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February 5, 2020

Board of Trustees  
Newton County Regional Water and Sewer District  
P.O. Box 219  
Morocco, IN 47963


As authorized under Indiana Code 5-11-1, we engaged private examiners under our review to perform the audit of Newton County Regional Water and Sewer District. We have reviewed the audit report opined upon by Crowe LLP, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of Newton County Regional Water and Sewer District as of December 31, 2018, 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 findings in the report on pages 19 through 22. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings

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 Newton County Regional Sewer Wastewater District was prepared for the period January 1, 2018 to December 31, 2018, 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

**NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT**  
Newton County, Indiana

**FINANCIAL STATEMENTS**  
December 31, 2018

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT

FINANCIAL STATEMENTS

December 31, 2018

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NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF OFFICIALS (Unaudited)  
December 31, 2018

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<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sherri Rainford	01-01-18 to 12-31-18
President of the Board	Randy Decker	01-01-18 to 12-31-18

## INDEPENDENT AUDITOR'S REPORT

Those Charged with Governance  
Newton County Regional Water and Sewer District  
Brook, Indiana

**Report on the Financial Statement**

We have audited the accompanying statement of receipts, disbursements, and cash and investment balances of Newton County Regional Water and Sewer District (the Unit) as of and for the year ended December 31, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

***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.

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(Continued)

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, 2018, 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, 2018, 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.

### ***Other Matters***

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of Officials and Supplementary Information Schedules have 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 them.

### **Report on Other Legal and Regulatory Requirement**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2020, on our consideration of the Unit's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Unit's internal control over financial reporting and compliance.

  
Crowe LLP

Indianapolis, Indiana

January 23, 2020 except for our report on the Schedule of Expenditures of Federal and State Awards, for which the date is August 18, 2020

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended December 31, 2018

<u>Fund</u>	Cash and Investments <u>01-01-18</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash and Investments <u>12-31-18</u>
FEDERAL GRANTS OPERATING	\$ -	\$ 1,919,016	\$ 1,826,383	\$ 92,633
IEDC FUNDS	-	475,000	475,000	-
PAYROLL	1,318	129,652	130,970	-
PLANT 2-WASTEWATER UTILITY OPERATING	1,070,686	245,955	395,942	920,699
SEWER SENIOR BOND & INTEREST	288,932	4,251	47,589	245,594
SEWER SENIOR DEBT SERVICE RESERVE	686,867	11,226	-	698,093
SEWER IMPROVEMENT	-	78,621	78,621	-
SEWER JUNIOR BOND & INTEREST	281,335	4,598	-	285,933
2017 A-2 SEWAGE WORKS CONSTRUCTION ACCOUNT	-	551,672	551,672	-
2017 A-3 SEWAGE WORKS CONSTRUCTION ACCOUNT	-	7,548,000	7,548,000	-
2017 B SEWAGE WORKS CONSTRUCTION ACCOUNT	-	2,087,543	2,087,543	-
PLANT 1-WATER UTILITY OPERATING	199,409	88,981	368,743	(80,353)
WATER SENIOR BOND & INTEREST	88,921	1,054	40,088	49,887
WATER SENIOR DEBT SERVICE RESERVE	10,807	40,067	-	50,874
WATER IMPROVEMENT	-	149,715	149,715	-
WATER JUNIOR BOND & INTEREST	80,341	1,304	1,110	80,535
2017 A-2 WATERWORKS CONSTRUCTION ACCOUNT	-	1,411,126	1,411,126	-
2017 B WATERWORKS CONSTRUCTION ACCOUNT	-	1,784,749	1,285,128	499,621
Totals	<u>\$ 2,708,616</u>	<u>\$ 16,532,530</u>	<u>\$ 16,397,630</u>	<u>\$ 2,843,516</u>

See notes to financial statements.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity: 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:

*Utility fees.* Amounts received from charges for current services.

*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.

*Other services and charges.* Amounts disbursed for services including, 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.* 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.

*Capital outlay.* Amounts disbursed for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

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(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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.

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. As of the year ended December 31, 2018, the Unit held investments in non-negotiable certificates of deposit.

The Unit held cash deposits with financial institutions that maintained FDIC and PDIF coverages, as applicable.

