

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

EXAMINATION REPORT
OF
LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
LAGRANGE COUNTY, INDIANA
January 1, 2010 to December 31, 2011



FILED
08/22/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Statement of Net Assets	4
Statement of Revenues, Expenses, and Changes in Fund Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-15
Examination Results and Comments:	
Incorrect Billing Fees for Campgrounds	16
Incorrect Billing Fees for Fawn River Crossing	17
Untimely Deposits for Fawn River Crossing	17
Campground Sewer Under Billing	17
Christian Youth Camp Billings	17-18
No District Approval for Sewer Connection Exemption	18
Optical Images of Checks.....	18-19
Accounts Payable Vouchers.....	19
Sales Tax.....	19
Supporting Documentation	19-20
Penalties, Interest, and Other Charges	20
Personal Expenses.....	20-21
Gift Cards.....	21-22
Exit Conference.....	23
Official Response	24-29

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
District Administrative Manager	Heidi Sisco	01-01-10 to 12-31-13
District Operations Manager	Donald Skinner	01-01-10 to 12-31-13
Treasurer	Robert Jarolim	01-01-10 to 12-31-13
President of the Board	Mike Sutter Ronald Kantorak	01-01-10 to 11-01-12 11-02-12 to 12-31-13



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the LaGrange County Regional Utility District (District), as of and for the years ended December 31, 2010 and 2011. The District's management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2010, and 2011, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "Bruce Hartman".

Bruce Hartman
State Examiner

May 2, 2013

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
STATEMENT OF NET ASSETS
December 31, 2010 And 2011

<u>Assets</u>	2010		2011	
	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>
Current assets:				
Cash and cash equivalents	\$ 501,786	\$ -	\$ 587,123	\$ 22,229
Accounts receivable (net of allowance)	310,132	-	274,935	143
Intergovernmental receivable	-	-	30,827	30,827
Interfund receivables:				
Interfund loans	-	-	46,597	-
Prepaid items	7,716	-	15,651	-
Total current assets	819,634	-	955,133	53,199
Noncurrent assets:				
Restricted cash, cash equivalents, and investments:				
Bond and interest cash and investments	342,511	-	963,675	-
Debt service reserve cash and investments	1,384,075	-	811,464	-
Total restricted assets	1,726,586	-	1,775,139	-
Deferred charges	226,881	-	216,606	-
Capital assets:				
Land, improvements to land and construction in progress	1,074,721	-	1,100,718	-
Other capital assets (net of accumulated depreciation)	25,170,503	-	24,637,959	62,089
Total capital assets	26,245,224	-	25,738,677	62,089
Total noncurrent assets	28,198,691	-	27,730,422	62,089
Total assets	29,018,325	-	28,685,555	115,288
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	35,980	-	84,967	2,095
Accrued wages payable	11,787	-	14,058	-
Interfund payables:				
Interfund loan	-	-	-	46,597
Retainage payable	-	-	6,725	6,725
Compensated absences	24,818	-	25,365	-
Current liabilities payable from restricted assets:				
Revenue bonds payable	227,000	-	284,000	-
Accrued interest payable	393,032	-	387,374	-
Total current liabilities	692,617	-	802,489	55,417
Noncurrent liabilities:				
Revenue bonds payable	15,936,000	-	15,573,000	-
SRF loan payable	1,199,000	-	1,134,000	-
Intergovernmental payable	40,645	-	40,645	-
Total noncurrent liabilities	17,175,645	-	16,747,645	-
Total liabilities	17,868,262	-	17,550,134	55,417
<u>Deferred Credits</u>				
Advances for construction	34,437	-	34,437	-
Advances for debt retirement	192,000	-	192,000	-
Total for deferred credits	226,437	-	226,437	-
Total liabilities	18,094,699	-	17,776,571	55,417
<u>Net Assets</u>				
Invested in capital assets, net of related debt	8,883,224	-	8,747,677	62,089
Restricted for debt service	1,333,554	-	1,387,765	-
Unrestricted	706,848	-	773,542	(2,218)
Total net assets	\$ 10,923,626	\$ -	\$ 10,908,984	\$ 59,871

