

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF LAGRO
WABASH COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
05/30/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-5
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	6-7
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	11
Notes to Financial Statement	12-15
Supplementary Information - Unaudited:	
Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	18-25
Schedule of Payables and Receivables	27
Schedule of Debt	28
Schedule of Capital Assets	29
Audit Results and Comments:	
Appropriations	30
Condition of Records - Payroll	30
Condition of Records - Utility Receipts	30-31
Condition of Records - Other	31
Bad Debts and Uncollectible Accounts	31-32
Delinquent Wastewater Accounts	32
Annual Report	32-33
Bank Account Reconciliations	33
Overdrawn Cash Balances	33
Internal Controls	33-34
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance	36-37
Schedule of Expenditures of Federal Awards	41
Note to Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43-44
Auditee Prepared Schedule:	
Corrective Action Plan	45
Exit Conference	46

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	V. Maxine Baker Kristie M. Bone	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Town Council	Richard Monce	01-01-11 to 12-31-13
Superintendent of Utilities	Scott Siders	01-01-11 to 12-31-13



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF LAGRO, WABASH COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Lagro (Town), 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 Town'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 Town'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 Town 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 Town 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 Town 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 April 29, 2013, on our consideration of the Town'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 Town'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 Town'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 reports 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 Town's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of 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.



Bruce Hartman
State Examiner

April 29, 2013



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

TO: THE OFFICIALS OF THE TOWN OF LAGRO, WABASH 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 Town of Lagro (Town), 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 April 29, 2013, wherein we noted the Town 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 Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be a material weakness.

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 Town'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Lagro's Response to Findings

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



Bruce Hartman
State Examiner

April 29, 2013

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FINANCIAL STATEMENT

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

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TOWN OF LAGRO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2011 and 2012

Fund	Cash and Investments			Cash and Investments			Cash and Investments
	01-01-11	Receipts	Disbursements	12-31-11	Receipts	Disbursements	12-31-12
General	\$ 49,151	\$ 88,600	\$ 92,018	\$ 45,733	\$ 106,068	\$ 103,509	\$ 48,292
Motor Vehicle Highway	5,313	26,202	21,998	9,517	16,888	24,365	2,040
Local Road and Street	2,490	2,708	682	4,516	2,776	1,540	5,752
Stormwater Improvement Project	-	218,839	218,948	(109)	69,017	68,908	-
Riverboat	14,250	-	-	14,250	2,758	5,528	11,480
Parks and Recreation	11,809	12,989	10,350	14,448	7,330	15,834	5,944
Rainy Day	9,412	-	5,000	4,412	-	2,220	2,192
OED Grant	(6,105)	6,105	-	-	-	-	-
Donations - Good Ole Days Festival	3,212	9,113	7,164	5,161	8,476	7,509	6,128
Economic Development Income Tax	6,161	4,966	2,732	8,395	6,481	8,414	6,462
Levy Excess	209	-	209	-	1,212	-	1,212
Cumulative Capital Development	2,995	1,324	4,116	203	1,147	-	1,350
Cumulative Fire	8,661	-	8,661	-	-	-	-
Cumulative Capital Improvement	4,258	1,304	4,392	1,170	1,101	-	2,271
Water Retainage Account	-	-	-	-	25,078	25,078	-
Park Donation	803	244	686	361	607	538	430
Library	2,252	510	2,183	579	2,245	657	2,167
Payroll	501	89,610	87,944	2,167	87,497	91,546	(1,882)
Sanitation	370	18,683	15,419	3,634	18,851	18,351	4,134
Wastewater Utility-Operating	8,183	78,992	79,777	7,398	85,595	85,698	7,295
Wastewater Utility-Bond and Interest	11,186	22,745	22,498	11,433	22,745	17,471	16,707
Wastewater Utility-Depreciation	14,861	7,200	5,178	16,883	7,200	8,897	15,186
Wastewater Utility-Debt Reserve	11,072	2,274	-	13,346	2,274	-	15,620
Wastewater Utility-Improvement Grant	-	112,305	112,472	(167)	658,195	658,028	-
Water Utility-Debt Reserve	-	18,824	-	18,824	-	300	18,524
Water Utility-Operating	1,695	66,235	66,210	1,720	78,848	78,572	1,996
Water Utility-Bond and Interest	25,666	21,039	37,643	9,062	24,945	30,865	3,142
Water Utility-Depreciation	9,208	6,000	3,919	11,289	6,359	13,248	4,400
Water Utility-Customer Deposit	5,250	900	618	5,532	650	2,831	3,351
Water Utility-Improvement Loan	(295)	189,996	190,039	(338)	24,465	24,127	-
Water Utility-Improvement Grant	-	546,438	546,438	-	53,562	53,562	-
Totals	\$ 202,568	\$ 1,554,145	\$ 1,547,294	\$ 209,419	\$ 1,322,370	\$ 1,347,596	\$ 184,193

