

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

FINANCIAL STATEMENT REVIEW REPORT

OF

LAKE OF THE WOODS REGIONAL SEWER DISTRICT

MARSHALL COUNTY, INDIANA

January 1, 2017 to December 31, 2018



**FILED**  
03/31/2020



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jonathon G. Oswald	01-01-17 to 12-31-20
President of the Board	William Reed	01-01-17 to 12-31-17
	Kevin Hines	01-01-18 to 12-31-20



## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TO: THE OFFICIALS OF THE LAKE OF THE WOODS REGIONAL  
SEWER DISTRICT, MARSHALL COUNTY, INDIANA

We have reviewed the accompanying financial statement of the Lake of the Woods Regional Sewer District (District), for the period of January 1, 2017 to December 31, 2018. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the District's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statement as a whole. Accordingly, we do not express such an opinion.

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

Management is responsible for the preparation and fair presentation of these financial statement in accordance with a regulatory 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This includes determining that the basis of accounting the District uses is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement whether due to fraud or error.

### ***Accountant's Responsibility***

Our responsibility is to conduct the review engagement in accordance with *Statement on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statement for them to be in accordance with the prescribed basis of accounting described in Note 1. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### ***Accountant's Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statement in order for them to be in accordance with the prescribed basis of accounting described in Note 1.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT  
(Continued)

***Basis of Accounting***

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement are prepared in accordance with 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

March 12, 2020

## FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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

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LAKE OF THE WOODS REGIONAL SEWER DISTRICT  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH  
 AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Years Ended December 31, 2017 and 2018

Fund	Cash and Investments 01-01-17	Receipts	Disbursements	Cash and Investments 12-31-17	Receipts	Disbursements	Cash and Investments 12-31-18
Lake of the Woods Regional Sewer District Petty Cash	\$ 103	\$ 141	\$ 173	\$ 71	\$ 530	\$ 429	\$ 172
Lake of the Woods Regional Sewer District Capital Improvement Fund	876,000	100,000	-	976,000	110,569	-	1,086,569
Lake of the Woods Regional Sewer District Cash Operation and Maintenance	<u>215,965</u>	<u>256,927</u>	<u>216,965</u>	<u>255,927</u>	<u>252,934</u>	<u>249,197</u>	<u>259,664</u>
Totals	<u>\$ 1,092,068</u>	<u>\$ 357,068</u>	<u>\$ 217,138</u>	<u>\$ 1,231,998</u>	<u>\$ 364,033</u>	<u>\$ 249,626</u>	<u>\$ 1,346,405</u>

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

LAKE OF THE WOODS REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The District was established under the laws of the State of Indiana. The District operates under a governing board.

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

**B. Basis of Accounting**

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

**C. Cash and Investments**

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

**D. Receipts**

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

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

*Penalties.* Amounts received from late payment fees.

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

**E. Disbursements**

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

*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.

LAKE OF THE WOODS REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*Other services and charges.* Amounts disbursed for services including, but not limited to, the following: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

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

*Utility operating expenses.* Amounts disbursed for operating the utilities.

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

**F. Interfund Transfers**

The District may, from time to time, 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.

**G. Fund Accounting**

Separate funds are established, maintained, and reported by the District. 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 District. 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 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 District submits a proposed operating budget to the governing board for the following calendar year. Lake of the Woods Regional Sewer District receives no amounts or additional funds from taxpayers. The governing board approves the budget for the next year at their December meeting. No property taxes or other taxes are levied or received. All income is generated from services rendered from the District's users. The budget is not subject to final approval by the Indiana Department of Local Government Finance.

**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.

LAKE OF THE WOODS REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

State statutes authorize the District 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.

**Note 4. Risk Management**

The District may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third-party. The establishment of a self-insurance fund allows the District to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

LAKE OF THE WOODS REGIONAL SEWER DISTRICT  
REVIEW RESULT AND COMMENT

**CONDITION OF RECORDS**

*Condition and Context*

The District used a commercial spreadsheet ledger (spreadsheet) that was reconciled to the bank balances, but it did not agree to the computerized ledger from the accounting software. The spreadsheet was used to enter financial information into the Indiana Gateway for Government Units, which is a financial reporting system and the source of the Annual Financial Report (AFR). The spreadsheet and the ledger from accounting software were not compared for accuracy. The spreadsheet does not contain adequate input or output controls to provide reasonable assurance of the accuracy of the information used to prepare the AFR.

*Criteria*

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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

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:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

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. . . ."

"Input Controls - These Controls are designed to provide reasonable assurance that data received or computer processing is appropriately authorized and converted into a machine-sensible form and that data is not lost, suppressed, added, duplicated, or improperly changed. . . ." (Accounting and Uniform Compliance Guidelines Manual for Indiana Political Subdivisions - Information Technology, Application Controls, page 10)

"Output controls are designed to provide reasonable assurance that processing results are accurate . . . Control totals produced as output during processing should be compared and reconciled to input and run-to-run control totals produced during processing. . . ." (Accounting and Uniform Compliance Guidelines Manual for Indiana Political Subdivisions - Information Technology, Application Controls, page 11)

LAKE OF THE WOODS REGIONAL SEWER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on March 12, 2020, with Jonathon G. Oswald, Treasurer; Christine Egenlauf, Office Manager; and Brittany Parks, Assistant Office Manager.