DEBT
 December 31, 2017

Description of Debt		Ending	Average Annual
<u>Type</u>	<u>Purpose</u>	<u>Principal</u>	<u>Principal and</u>
		<u>Balance</u>	<u>Interest Due</u>
Governmental activities:			
General obligation bonds	Water & Wastewater Bonds	\$ 750,000	\$ 155,000
Total governmental activities		750,000	155,000
Totals		\$ 750,000	\$ 155,000

JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF CAPITAL ASSETS
December 31, 2017

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 Utility:	
Land	\$ 98,649
Buildings	21,727
Improvements other than buildings	3,519,995
Machinery, equipment and vehicles	<u>116,554</u>
 Total wastewater utility	 3,756,925
Water Utility:	
Land	4,010
Buildings	17,176
Improvements other than buildings	1,039,483
Machinery, equipment and vehicles	<u>42,110</u>
 Total water utility	 <u>1,102,779</u>
 Total capital assets	 <u>\$ 4,859,704</u>

JENNINGS NORTHWEST REGIONAL UTILITY DISTRICT
OTHER REPORT
December 31, 2017

The reports presented herein were prepared in addition to another official report prepared for the Unit as listed below:

Indiana State Board of Accounts Compliance Examination of Jennings Northwest Regional Utility District

The above report contains the results of the compliance examination as required by the Indiana State Board of Accounts' *Accounting and Uniform Compliance Guidelines Manual For Special Districts*.