

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
LAGRANGE COUNTY, INDIANA

January 1, 2012 to December 31, 2013



**FILED**  
12/19/2014



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Administrative Manager	Heidi M. Sisco	01-01-12 to 12-31-14
Treasurer	Robert Jarolim Dennis E. Davis	01-01-12 to 03-27-14 03-28-14 to 12-31-14
President of the Board	Mike Sutter Ronald M. Kantorak	01-01-12 to 11-01-12 11-02-12 to 12-31-14



## INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE LAGRANGE COUNTY REGIONAL  
UTILITY DISTRICT, LAGRANGE COUNTY, INDIANA

### ***Report on the Financial Statement***

We have audited the accompanying financial statement of the LaGrange County Regional Utility District (Utility District), which comprises the financial position and results of operations for the period of January 1, 2012 to December 31, 2013, 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 Utility District's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

INDEPENDENT AUDITOR'S REPORT  
(Continued)

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

As discussed in Note 1 of the financial statement, the Utility District prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis of accounting noted above is a different basis than that used in the prior period.

***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 Utility District for the period of January 1, 2012 to December 31, 2013.

***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 Utility District for the period of January 1, 2012 to December 31, 2013, 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 November 19, 2014, on our consideration of the Utility District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility District's internal control over financial reporting and compliance.

***Accompanying Information***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the Utility District's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Utility District's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

  
Paul D. Joyce, CPA  
State Examiner

November 19, 2014



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

TO: THE OFFICIALS OF THE LAGRANGE COUNTY REGIONAL  
UTILITY DISTRICT, LAGRANGE 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 LaGrange County Regional Utility District (Utility District), which comprises the financial position and results of operations for the period of January 1, 2012 to December 31, 2013, and the related notes to the financial statement, and have issued our report thereon dated November 19, 2014, wherein we noted the Utility District followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 2013-001 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 Utility District's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001.

***LaGrange County Regional Utility District's Response to Findings***

The Utility District's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Utility District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utility District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

November 19, 2014

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## FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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

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LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended December 31, 2012 and 2013

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12	Receipts	Disbursements	Cash and Investments 12-31-13
Rainy Day Fund	\$ -	\$ -	\$ -	\$ -	\$ 1,678	\$ -	\$ 1,678
Capital Improvement Fund	-	176,500	154,250	22,250	65,500	34,890	52,860
Construction Fund	-	2,708,038	2,158,303	549,735	381,027	930,762	-
Bond and Interest Fund	963,675	1,299,787	1,229,181	1,034,281	1,381,423	1,676,809	738,895
Debt Service Reserve Fund	811,464	32,423	-	843,887	320,689	-	1,164,576
Sewer Operation and Maintenance Fund	587,123	3,557,457	3,428,009	716,571	3,736,583	3,014,532	1,438,622
Water Operation and Maintenance Fund	22,229	79,047	31,330	69,946	46,286	79,844	36,388
Totals	<u>\$ 2,384,491</u>	<u>\$ 7,853,252</u>	<u>\$ 7,001,073</u>	<u>\$ 3,236,670</u>	<u>\$ 5,933,186</u>	<u>\$ 5,736,837</u>	<u>\$ 3,433,019</u>

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

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENT

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

*A. Reporting Entity*

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

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

*B. Basis of Accounting*

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

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

*C. Cash and Investments*

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

*D. Receipts*

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

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.

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.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*E. Disbursements*

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

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

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 District. It includes all expenditures for the reduction of the principal and interest of the District's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

*F. Interfund Transfers*

The Utility District may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the Utility District. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Utility District. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Utility 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.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**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. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Utility District to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

**Note 3. Risk Management**

The Utility 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 Utility District to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

**Note 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 Utility District 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 Capitol Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

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## SUPPLEMENTARY INFORMATION - UNAUDITED

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

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Utility District 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 Utility District. It is presented as intended by the Utility District.