**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.

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(Continued)

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 4 - PENSION PLAN**

*Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the Unit authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

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

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. The Unit made contributions to the PERF plan during the year under audit. The contribution rate was 11.2% for the year under audit.

**NOTE 5- DEBT**

In 2017, the Unit issued the Senior Sewage Works Revenue Bond of 2017, Series A-1 in the amount of \$656,000. \$23,802 of the funding was used to pay off interest on the 2016 Sewer Bond Anticipation Note, \$62,603 was deposited in the operation and maintenance fund for future maintenance costs, and the remaining \$570,174 deposited in debt service funds to make future interest payments on the Senior and 2017 Sewer Bond funds. The bond matures on July 1, 2020.

In 2017, the Unit issued the Senior Sewage Works Revenue Bond of 2017, Series A-2 in the amount of up to \$3,266,000. \$1,659,191 of the funding was used to pay the remaining principal on the Sewer 2016 Bond Anticipation Note with the remaining funding to be used for the wastewater treatment plant construction costs. As of December 31, 2018, \$2,423,842 of the loan was drawn and outstanding. The bond matures on July 1, 2027. The Unit made interest payments during the year under audit.

In 2017, the Unit issued the Senior Sewage Works Revenue Bond of 2017, Series A-3 in the amount of up to \$7,548,000 to be used for the wastewater treatment plant construction. As of December 31, 2018, the loan has been fully drawn and is outstanding. The bond matures on July 1, 2039. The Unit made interest payments during the year under audit.

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(Continued)

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 5 – Debt** (Continued)

In 2017, the Unit issued the Junior Sewage Works Revenue Bond of 2017, Series B in the amount of up to \$6,223,000 to be used for the wastewater treatment plant construction. As of December 31, 2018, \$2,087,543 of the loan was drawn and outstanding. The bond matures on July 1, 2037. The Unit made interest payments during the year under audit.

In 2017, the Unit issued the Senior Water Works Revenue bond of 2017, Series A-1 in the amount of \$224,000. \$23,170 of the funding was used to pay off interest on the 2016 Water Bond Anticipations Note, \$30,903 was deposited in the operation and maintenance fund for future maintenance costs, and the remaining \$169,927 deposited in debt service funds to make future interest payments on the Senior and 2017 Water Bond funds. The bond matures on January 1, 2021. The unit made interest payments during the year under audit.

In 2017, the Unit issued the Senior Water Works Revenue Bond of 2017, Series A-2 in the amount of up to \$3,306,000. \$1,473,266 of the funding was used to pay the remaining balance on the Water 2016 Bond Anticipation Note with the remaining funding to be used for the wastewater treatment plant construction. As of December 31, 2018, the loan has been fully drawn and is outstanding. The bond matures on January 1, 2039. The Unit made interest payments during the year under audit.

In 2017, the Unit issued the Junior Water Works Revenue Bond of 2017, Series B in the amount of up to \$1,777,000 for the purpose of the Newton County Regional Sewer District Project. As of December 31, 2018, the loan has been fully drawn and is outstanding. The bond matures on January 1, 2037. The Unit made interest payments during the year under audit.

**SUPPLEMENTAL SCHEDULES (Unaudited)**

**NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT**  
**COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND**  
**CASH AND INVESTMENT BALANCES - REGULATORY BASIS**  
 For the Year Ended December 31, 2018