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

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2010 And 2011

	2010		2011	
	Wastewater	Water	Wastewater	Water
Operating revenues:				
Metered water revenue:				
Industrial	\$ -	\$ -	\$ -	\$ 1,133
Penalties	40,494	-	40,206	31
Flat rate revenues	2,365,497	-	2,550,189	-
Connection fees	10,400	-	3,900	-
Other	75,571	-	57,092	134
	<u>2,491,962</u>	<u>-</u>	<u>2,651,387</u>	<u>1,298</u>
Total operating revenues				
Operating expenses:				
Salaries and wages	353,401	-	377,393	-
Employee pensions and benefits	115,576	-	120,678	-
Purchased power	157,910	-	143,686	1,755
Purchased wastewater treatment	109,254	-	106,502	-
Sludge removal	29,631	-	29,443	-
Chemicals	15,876	-	9,554	-
Materials and supplies	180,968	-	245,863	371
Contractual services	185,759	-	168,286	1,390
Rents	8,336	-	899	-
Transportation expenses	16,021	-	20,593	-
Insurance expense	26,658	-	21,923	-
Bad debt expense	-	-	503	-
Depreciation	660,012	-	641,979	-
Miscellaneous expenses	40,966	-	45,620	-
	<u>1,900,368</u>	<u>-</u>	<u>1,932,922</u>	<u>3,516</u>
Total operating expenses				
Operating income (loss)	<u>591,594</u>	<u>-</u>	<u>718,465</u>	<u>(2,218)</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	32,621	-	513	-
Interest expense	(829,885)	-	(816,105)	-
Amortization expense	(10,286)	-	(10,275)	-
	<u>(807,550)</u>	<u>-</u>	<u>(825,867)</u>	<u>-</u>
Total nonoperating revenues (expenses)				
Loss before contributions	(215,956)	-	(107,402)	(2,218)
Capital contributions	-	-	92,760	62,089
Change in net assets	(215,956)	-	(14,642)	59,871
Total net assets - beginning	<u>11,139,582</u>	<u>-</u>	<u>10,923,626</u>	<u>-</u>
Total net assets - ending	<u>\$ 10,923,626</u>	<u>\$ -</u>	<u>\$ 10,908,984</u>	<u>\$ 59,871</u>

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

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Years Ended December 31, 2010 And 2011

	2010		2011	
	Wastewater	Water	Wastewater	Water
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,522,156	\$ -	\$ 2,686,584	\$ 1,155
Payments to suppliers and contractors	(875,494)	-	(876,762)	(1,421)
Payments to employees	(366,799)	-	(374,575)	-
Net cash provided by operating activities	1,279,863	-	1,435,247	(266)
Cash flows from capital and related financing activities:				
Capital contributions	-	-	46,598	46,597
Acquisition and construction of capital assets	(116,217)	-	(155,705)	(24,102)
Principal paid on capital debt	(268,000)	-	(371,000)	-
Interest paid on capital debt	(835,248)	-	(821,763)	-
Net cash provided (used) by capital and related financing activities	(1,219,465)	-	(1,301,870)	22,495
Cash flows from investing activities:				
Interest received	33,760	-	513	-
Net increase in cash and cash equivalents	94,158	-	133,890	22,229
Cash and cash equivalents, January 1	2,134,214	-	2,228,372	-
Cash and cash equivalents, December 31	\$ 2,228,372	\$ -	\$ 2,362,262	\$ 22,229
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income(loss)	\$ 591,594	\$ -	\$ 718,465	\$ (2,218)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	660,012	-	641,979	-
(Increase) decrease in assets:				
Accounts receivable	30,194	-	35,197	(143)
Prepaid items	(760)	-	(7,935)	-
Increase (decrease) in liabilities:				
Accounts payable	12,221	-	44,723	2,095
Wages payable	(15,841)	-	2,271	-
Compensated absence payable	2,443	-	547	-
Total adjustments	688,269	-	716,782	1,952
Net cash provided by operating activities	\$ 1,279,863	\$ -	\$ 1,435,247	\$ (266)
Noncash investing, capital and financing activities:				
Purchase of equipment on account	\$ -	\$ -	\$ 6,725	\$ 6,725

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

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District (primary government) was established under the laws of the State of Indiana. The District operates under an appointed Board of Trustees form of government and provides the following services: water treatment, wastewater treatment, and general administrative services.