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

TOWN OF LAGRO
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, trash, and urban redevelopment and housing.

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

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the 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. Receipts are recorded when received and disbursements are recorded when paid.

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:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are 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

TOWN OF LAGRO
NOTES TO FINANCIAL STATEMENT
(Continued)

fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

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

Penalties which include fees received for late payments.

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

E. Disbursements

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

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.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

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 Town. It includes all expenditures for the reduction of the principal and interest of the Town'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 Town 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.

TOWN OF LAGRO
NOTES TO FINANCIAL STATEMENT
(Continued)

G. Fund Accounting

Separate funds are established, maintained, and reported by the Town. 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 Town. 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 Town 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 Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

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

State statutes authorize the Town 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 5. Risk Management

The Town 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.

TOWN OF LAGRO
NOTES TO FINANCIAL STATEMENT
(Continued)

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

Note 6. 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 Town 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.

Note 7. Cash Balance Deficits

The financial statements contain some funds with deficits in cash. This is a result of reimbursement for grant expenditures made by Town not being received by December 31, 2011, and payroll bookkeeping errors in both 2011 and 2012.

Note 8. Combined Funds

Funds related to Park Donations and Library are reported individually in the current financial statement but were combined into one fund in prior financial statements.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Town which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF LAGRO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	General	Motor Vehicle Highway	Local Road and Street	Stormwater Improvement Project	Riverboat	Parks and Recreation	Rainy Day	OED Grant
Cash and investments - beginning	\$ 49,151	\$ 5,313	\$ 2,490	\$ -	\$ 14,250	\$ 11,809	\$ 9,412	\$ (6,105)
Receipts:								
Taxes	39,820	11,562	-	-	-	8,708	-	-
Intergovernmental	32,025	13,703	2,708	218,839	-	1,216	-	6,105
Charges for services	-	-	-	-	-	3,004	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	16,755	937	-	-	-	61	-	-
Total receipts	<u>88,600</u>	<u>26,202</u>	<u>2,708</u>	<u>218,839</u>	<u>-</u>	<u>12,989</u>	<u>-</u>	<u>6,105</u>
Disbursements:								
Personal services	28,371	21,715	-	-	-	-	-	-
Supplies	2,290	53	-	-	-	1,176	-	-
Other services and charges	60,676	-	682	-	-	8,761	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	218,948	-	413	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	681	230	-	-	-	-	5,000	-
Total disbursements	<u>92,018</u>	<u>21,998</u>	<u>682</u>	<u>218,948</u>	<u>-</u>	<u>10,350</u>	<u>5,000</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(3,418)</u>	<u>4,204</u>	<u>2,026</u>	<u>(109)</u>	<u>-</u>	<u>2,639</u>	<u>(5,000)</u>	<u>6,105</u>
Cash and investments - ending	<u>\$ 45,733</u>	<u>\$ 9,517</u>	<u>\$ 4,516</u>	<u>\$ (109)</u>	<u>\$ 14,250</u>	<u>\$ 14,448</u>	<u>\$ 4,412</u>	<u>\$ -</u>