	FEDERAL GRANTS OPERATING	IEDC FUNDS	PAYROLL	PLANT 2-WASTEWATER UTILITY OPERATING	SEWER SENIOR BOND & INTEREST	SEWER SENIOR DEBT SERVICE RESERVE	SEWER IMPROVEMENT	SEWER JUNIOR BOND & INTEREST	2017 A-2 SEWAGE WORKS CONSTRUCTION ACCOUNT	2017 A-3 SEWAGE WORKS CONSTRUCTION ACCOUNT	2017 B SEWAGE WORKS CONSTRUCTION ACCOUNT	PLANT 1-WATER UTILITY OPERATING	WATER SENIOR BOND & INTEREST	WATER SENIOR DEBT SERVICE RESERVE	WATER IMPROVEMENT	WATER JUNIOR BOND & INTEREST	2017 A-2 WATERWORKS CONSTRUCTION ACCOUNT	2017 B WATERWORKS CONSTRUCTION ACCOUNT	Totals
Cash and investments - beginning	\$ -	\$ -	\$ 1,318	\$ 1,070,686	\$ 288,932	\$ 686,867	\$ -	\$ 281,335	\$ -	\$ -	\$ -	\$ 199,409	\$ 88,921	\$ 10,807	\$ -	\$ 80,341	\$ -	\$ -	\$ 2,708,616
Receipts:																			
Utility fees	-	-	-	239,743	-	-	-	-	-	-	-	60,315	-	-	-	-	-	-	300,058
Other receipts	1,919,016	475,000	129,652	6,212	4,251	11,226	78,621	4,598	551,672	7,548,000	2,087,543	28,666	1,054	40,067	149,715	1,304	1,411,126	1,784,749	16,232,472
Total receipts	1,919,016	475,000	129,652	245,955	4,251	11,226	78,621	4,598	551,672	7,548,000	2,087,543	88,981	1,054	40,067	149,715	1,304	1,411,126	1,784,749	16,532,530
Disbursements:																			
Personal services	-	-	-	86,017	-	-	-	-	-	-	-	34,711	-	-	-	-	-	-	120,728
Other services and	-	-	-	9,252	-	-	-	-	-	-	-	7,652	-	-	-	-	-	-	16,904
Debt service - principal and interest	-	-	-	-	47,589	-	-	-	-	-	-	-	40,088	-	-	1,110	-	-	88,787
Capital outlay	-	-	-	8,213	-	-	78,621	-	551,672	7,548,000	2,081,331	175	-	-	149,715	-	1,411,126	1,285,128	13,113,981
Utility operating expenses	-	-	-	146,691	-	-	-	-	-	-	-	65,611	-	-	-	-	-	-	212,302
Other disbursements	1,826,383	475,000	130,970	145,769	-	-	-	-	-	-	6,212	260,594	-	-	-	-	-	-	2,844,928
Total disbursements	1,826,383	475,000	130,970	395,942	47,589	-	78,621	-	551,672	7,548,000	2,087,543	368,743	40,088	-	149,715	1,110	1,411,126	1,285,128	16,397,630
Excess (deficiency) of receipts over disbursements	92,633	-	(1,318)	(149,987)	(43,338)	11,226	-	4,598	-	-	-	(279,762)	(39,034)	40,067	-	194	-	499,621	134,900
ending	\$ 92,633	\$ -	\$ -	\$ 920,699	\$ 245,594	\$ 698,093	\$ -	\$ 285,933	\$ -	\$ -	\$ -	\$ (80,353)	\$ 49,887	\$ 50,874	\$ -	\$ 80,535	\$ -	\$ 499,621	\$ 2,843,516

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF PAYABLES AND RECEIVABLES  
December 31, 2018

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<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Sewer	\$ 5,700	\$ 16,000
Water	<u>4,200</u>	<u>15,000</u>
Totals	<u>\$ 9,900</u>	<u>\$ 31,000</u>

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF LEASES AND DEBT  
December 31, 2018

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
<u>Type</u>	<u>Purpose</u>		
Sewer:			
Revenue bonds	Construction of Wastewater Improvements A-2	\$ 2,423,842	\$ 48,477
Revenue bonds	Construction of Wastewater Improvements A-1	656,000	239,120
Revenue bonds	Construction of Wastewater Improvements A-3	7,548,000	150,960
Revenue bonds	Construction of Wastewater Improvements 2017-B	<u>2,087,543</u>	<u>41,751</u>
Total Sewer		<u>12,715,385</u>	<u>480,308</u>
Water:			
Revenue bonds	Construction of Water Works Improvement 2017-B	1,777,000	35,540
Revenue bonds	Construction of Water Works Improvements A1	224,000	75,480
Revenue bonds	Construction of Water Works Improvements A2	<u>3,306,000</u>	<u>66,120</u>
Total Water		<u>5,307,000</u>	<u>177,140</u>
Totals		<u>\$ 18,022,385</u>	<u>\$ 657,448</u>

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF CAPITAL ASSETS  
December 31, 2018

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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>
Sewer:	
Machinery, Equipment, and Vehicles	\$ 3,859
Construction in progress	<u>12,675,524</u>
Total Sewer	<u>12,679,383</u>
Water:	
Machinery, Equipment, and Vehicles	27,564
Construction in progress	<u>6,552,033</u>
Total Water	<u>6,579,597</u>
Total capital assets	<u>\$ 19,258,980</u>