The accompanying financial statements present the activities of the District. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the District's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the 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.

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

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

The financial statements report \$1,333,564 and \$1,387,765 of restricted net assets for 2010 and 2011, respectively, of which \$1,333,564 and \$1,387,765 is restricted by enabling legislation for 2010 and 2011, respectively.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

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.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Structures and improvements	\$ 500	Straight-line	50 years
Machinery and equipment	500	Straight-line	5 to 50 years
Organization	500	Straight-line	50 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

5. Compensated Absences

- a. Sick Leave – District employees earn sick leave at the rate of 6 days per year. Sick leave may be accumulated to a maximum of 45 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – District employees earn vacation leave at rates from 10 days to 24 days per year based upon the number of years of service. Vacation leave may be accumulated indefinitely. Accumulated vacation leave is paid to employees through cash payments upon termination.

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

- c. Personal Leave – District employees may use 3 sick days as personal leave each year. Personal leave does not accumulate from year to year.

Vacation and sick leave is accrued when incurred.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The District does not have a deposit policy for custodial credit risk. At December 31, 2011, the District had deposit balances in the amount of \$2,384,491.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the years ended December 31, 2010 and 2011, was as follows:

<u>2010 Wastewater</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 337,975	\$ -	\$ -	\$ 337,975
Construction in progress	<u>702,342</u>	<u>34,404</u>	<u>-</u>	<u>736,746</u>
Total capital assets, not being depreciated	<u>1,040,317</u>	<u>34,404</u>	<u>-</u>	<u>1,074,721</u>
Capital assets, being depreciated:				
Structures and improvements	30,173,537	74,857	-	30,248,394
Machinery and equipment	1,379,093	2,398	-	1,381,491
Organization	<u>169,259</u>	<u>-</u>	<u>-</u>	<u>169,259</u>
Totals	<u>31,721,889</u>	<u>77,255</u>	<u>-</u>	<u>31,799,144</u>

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

<u>2010 Wastewater (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Structures and improvements	(5,422,888)	(603,473)	-	(6,026,361)
Machinery and equipment	(503,093)	(53,153)	-	(556,246)
Organization	(42,648)	(3,386)	-	(46,034)
Totals	<u>(5,968,629)</u>	<u>(660,012)</u>	<u>-</u>	<u>(6,628,641)</u>
Total capital assets, being depreciated, net	<u>25,753,260</u>	<u>(582,757)</u>	<u>-</u>	<u>25,170,503</u>
Total capital assets, net	<u>\$ 26,793,577</u>	<u>\$ (548,353)</u>	<u>\$ -</u>	<u>\$ 26,245,224</u>
 <u>2011 Wastewater</u>				
Capital assets, not being depreciated:				
Land	\$ 337,975	\$ -	\$ -	\$ 337,975
Construction in progress	736,746	25,997	-	762,743
Total capital assets, not being depreciated	<u>1,074,721</u>	<u>25,997</u>	<u>-</u>	<u>1,100,718</u>
Capital assets, being depreciated:				
Structures and improvements	30,248,394	109,435	-	30,357,829
Machinery and equipment	1,381,491	-	-	1,381,491
Organization	169,259	-	-	169,259
Totals	<u>31,799,144</u>	<u>109,435</u>	<u>-</u>	<u>31,908,579</u>
Less accumulated depreciation for:				
Structures and improvements	(6,026,361)	(604,969)	-	(6,631,330)
Machinery and equipment	(556,246)	(33,624)	-	(589,870)
Organization	(46,034)	(3,386)	-	(49,420)
Totals	<u>(6,628,641)</u>	<u>(641,979)</u>	<u>-</u>	<u>(7,270,620)</u>
Total capital assets, being depreciated, net	<u>25,170,503</u>	<u>(532,544)</u>	<u>-</u>	<u>24,637,959</u>
Total capital assets, net	<u>\$ 26,245,224</u>	<u>\$ (506,547)</u>	<u>\$ -</u>	<u>\$ 25,738,677</u>
 <u>2011 Water</u>				
Capital assets, being depreciated:				
Structures and improvements	\$ -	\$ 62,089	\$ -	\$ 62,089
Less accumulated depreciation for:				
Structures and improvements	-	-	-	-
Total capital assets, net	<u>\$ -</u>	<u>\$ 62,089</u>	<u>\$ -</u>	<u>\$ 62,089</u>