TOWN OF LAGRO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Donations - Good Ole Days Festival	Economic Development Income Tax	Levy Excess	Cumulative Capital Development	Cumulative Fire	Cumulative Capital Improvement	Water Retainage Account	Park Donation
Cash and investments - beginning	\$ 3,212	\$ 6,161	\$ 209	\$ 2,995	\$ 8,661	\$ 4,258	\$ -	\$ 803
Receipts:								
Taxes	-	-	-	1,162	-	-	-	-
Intergovernmental	-	4,966	-	162	-	1,304	-	-
Charges for services	-	-	-	-	-	-	-	244
Utility fees	-	-	-	-	-	-	-	-
Other receipts	9,113	-	-	-	-	-	-	-
Total receipts	9,113	4,966	-	1,324	-	1,304	-	244
Disbursements:								
Personal services	-	2,067	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	667
Other services and charges	-	665	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	4,116	-	4,392	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	7,164	-	209	-	8,661	-	-	19
Total disbursements	7,164	2,732	209	4,116	8,661	4,392	-	686
Excess (deficiency) of receipts over disbursements	1,949	2,234	(209)	(2,792)	(8,661)	(3,088)	-	(442)
Cash and investments - ending	\$ 5,161	\$ 8,395	\$ -	\$ 203	\$ -	\$ 1,170	\$ -	\$ 361

TOWN OF LAGRO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Library	Payroll	Sanitation	Wastewater Utility- Operating	Wastewater Utility- Bond and Interest	Wastewater Utility- Depreciation	Wastewater Utility-Debt Reserve	Wastewater Utility- Improvement Grant
Cash and investments - beginning	\$ 2,252	\$ 501	\$ 370	\$ 8,183	\$ 11,186	\$ 14,861	\$ 11,072	\$ -
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	112,305
Charges for services	10	-	18,683	-	-	-	-	-
Utility fees	-	-	-	78,992	-	-	-	-
Other receipts	500	89,610	-	-	22,745	7,200	2,274	-
Total receipts	510	89,610	18,683	78,992	22,745	7,200	2,274	112,305
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	2,183	-	-	-	-	-	-	-
Other services and charges	-	-	15,419	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	22,498	-	-	-
Capital outlay	-	-	-	-	-	-	-	112,472
Utility operating expenses	-	-	-	47,917	-	5,178	-	-
Other disbursements	-	87,944	-	31,860	-	-	-	-
Total disbursements	2,183	87,944	15,419	79,777	22,498	5,178	-	112,472
Excess (deficiency) of receipts over disbursements	(1,673)	1,666	3,264	(785)	247	2,022	2,274	(167)
Cash and investments - ending	\$ 579	\$ 2,167	\$ 3,634	\$ 7,398	\$ 11,433	\$ 16,883	\$ 13,346	\$ (167)

TOWN OF LAGRO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Water Utility-Debt Reserve	Water Utility- Operating	Water Utility- Bond and Interest	Water Utility- Depreciation	Water Utility- Customer Deposit	Water Utility- Improvement Loan	Water Utility- Improvement Grant	Totals
Cash and investments - beginning	\$ -	\$ 1,695	\$ 25,666	\$ 9,208	\$ 5,250	\$ (295)	\$ -	\$ 202,568
Receipts:								
Taxes	-	-	-	-	-	-	-	61,252
Intergovernmental	-	-	-	-	-	-	546,438	939,771
Charges for services	-	-	-	-	-	-	-	21,941
Utility fees	-	66,235	-	-	900	-	-	146,127
Other receipts	18,824	-	21,039	6,000	-	189,996	-	385,054
Total receipts	<u>18,824</u>	<u>66,235</u>	<u>21,039</u>	<u>6,000</u>	<u>900</u>	<u>189,996</u>	<u>546,438</u>	<u>1,554,145</u>
Disbursements:								
Personal services	-	-	-	-	-	-	-	52,153
Supplies	-	-	-	-	-	-	-	6,369
Other services and charges	-	-	-	-	-	-	-	86,203
Debt service - principal and interest	-	-	18,819	-	-	-	-	41,317
Capital outlay	-	-	-	-	-	190,039	546,438	1,076,818
Utility operating expenses	-	39,147	-	1,359	-	-	-	93,601
Other disbursements	-	27,063	18,824	2,560	618	-	-	190,833
Total disbursements	<u>-</u>	<u>66,210</u>	<u>37,643</u>	<u>3,919</u>	<u>618</u>	<u>190,039</u>	<u>546,438</u>	<u>1,547,294</u>
Excess (deficiency) of receipts over disbursements	<u>18,824</u>	<u>25</u>	<u>(16,604)</u>	<u>2,081</u>	<u>282</u>	<u>(43)</u>	<u>-</u>	<u>6,851</u>
Cash and investments - ending	<u>\$ 18,824</u>	<u>\$ 1,720</u>	<u>\$ 9,062</u>	<u>\$ 11,289</u>	<u>\$ 5,532</u>	<u>\$ (338)</u>	<u>\$ -</u>	<u>\$ 209,419</u>