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (RESTATED)  
Year ended December 31, 2018

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<b>Federal</b> <u>Pass-through/Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Amount</u>
<b>United States Department of Commerce</b>		
<u>Economic Development Administration</u>		
Investments for Public Works and Economic Development Facilities Project Number 06-01-06080	11.300	\$ <u>2,544,803</u>
<b>Environmental Protection Agency</b>		
<u>Pass through: Indiana Finance Authority</u>		
Capitalization grants for Clean Water State Revolving Funds		
SRF Wastewater Loan 2017A3	66.458	\$ 7,548,000
SRF Wastewater Loan 2017 B	66.458	<u>2,087,543</u>
		<u>9,635,543</u>
 Total Federal Expenditures		 <u>\$ 12,180,346</u>

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See accompanying notes to the schedule of expenditures of federal awards.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2018

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Newton County Regional Water and Sewer District (the "Unit") under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Unit, it is not intended to and does not present the receipts, disbursements, and cash and investment balances – regulatory basis of the Unit. Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Unit has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 2 – MATCHING**

The EDA grant requires the Unit to match with \$3,367,000 worth of funding for the construction project. The unit fulfilled this requirement with the state revolving funds. As of December 31, 2018, the Unit had met their matching portion with the state revolving funding.

**NOTE 3 – RESTATEMENT OF SEFA**

A communication error was identified regarding whether certain State Revolving Loan funds were federally funded, or state funded. Therefore, certain Capitalization Grants for Clean Water State Revolving Funds (CFDA # 66.458) expenditures were not included on the Schedule for the fiscal year ended December 31, 2018 as federal funding in the original audit filing to the federal audit clearinghouse. A correction was made to include the Clean Water State Revolving Funds as a federal program and include expenditures of \$9,635,543 on the Schedule of Expenditures of Federal Awards.

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

Those Charged with Governance  
Newton County Regional Water and Sewer District  
Brook, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Newton County Regional Water and Sewer District ("Unit"), which comprise the statement of receipts, disbursements, and cash and investment balances of the Unit as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated January 23, 2020.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify Certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items (Finding 2018-001, Finding 2018-002, Finding 2018-003, and Finding 2018-004) that we consider to be a material weakness.

## **Other Matters**

This report is being reissued to include Clean Water State Revolving Funds. The program was initially excluded from the Schedule of Expenditures of Federal Awards. However, the expenditures related to the program are federal and should be presented on the Schedule of Expenditures of Federal Awards. Finding 2018-004 has been modified in relation to this matter.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Unit's financial statements are 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Management's Response to Finding**

The Unit's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Unit's response was not subjected to the auditing procedures applied in the audit of the financial statements 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Indianapolis, Indiana

January 23, 2020, except for finding 2018-004, which the date is August 18, 2020.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Those Charged with Governance  
Newton County Regional Water and Sewer District  
Brook, Indiana

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

We have audited Newton County Regional Water and Sewer District's (Unit) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Unit's major federal program for the year ended December 31, 2018. The Unit'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Unit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Unit'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 Unit's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Unit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

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(Continued)

## Other Matters

This report is replacing a previously issued report. This report is being reissued to include \$9,635,543 of Capitalization Grants for Clean Water State Revolving Funds. The program was initially excluded from the Schedule of Expenditures of Federal Awards. However, the expenditures related to the program are federal and should be presented on the Schedule of Expenditures of Federal Awards. In addition, this report includes this federal program tested as a major program.

## Report on Internal Control Over Compliance

Management of the Unit 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 Unit's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 Unit's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Crowe LLP

Indianapolis, Indiana

January 23, 2020, except for major program CFDA # 66.458 (Capitalization Grants for Clean Water State Revolving Funds), which the date is August 18, 2020.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 December 31, 2018

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**SECTION 1 - SUMMARY OF AUDITORS' RESULTS:**

***Financial Statements***

Type of auditor's report issued      Adverse as to GAAP, Unmodified as to regulatory basis

Internal control over financial reporting

Material weakness(es) identified?	<u>  X  </u>	Yes	<u>      </u>	No
Significant deficiencies identified not considered to be material weaknesses?	<u>      </u>	Yes	<u>  X  </u>	None Reported

Noncompliance material to financial statements noted?	<u>      </u>	Yes	<u>  X  </u>	No
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***Federal Awards***