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

	Rainy Day Fund	Capital Improvement Fund	Construction Fund	Bond and Interest Fund	Debt Service Reserve Fund	Sewer Operation and Maintenance Fund	Water Operation and Maintenance Fund	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 963,675	\$ 811,464	\$ 587,123	\$ 22,229	\$ 2,384,491
Receipts:								
Intergovernmental	-	-	2,706,418	-	-	-	-	2,706,418
Utility fees	-	-	-	-	-	2,719,440	78,844	2,798,284
Penalties	-	-	-	-	-	48,190	203	48,393
Other receipts	-	176,500	1,620	1,299,787	32,423	789,827	-	2,300,157
Total receipts	-	176,500	2,708,038	1,299,787	32,423	3,557,457	79,047	7,853,252
Disbursements:								
Personal services	-	-	-	-	-	528,028	-	528,028
Supplies	-	-	-	-	-	238,241	-	238,241
Other services and charges	-	-	-	-	-	565,942	311	566,253
Debt service - principal and interest	-	-	-	1,229,181	-	-	-	1,229,181
Capital outlay	-	154,250	1,493,352	-	-	587,087	6,725	2,241,414
Utility operating expenses	-	-	-	-	-	-	24,294	24,294
Other disbursements	-	-	664,951	-	-	1,508,711	-	2,173,662
Total disbursements	-	154,250	2,158,303	1,229,181	-	3,428,009	31,330	7,001,073
Excess (deficiency) of receipts over disbursements	-	22,250	549,735	70,606	32,423	129,448	47,717	852,179
Cash and investments - ending	\$ -	\$ 22,250	\$ 549,735	\$ 1,034,281	\$ 843,887	\$ 716,571	\$ 69,946	\$ 3,236,670

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013

	Rainy Day Fund	Capital Improvement Fund	Construction Fund	Bond and Interest Fund	Debt Service Reserve Fund	Sewer Operation and Maintenance Fund	Water Operation and Maintenance Fund	Totals
Cash and investments - beginning	\$ -	\$ 22,250	\$ 549,735	\$ 1,034,281	\$ 843,887	\$ 716,571	\$ 69,946	\$ 3,236,670
Receipts:								
Intergovernmental	-	-	381,027	-	-	-	-	381,027
Utility fees	-	-	-	-	-	2,895,706	45,922	2,941,628
Penalties	-	-	-	-	-	35,778	364	36,142
Other receipts	1,678	65,500	-	1,381,423	320,689	805,099	-	2,574,389
Total receipts	1,678	65,500	381,027	1,381,423	320,689	3,736,583	46,286	5,933,186
Disbursements:								
Personal services	-	-	-	-	-	592,598	4,401	596,999
Supplies	-	-	-	-	-	239,526	-	239,526
Other services and charges	-	-	-	-	-	698,599	378	698,977
Debt service - principal and interest	-	-	-	1,375,700	-	-	-	1,375,700
Capital outlay	-	34,890	259,027	-	-	-	-	293,917
Utility operating expenses	-	-	-	-	-	-	28,468	28,468
Other disbursements	-	-	671,735	301,109	-	1,483,809	46,597	2,503,250
Total disbursements	-	34,890	930,762	1,676,809	-	3,014,532	79,844	5,736,837
Excess (deficiency) of receipts over disbursements	1,678	30,610	(549,735)	(295,386)	320,689	722,051	(33,558)	196,349
Cash and investments - ending	\$ 1,678	\$ 52,860	\$ -	\$ 738,895	\$ 1,164,576	\$ 1,438,622	\$ 36,388	\$ 3,433,019

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2013

Enterprise	Accounts Payable	Accounts Receivable
Regional Water District	\$ 473	\$ 1,777
Regional Sewer District	774	16,734
Totals	\$ 1,247	\$ 18,511

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
SCHEDULE OF LEASES AND DEBT  
December 31, 2013