TOWN OF LAGRO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road and Street	Stormwater Improvement Project	Riverboat	Parks and Recreation	Rainy Day	OED Grant
Cash and investments - beginning	\$ 45,733	\$ 9,517	\$ 4,516	\$ (109)	\$ 14,250	\$ 14,448	\$ 4,412	\$ -
Receipts:								
Taxes	46,783	4,889	-	-	-	3,913	-	-
Intergovernmental	50,161	11,999	2,776	68,908	2,458	606	-	-
Charges for services	-	-	-	-	-	540	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	9,124	-	-	109	300	2,271	-	-
Total receipts	<u>106,068</u>	<u>16,888</u>	<u>2,776</u>	<u>69,017</u>	<u>2,758</u>	<u>7,330</u>	<u>-</u>	<u>-</u>
Disbursements:								
Personal services	38,286	23,680	-	-	-	1,800	-	-
Supplies	14,415	685	-	-	-	5,855	-	-
Other services and charges	43,954	-	1,540	-	-	8,179	220	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	320	-	-	68,908	2,000	-	2,000	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	6,534	-	-	-	3,528	-	-	-
Total disbursements	<u>103,509</u>	<u>24,365</u>	<u>1,540</u>	<u>68,908</u>	<u>5,528</u>	<u>15,834</u>	<u>2,220</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>2,559</u>	<u>(7,477)</u>	<u>1,236</u>	<u>109</u>	<u>(2,770)</u>	<u>(8,504)</u>	<u>(2,220)</u>	<u>-</u>
Cash and investments - ending	<u>\$ 48,292</u>	<u>\$ 2,040</u>	<u>\$ 5,752</u>	<u>\$ -</u>	<u>\$ 11,480</u>	<u>\$ 5,944</u>	<u>\$ 2,192</u>	<u>\$ -</u>

TOWN OF LAGRO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Donations - Good Ole Days Festival	Economic Development Income Tax	Levy Excess	Cumulative Capital Development	Cumulative Fire	Cumulative Capital Improvement	Water Retainage Account	Park Donation
Cash and investments - beginning	\$ 5,161	\$ 8,395	\$ -	\$ 203	\$ -	\$ 1,170	\$ -	\$ 361
Receipts:								
Taxes	-	-	1,212	993	-	-	-	-
Intergovernmental	-	6,481	-	154	-	1,101	-	-
Charges for services	-	-	-	-	-	-	-	607
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	8,476	-	-	-	-	-	25,078	-
Total receipts	<u>8,476</u>	<u>6,481</u>	<u>1,212</u>	<u>1,147</u>	<u>-</u>	<u>1,101</u>	<u>25,078</u>	<u>607</u>
Disbursements:								
Personal services	-	5,214	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	538
Other services and charges	-	2,700	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	500	-	-	-	-	25,078	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	7,509	-	-	-	-	-	-	-
Total disbursements	<u>7,509</u>	<u>8,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,078</u>	<u>538</u>
Excess (deficiency) of receipts over disbursements	<u>967</u>	<u>(1,933)</u>	<u>1,212</u>	<u>1,147</u>	<u>-</u>	<u>1,101</u>	<u>-</u>	<u>69</u>
Cash and investments - ending	<u>\$ 6,128</u>	<u>\$ 6,462</u>	<u>\$ 1,212</u>	<u>\$ 1,350</u>	<u>\$ -</u>	<u>\$ 2,271</u>	<u>\$ -</u>	<u>\$ 430</u>