Internal control over major programs

Material weakness(es) identified?	<u>      </u>	Yes	<u>  X  </u>	No
Significant deficiencies identified not considered to be material weaknesses?	<u>      </u>	Yes	<u>  X  </u>	None Reported

Type of auditor's report issued on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?	<u>      </u>	Yes	<u>  X  </u>	No
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Identification of major programs

<u>CFDA Number</u>	<u>United States Department of Commerce</u>
11.300	Investments for Public Works and Economic Development Facilities
66.458	Capitalization Grants for Clean Water State Revolving Funds program

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 750,000</u>
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Auditee qualified as low-risk auditee?	<u>      </u>	Yes	<u>  X  </u>	No
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NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2018

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**SECTION 2 – FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Finding 2018-001 – CONDITION OF RECORDS**

<b>Criteria:</b>	Chapter 1 of the Accounting and Uniform Compliance Guidelines Manual states in part, <i>“At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee.”</i>
<b>Condition:</b>	During testing, we noted the Unit recorded on the 2018 AFR \$6,147,709 worth of state revolving funds received in 2017 and \$4,710,506 worth of state revolving funds disbursed in 2017.
<b>Context:</b>	The Unit recorded these receipts and expenditures on the 2018 AFR as receipts and disbursements as of 1/1/2018.
<b>Effect:</b>	The amount of receipts and disbursements reported on the 2018 AFR were materially misstated and overstated receipts by \$6,147,709 and disbursements by \$4,710,506 resulting a net overstatement of beginning cash on the 2018 AFR of \$1,437,203.
<b>Cause:</b>	The above condition appears to be the result of the human error. The funds were not set up until 2018.
<b>Recommendation:</b>	We also recommend management reconcile all receipts and expenditures on the bank statements to what is recorded on the AFR monthly.
<b>Management’s Response:</b>	Management concurs with this finding. See the corrective action plan

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2018

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**FINDING 2018-002 – SEGREGATION OF DUTIES**

<b>Criteria:</b>	The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, Uniform Internal Control Standards for Indiana Political Subdivisions. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual: "an integral part of the control activity component is segregation of duties. . . .There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."
<b>Condition:</b>	During testing, we noted that the Unit did not have adequate segregation of duties in the cash receipts cycle as the Treasurer performs all billing and cash collection activities.
<b>Context:</b>	During inquiries with management and discussions over internal control procedures, it was discovered that one individual is responsible for all cash receipt activity with little oversight from the Board.
<b>Effect:</b>	The lack of segregation of duties could potentially lead to an uncorrected misstatement of the financial statements by a material amount.
<b>Cause:</b>	The above condition appears to be the result of a lack of controls over cash receipt processes.
<b>Recommendation:</b>	We recommend management implement controls to ensure there is adequate segregation of duties in the cash receipt process.
<b>Management's Response:</b>	Management concurs with this finding. See the corrective action plan

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2018

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**FINDING 2018-003 – BANK ACCOUNT RECONCILIATION REVIEW**

<b>Criteria:</b>	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."
<b>Condition:</b>	During testing, we noted the Unit prepared bank reconciliations on a monthly basis. However, we noted there was no formal, documented review of these reconciliations.
<b>Context:</b>	A monthly reconciliation was prepared, but it was not reviewed by an independent party.
<b>Effect:</b>	The lack of formal review of the bank reconciliation could cause a material misstatement to be undetected.
<b>Cause:</b>	The above condition appears to be the result nobody being assigned to review the reconciliation.
<b>Recommendation:</b>	We recommend the board review and approve the monthly reconciliation and document their approval in writing.
<b>Management's Response:</b>	Management concurs with this finding. See the corrective action plan

**FINDING 2018-004 – INTERNAL CONTROLS-SEFA**

<b>Criteria:</b>	Uniform Guidance requires a Schedule of Expenditures of Federal Awards (SEFA) to be prepared in accordance with 2 CFR 200.502 – Basis for Determining Federal Awards Expended.
<b>Condition:</b>	The initial SEFA did not report the \$2,544,803 of EDA funding.
<b>Context:</b>	A SEFA was submitted via the Indiana Gateway system, but did not report the correct amount of expenditures in accordance with 2 CFR 200.502.
<b>Effect:</b>	Expenditures reported on the SEFA were understated.
<b>Cause:</b>	The above condition appears to be the result of human error and not properly considering where the funding was federal or not.
<b>Recommendation:</b>	We recommend management ensure all federal grant money received by recorded on the SEFA and leave off non-federal funding on the SEFA.
<b>Management's Response:</b>	Management concurs with this finding. See the corrective action plan.