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Regional Sewer District:			
Revenue bonds	Region F 1995 Revenue Bonds A&B	\$ 920,300	\$ 74,607
Revenue bonds	Region B 1997 Revenue Bonds A&B	9,415,000	681,350
Revenue bonds	Region D 1998 Revenue Bonds	1,008,000	96,280
Revenue bonds	Region A 2004 Revenue Bonds A&B	4,705,000	281,128
Revenue bonds	Shipshewana West 2012 Revenue Bonds	<u>1,679,000</u>	<u>82,588</u>
	Total revenue bonds	<u>17,727,300</u>	<u>1,215,953</u>
Loan payable	Loan from LaGrange County for feasibility studies	<u>40,645</u>	<u>-</u>
	Total Regional Sewer District	<u>\$ 17,767,945</u>	<u>\$ 1,215,953</u>

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
 SCHEDULE OF CAPITAL ASSETS  
 December 31, 2013

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
Regional Sewer District:	
Land	\$ 348,598
Infrastructure	27,100,617
Buildings	5,229,283
Improvements other than buildings	1,732,695
Machinery, equipment, and vehicles	719,541
Books and other	169,259
Total Regional Sewer District	35,299,993
Regional Water District:	
Infrastructure	30,827
Total capital assets	\$ 35,330,820

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE LAGRANGE COUNTY REGIONAL  
UTILITY DISTRICT, LAGRANGE COUNTY, INDIANA

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

We have audited the LaGrange County Regional Utility District's (Utility District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2012 to December 31, 2013. The Utility District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Utility District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Utility District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Utility District's compliance.

***Opinion on the Major Federal Program***

In our opinion, the Utility District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period of January 1, 2012 to December 31, 2013.

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

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-003. Our opinion on the major federal program is not modified with respect to these matters.

The Utility District's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Utility District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

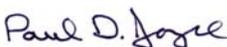
Management of the Utility District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Utility District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Utility District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002 to be material weaknesses.

The Utility District's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Utility District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

November 19, 2014

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

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

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LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Years Ended December 31, 2012 and 2013

Federal Grantor Agency 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 12-31-12	Total Federal Awards Expended 12-31-13
<u>DEPARTMENT OF AGRICULTURE</u>					
Water and Waste Program Cluster					
Water and Waste Disposal Systems for Rural Communities	Direct Grant	10.760			
Shipshewana West Project					
Loan			IN-701-92-12	\$ 1,705,000	\$ -
Grant			IN-701-92-13	<u>1,001,418</u>	<u>381,027</u>
Total federal awards expended				<u>\$ 2,706,418</u>	<u>\$ 381,027</u>

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

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

***Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Utility District and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of utility districts shall be conducted biennially. Such audits shall include both years within the biennial period.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

\_\_\_\_\_ Name of Federal Program or Cluster \_\_\_\_\_

Water and Waste Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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**Section II - Financial Statement Findings**

**FINDING 2013-001 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Utility District did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Utility District should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected. We believe the following deficiency constitutes a material weakness.

During the audit of the SEFA, we noted the Utility District understated federal awards for the year 2012 in the amount of \$1,703,380 and overstated federal awards for the year 2013 in the amount of \$1,003,038, resulting in a net understatement of \$700,342 for the audit period. Audit adjustments were proposed, accepted by the Utility District, and made to the SEFA presented in this report.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2013-002 - INTERNAL CONTROLS FOR WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES**

Federal Agency: Department of Agriculture  
Federal Program: Water and Waste Disposal Systems for Rural Communities  
CFDA Number: 10.760  
Federal Award Number and Year (or Other Identifying Number): IN-701-92-12 and IN-701-92-13  
Pass-Through Entity: Direct Grant

Management of the Utility District has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management and Procurement and Suspension and Debarment compliance requirements.