TOWN OF LAGRO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Library	Payroll	Sanitation	Wastewater Utility- Operating	Wastewater Utility- Bond and Interest	Wastewater Utility- Depreciation	Wastewater Utility-Debt Reserve	Wastewater Utility- Improvement Grant
Cash and investments - beginning	\$ 579	\$ 2,167	\$ 3,634	\$ 7,398	\$ 11,433	\$ 16,883	\$ 13,346	\$ (167)
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	658,195
Charges for services	-	-	18,851	-	-	-	-	-
Utility fees	-	-	-	81,976	-	-	-	-
Penalties	-	-	-	3,619	-	-	-	-
Other receipts	2,245	87,497	-	-	22,745	7,200	2,274	-
Total receipts	<u>2,245</u>	<u>87,497</u>	<u>18,851</u>	<u>85,595</u>	<u>22,745</u>	<u>7,200</u>	<u>2,274</u>	<u>658,195</u>
Disbursements:								
Personal services	-	73,395	-	-	-	-	-	-
Supplies	657	-	-	-	-	-	-	-
Other services and charges	-	-	18,351	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	16,625	-	-	-
Capital outlay	-	-	-	-	-	-	-	658,028
Utility operating expenses	-	-	-	40,501	-	8,897	-	-
Other disbursements	-	18,151	-	45,197	846	-	-	-
Total disbursements	<u>657</u>	<u>91,546</u>	<u>18,351</u>	<u>85,698</u>	<u>17,471</u>	<u>8,897</u>	<u>-</u>	<u>658,028</u>
Excess (deficiency) of receipts over disbursements	<u>1,588</u>	<u>(4,049)</u>	<u>500</u>	<u>(103)</u>	<u>5,274</u>	<u>(1,697)</u>	<u>2,274</u>	<u>167</u>
Cash and investments - ending	<u>\$ 2,167</u>	<u>\$ (1,882)</u>	<u>\$ 4,134</u>	<u>\$ 7,295</u>	<u>\$ 16,707</u>	<u>\$ 15,186</u>	<u>\$ 15,620</u>	<u>\$ -</u>

TOWN OF LAGRO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Water Utility-Debt Reserve	Water Utility- Operating	Water Utility- Bond and Interest	Water Utility- Depreciation	Water Utility- Customer Deposit	Water Utility- Improvement Loan	Water Utility- Improvement Grant	Totals
Cash and investments - beginning	\$ 18,824	\$ 1,720	\$ 9,062	\$ 11,289	\$ 5,532	\$ (338)	\$ -	\$ 209,419
Receipts:								
Taxes	-	-	-	-	-	-	-	57,790
Intergovernmental	-	-	-	-	-	-	53,562	856,401
Charges for services	-	-	-	-	-	-	-	19,998
Utility fees	-	78,848	-	-	650	-	-	161,474
Penalties	-	-	-	-	-	-	-	3,619
Other receipts	-	-	24,945	6,359	-	24,465	-	223,088
Total receipts	-	78,848	24,945	6,359	650	24,465	53,562	1,322,370
Disbursements:								
Personal services	-	-	-	-	-	-	-	142,375
Supplies	-	-	-	-	-	-	-	22,150
Other services and charges	-	-	-	-	-	-	-	74,944
Debt service - principal and interest	-	-	30,865	-	-	-	-	47,490
Capital outlay	-	-	-	3,627	-	24,127	53,562	838,150
Utility operating expenses	300	47,627	-	9,621	-	-	-	106,946
Other disbursements	-	30,945	-	-	2,831	-	-	115,541
Total disbursements	300	78,572	30,865	13,248	2,831	24,127	53,562	1,347,596
Excess (deficiency) of receipts over disbursements	(300)	276	(5,920)	(6,889)	(2,181)	338	-	(25,226)
Cash and investments - ending	\$ 18,524	\$ 1,996	\$ 3,142	\$ 4,400	\$ 3,351	\$ -	\$ -	\$ 184,193

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TOWN OF LAGRO
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 2,153	\$ 150
Trash	1,373	2,088
Wastewater	2,283	17,215
Water	4,328	5,116
Totals	\$ 10,137	\$ 24,569