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NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2018

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**SECTION 3 – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None to report.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS  
December 31, 2018

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**FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO BE REPORTED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

None to report.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
EXIT CONFERENCE  
December 31, 2018

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The contents of this report were discussed on December 18, 2019 with Sherri Rainford, Treasurer, and Randy Decker, Board President and on August 17, 2020 with Sherri Rainford, Treasurer. The officials acknowledged the findings. The Official Response has been made a part of this report and may be found immediately following the findings on the previous page.



# Newton County Regional Water & Sewer

Indiana State Board of Accounts  
302 W. Washington St., Room E-418  
Indianapolis, IN 46204-2765

RE: Newton County Regional Water and Sewer District  
2017-2018 Examination  
Official Response

To Whom It May Concern:

The Newton County Regional Water and Sewer District ("District") is pleased to learn that the third party auditor (i.e. Crowe) engaged by the State Board of Accounts ("SBOA") issued an "unmodified" opinion with respect to the District's financial statements – meaning the District's financing records fairly presented, in all material respects, the finances and results of operations of the District during the audited periods. I take great pride in maintaining thorough and accurate financial records on behalf of the District. The third party auditor did, however, present a number of findings to which the Board of Trustees for the District ("Board") wanted to respond. Please find outlined below the Board's response to each finding.

Contact Person Responsible for Corrective Action: Sherri Rainford  
Contact Phone Number: 219-285-2070

## I.

### **FINDING: 2018-01 Condition of Records**

Description of Corrective Action Plan:

In March 2018, the District retained the independent financial advisory firm, H.J. Umbaugh & Associates ("Umbaugh"), to physically establish funds in the District's new Keystone software program. At the time that Umbaugh was retained, the books were already closed for 2017 and the annual report had been submitted. Accordingly, Umbaugh was forced to enter the 2017 financial records with a January 1, 2018 date. This anomaly was due to the timing of the purchase of the Keystone software and the retention of a professional financial advisory firm. The District views this as a one-time problem that has since been corrected.



# Newton County Regional Water & Sewer

## II.

### **FINDING: 2018-002 Segregation of Duties**

#### Description of Corrective Action Plan:

The District has a total of twelve (12) customers. Consequently, the District has limited funds, resources, and employees which make it difficult to have a certain level of segregation of duties. Even with its limited resources, the District forwards a copy of its monthly Gateway financial filings to an independent financial advisory firm (i.e. Umbaugh) for review and use in the preparation of quarterly financial reports. Absent additional customers and financial resources, the District is limited in this regard. Nonetheless, the District will continue to explore and consider alternatives for achieving greater separation of duties.

## III.

### **FINDING: 2018-003 Bank Account Reconciliation Review**

#### Description of Corrective Action Plan:

The District has a total of twelve (12) customers. Consequently, the District has limited funds, resources, and employees which makes it difficult to have a certain level of independent review of its reconciliations. Even with its limited resources, the District: (i) reconciles its public funds each month; (ii) (the Board) reviews and approves (on a monthly basis) all claims in a public meeting; and (iii) sends the District's monthly receipts, bank statements, and billings to an accounting independent firm (i.e. Umbaugh) for review and preparation of quarterly financials. Absent additional customers and financial resources, the District is limited in this regard. Nonetheless, the District will continue to explore and consider alternatives for having additional reconciliation review.

## IV.

### **FINDING: 2018-004 Internal Controls -SEFA**

#### Description of Corrective Action Plan:

The District has a total of twelve (12) customers. Consequently, the District has limited funds, resources, and employees which makes it difficult to have a certain level of internal controls. Even with its limited resources, the District consulted with its independent financial advisory firm in the preparation of the SEFA. Based on advice from this firm, the District completed the SEFA. The Board now understands that the SBOA's opinion on this issue and the District will prospectively complete the SEFA consistent with this opinion.

Respectfully submitted,

Sherri Rainford, Financial Officer for the  
Newton County Regional Water and Sewer District