The failure to establish an effective internal control system places the Utility District at risk of noncompliance with the grant agreement and the Equipment and Real Property Management and Procurement and Suspension and Debarment compliance requirements. A lack of a properly established internal control system, including segregation of duties, could allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Utility District.

We recommended that the Utility District's management establish controls, including segregation of duties, related to the grant agreement and the Equipment and Real Property Management and Procurement and Suspension and Debarment compliance requirements to ensure the Utility District complies with all requirements.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2013-003 - COMPLIANCE REQUIREMENTS FOR WATER  
AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES**

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (or Other Identifying Number): IN-701-92-12 and IN-701-92-13

Pass-Through Entity: Direct Grant

The Utility District did not comply with Equipment and Real Property Management compliance requirements related to the Water and Wastewater Disposal Systems for Rural Communities program. The Utility District did not conduct an inventory of property as required.

7 CFR 3016.32(d) states in part:

- "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of property. Any loss, damage, or theft shall be investigated."

The Utility District is not in compliance with Equipment and Real Property Management requirements for this program. Failure to comply with these requirements could cause the Utility District to be ineligible to receive future federal awards.

We recommended that officials conduct an inventory of property as required and to update that inventory at least every two years.

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AUDITEE PREPARED DOCUMENT

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

**LAGRANGE COUNTY REGIONAL UTILITY DISTRICT  
P O BOX 270  
LAGRANGE, IN 46761  
260-499-6349**

**CORRECTIVE ACTION PLAN**

**FINDING 2013-001 - CONTROLS OVER PREPARING THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Contact Person Responsible for Corrective Action: Heidi M Sisco  
Contact Phone Number: 260-499-6349

Description of Corrective Action Plan:

The LaGrange County Regional Utility District Administrative Manager will take the steps necessary to review the information of the Schedule of Expenditures of Federal Awards (SEFA). In addition to being reviewed by the Administrative Manager we will also have the information reviewed by the current Board Secretary/Treasurer before authorizing Umbaugh to submit the information via the Gateway.

Anticipated Completion Date: With the Submission of the 2014 Gateway

**FINDING 2013-002 – INTERNAL CONTROLS FOR WATER AND WASTE WATER DISPOSAL SYSTEMS FOR RURAL COMMUNITIES:**

Federal Agency: Department of Agriculture  
Federal Program: Water and Wastewater Disposal Systems for Rural Communities  
CFDA Number: 10.760  
Federal Award Number and Year (of Other Identifying Number): IN-701-92-12 and IN-701-92-13

Contact Person Responsible for Corrective Action: Heidi M Sisco  
Contact Phone Number: 260-499-6349

In regard to verifying that there are no compliance issues with certification regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion for a contractor the District Administrative Manager shall contact SAM.GOV and verify the contractor's Duns #. In addition to that the award winning contractor signs the form AD-1048 certifying this information and it is also verified by Rural Development.

In regard to the lacking controls over Equipment and Real Property Management the District Administrative Manager and District Operations Manager will be conducting an annual inventory on the equipment listed on the capital asset spread sheet.

Anticipated Completion Date: For the Suspension and Debarment we will implement this procedure immediately to be utilized in the event of a future project that receives USDA funding. For the Equipment and Real Property Management the District has already begun this process.

FINDING 2013-003 – COMPLIANCE REQUIREMENTS FOR WATER AND WASTE WATER DISPOSAL SYSTEMS FOR RURAL COMMUNITIES:

Federal Agency: Department of Agriculture

Federal Program: Water and Wastewater Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (of Other Identifying Number): IN-701-92-12 and IN-701-92-13

Contact Person Responsible for Corrective Action: Heidi M Sisco

Contact Phone Number: 260-499-6349

In regard to the noncompliance with Equipment and Real Property Management the District Administrative Manager and District Operations Manager will be conducting an annual inventory on the equipment listed on the capital asset spread sheet.

Anticipated Completion Date: Immediately

#### OTHER REPORT

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