TOWN OF LAGRO
SCHEDULE OF DEBT
December 31, 2012

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Wastewater:			
Revenue Bonds	1995 Sewage Works Expansion	\$ 124,000	\$ 12,423
Revenue Bonds	2001 Sewage Works Expansion	<u>115,000</u>	<u>9,086</u>
Total Wastewater		<u>239,000</u>	<u>21,509</u>
Water:			
Loans	State Revolving Fund - Waterworks Improvements	159,865	9,013
Revenue Bonds	2011 Waterworks Improvements	155,140	4,400
Revenue Bonds	2011 Waterworks Improvements	<u>89,490</u>	<u>2,655</u>
Total Water		<u>404,495</u>	<u>16,068</u>
Totals		<u>\$ 643,495</u>	<u>\$ 37,577</u>

TOWN OF LAGRO
 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.

	Ending Balance
Governmental activities:	
Land	\$ 20,000
Buildings	185,774
Improvements other than buildings	294,960
Machinery, equipment and vehicles	48,339
Total Town	549,073
Wastewater:	
Improvements other than buildings	3,426,376
Machinery, equipment and vehicles	41,000
Total Wastewater	3,467,376
Water:	
Land	29,927
Improvements other than buildings	1,756,298
Machinery, equipment and vehicles	18,999
Total Water	1,805,224
Total capital assets	\$ 5,821,673

TOWN OF LAGRO
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

Expenditures exceeded budgeted appropriations in 2012 as follows:

Fund	Excess Amount Expended
General	\$ 6,348
Motor Vehicle Highway	1,475
Parks and Recreation	1,634

A similar comment appeared in prior Report B39785.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CONDITION OF RECORDS - PAYROLL

The Payroll Fund contained numerous posting errors. These errors included transfers into the Payroll Fund for gross payroll for incorrect amounts. Also, several Internal Revenue Service tax payments were paid entirely from the Payroll Fund without the employer-matching portion being transferred in from Town funds.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS - UTILITY RECEIPTS

The following deficiencies relating to recordkeeping for utility receipts were present during our audit period:

1. Utility receipts tested could not be verified as to whether they were deposited in the same form in which they were received.
2. The Register of Daily Cash Receipts – Consumer ledger contained several mathematical errors.
3. Utility collections tested were not consistently credited to the appropriate utility from which the bill was created.

A similar comment appeared in prior Report B39785.

Public funds deposited should be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF LAGRO
AUDIT RESULTS AND COMMENTS
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS - OTHER

The following deficiencies relating to recordkeeping were present during our audit period.

A similar comment appeared in prior report B39785.

1. There were several posting errors consisting of checks and receipts not recorded in the proper amounts.
2. Several disbursements were not posted properly to the Ledger of Appropriations, Encumbrances, Disbursements, and Balances.
3. The Ledger of Appropriations, Encumbrances, Disbursements, and Balances did not have any totals.
4. The Utility Cash Journals did not have any annual totals.
5. Several ledger entries were backdated.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

Accounts receivable of \$3,397 for the Water Operating, Wastewater Operating, and Sanitation Funds were deleted from the records. The Town Council minutes presented for audit did not indicate approval of these write offs. Additionally, documentation was not presented for audit concerning unsuccessful collection procedures prior to adjustments to the records.

The Utilities do not have a written policy for writing off bad debts, uncollectible accounts receivable, or any adjustments to record balances.

A similar comment appeared in prior Report B39785.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

TOWN OF LAGRO
AUDIT RESULTS AND COMMENTS
(Continued)

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property. A similar comment appeared in prior Report B39785.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May."

ANNUAL REPORT

The following errors were noted on the Gateway Annual Reports filed with the State Board of Accounts for the years 2011 and 2012.

1. Beginning balances did not always agree with ending balances on the prior year's report.
2. Amounts reported did not always agree with the fund ledger amounts.
3. Some funds were omitted from the reports.

TOWN OF LAGRO
AUDIT RESULTS AND COMMENTS
(Continued)

A similar comment appeared in prior Report B39785.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were incorrect and included unidentified differences that varied each month. A similar comment appeared in prior Report B39785.

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCES

The cash balance of the Payroll Fund was overdrawn \$1,882 at December 31, 2012. A similar comment appeared in prior Report B39785.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS

We noted several deficiencies in the internal control system of the Town of Lagro (Town) 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 Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

TOWN OF LAGRO
AUDIT RESULTS AND COMMENTS
(Continued)

3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town 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 Town has no process to identify or communicate corrective actions to improve controls.

Control activities should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statements. The Town has not separated incompatible activities related to all areas of the financial statements. The failure to establish these controls could enable material misstatements to be undetected.

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 Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE TOWN OF LAGRO, WABASH COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Lagro's (Town) 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 Town'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 Town'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 Town'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 each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town 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 EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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 Town'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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

April 29, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the Town. The schedule and note are presented as intended by the Town.

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TOWN OF LAGRO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2011 and 2012

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>Department of Agriculture</u>					
Water and Waste Disposal Systems for Rural Communities	Direct Grant	10.760	15-085-356001082	\$ 189,997	\$ 24,127
Total - Department of Agriculture				<u>189,997</u>	<u>24,127</u>
<u>Department of Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii					
	Indiana Office of Community and Rural Affairs	14.228			
			B10DC180001CF-10-113	546,438	53,562
			B10DC180001DR2-09-102	218,840	68,908
			B11DC180001DR2-09-158	<u>112,305</u>	<u>656,992</u>
Total for cluster				<u>877,583</u>	<u>779,462</u>
Total - Department of Housing and Urban Development				<u>877,583</u>	<u>779,462</u>
Total federal awards expended				<u>\$ 1,067,580</u>	<u>\$ 803,589</u>

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

TOWN OF LAGRO
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 Town of Lagro 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 towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF LAGRO
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; Unqualified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	no

Identification of Major Program:

_____ Name of Federal Program or Cluster _____
CDBG – State - Administered CDBG 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 2012-1 – DEFICIENCY IN INTERNAL CONTROL – SEGREGATION OF DUTIES

We noted several deficiencies in the internal control system of the Town of Lagro (Town) related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

TOWN OF LAGRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town 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 Town has no process to identify or communicate corrective actions to improve controls.

Control activities should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statements. The Town has not separated incompatible activities related to all areas of the financial statements. The failure to establish these controls could enable material misstatements to be undetected.

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 Cities and Towns, Chapter 7)

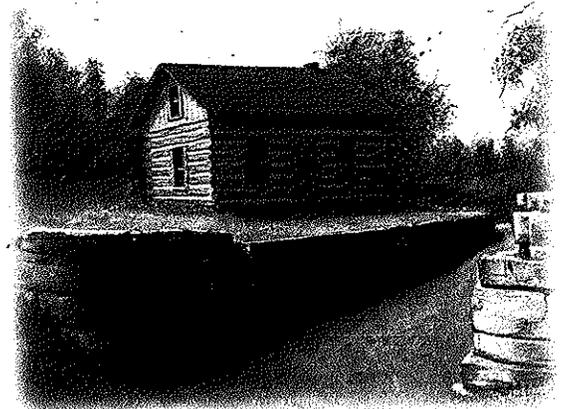
We recommended that the Town's management establish controls, including segregation of duties, related to the achievement of financial reporting objectives.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

Town of Lagro

**P.O. Box 305
230 Buchanan Street
Lagro, IN 46941**



March 11, 2013

FEDERAL FINDING 2012-1—INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING.

Auditee Contact Person: Kristie Bone
Title of Contact Person: Clerk-Treasurer
Phone Number: 260-782-2451
Expected Completion Date: IMMEDIATELY

CORRECTIVE ACTION: The Town of Lagro has hired a part-time employee to help in some areas. Also, the Town Council will be reviewing fund, appropriation, and banking reports. The Council also looks over every claim form before signing.

Date: March 11, 2013

Kristie Bone
Kristie Bone, Clerk-Treasurer

TOWN OF LAGRO
EXIT CONFERENCE

The contents of this report were discussed on April 29, 2013, with Kristie M. Bone, Clerk-Treasurer, and Richard Monce, President of the Town Council. The officials concurred with our audit findings.