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

Depreciation expense was charged to functions/programs of the District as follows:

	2010	2011
Water	\$ -	\$ -
Wastewater	660,012	641,979
Total depreciation expense	\$ 660,012	\$ 641,979

C. Construction Commitments

Construction work in progress is composed of the following:

Project	2010		2011	
	Expended to December 31,	Committed	Expended to December 31,	Committed
Shipshewana Project	\$ 736,746	\$ 2,584,606	\$ 762,743	\$ 2,588,609

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2011, is as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	2010	2011
Wastewater Utility	Water Utility	\$ -	\$46,597

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

E. Long-Term Liabilities

1. Revenue Bonds

The District issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding for Wastewater Utility at year end are as follows:

Purpose	Interest Rates	Balance at December 31
1995 Construction of sewer works Region F	5.25%	\$ 1,001,000
1997 Construction of sewer works Region B	5.00%	9,960,000
2004 Construction of sewer works Region A	4.50%	4,896,000
Total		\$ 15,857,000

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

Revenue bonds debt service requirements to maturity are as follows:

	Utility	
	Principal	Interest
2012	\$ 284,000	\$ 767,778
2013	299,000	753,468
2014	314,000	738,421
2015	328,000	722,665
2016	344,000	706,171
2017-2021	1,996,000	3,253,106
2022-2026	2,543,000	2,698,589
2027-2031	3,241,000	1,991,725
2032-2036	3,960,000	1,098,159
2037-2041	1,754,000	332,452
2042-2044	794,000	56,273
Totals	\$ 15,857,000	\$ 13,118,807

2. State Revolving Loan Payable

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of Wastewater Utility additions and improvements. Funds are loaned to the District as construction costs are accrued to the maximum allowed. The 1998 loan established a maximum draw of \$2,105,000. At the completion of construction, the outstanding principal balance of \$1,865,403 was amortized over a period of 20 years. Annual debt service requirements to maturity for the loan, including interest of \$235,830, are as follows:

	Principal	Interest
2012	\$ -	\$ 20,020
2013	57,000	39,043
2014	59,000	37,012
2015	61,000	34,913
2016	63,000	32,742
2017-2019	894,000	72,100
Totals	\$ 1,134,000	\$ 235,830

3. Intergovernmental Payable

The District has obtained a loan from LaGrange County for feasibility studies. A repayment schedule has not been determined. At December 31, 2011, the loan payable was \$40,645.

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

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

<u>2010</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Wastewater:					
Revenue bonds payable	\$ 16,378,000	\$ -	\$ 215,000	\$ 16,163,000	\$ 227,000
State revolving loan payable	1,252,000	-	53,000	1,199,000	-
Loan payable	40,645	-	-	40,645	-
Compensated absences	<u>22,375</u>	<u>24,818</u>	<u>22,375</u>	<u>24,818</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 17,693,020</u>	<u>\$ 24,818</u>	<u>\$ 290,375</u>	<u>\$ 17,427,463</u>	<u>\$ -</u>
<u>2011</u>					
Wastewater:					
Revenue bonds payable	\$ 16,163,000	\$ -	\$ 306,000	\$ 15,857,000	\$ 284,000
State revolving loan payable	1,199,000	-	65,000	1,134,000	-
Loan payable	40,645	-	-	40,645	-
Compensated absences	<u>24,818</u>	<u>25,365</u>	<u>24,818</u>	<u>25,365</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 17,427,463</u>	<u>\$ 25,365</u>	<u>\$ 395,818</u>	<u>\$ 17,057,010</u>	<u>\$ -</u>

F. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	<u>2010</u>	<u>2011</u>
Bond and interest	\$ 342,511	\$ 963,675
Debt service reserve	<u>1,384,075</u>	<u>811,464</u>
Total restricted assets	<u>\$ 1,726,586</u>	<u>\$ 1,775,139</u>

G. Revenues Pledged

Wastewater Utility Revenues Pledged

The District has pledged future operating revenues, net of specified operating expenditures, to repay revenue bonds issued in 1995, 1997, and 2004. Proceeds from the bonds provided financing for wastewater improvement projects. The bonds are payable solely from net operating revenues and are payable through 2044. Annual principal and interest payments are expected to require less than 41 percent of net revenues.

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

III. Other Information

A. Risk Management

The District is 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; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

During 1990, the District joined together with other governmental entities to form the Indiana Public Employers Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. The purpose of the risk pool is to provide a medium for the funding and administration of worker's compensation. The District pays an annual premium to the risk pool for its worker's compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Subsequent Events

On March 19, 2012, the District sold \$1,705,000 sewage works revenue bonds to pay for the construction of the Shipshewana Lake sewer project.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the District on September 8, 2010. The Utility has 10 customers.

2. Wastewater Utility

The current rate structure for Fish/Royer, Region B, Fish/Stone, and Region A was approved by the District on August 18, 2010. The current rate structure for Fawn River Crossing was approved by the District on September 8, 2010. The Utility has 3,300 customers.

D. Advances for Construction

Several lake associations advanced the District monies for feasibility studies. When the sewer systems are operational, money that each individual association member contributed will be refunded.

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

E. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The District contributes to the Indiana Public Employees' Retirement Fund (PERF), 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 the 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 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 member's 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. The 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

PERF members are required to contribute 3 percent of their annual covered salary. The District is required to contribute at an actuarially determined rate; the current rate is 7 percent of annual covered payroll. The contribution requirements of the plan members for PERF are established and may be amended by the Board of Trustees of INPRS.

The District has entered into an interlocal agreement with LaGrange County to include District employees in LaGrange County's PERF. Information to segregate the assets/liabilities and the actuarial study figures between LaGrange County and the District is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of LaGrange County and is not presented as an asset/liability of the District.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXAMINATION RESULTS AND COMMENTS

INCORRECT BILLING FEES FOR CAMPGROUNDS

The LaGrange County Regional Utility District (District) billed three campgrounds during the examination period. These campgrounds were billed incorrectly according to the District's billing ordinances in effect during the examination period as follows:

1. Ordinance 2006-11-8, in effect through September 2010, stated that campgrounds were to be billed \$24.27 per 1,000 gallons of metered usage. For the period January through September 2010, two of the campgrounds were billed \$22.27 per 1,000 gallons and one campground was billed \$22.64 per 1,000 gallons.
2. Ordinance 2006-11-8, in effect through September 2010, included a monthly meter charge of \$52.90 for campgrounds. The campgrounds were not billed the meter charge from January 2010 through September 2010, because the campgrounds were disputing the meter charge to the Indiana Utility Regulatory Commission (IURC). The IURC appeals division reviewed the disputed meter charge and ruled in favor of the owner or operator of the campgrounds. As a result of the IURC ruling, the District approved Ordinance 2010-8-18, which lowered the meter charge to \$15.20 per month. If the District had properly billed the \$52.90 meter charge during the dispute, the excess meter charge of \$37.70 would have been refunded to the campgrounds.
3. Ordinance 2010-8-18, effective October 2010, stated that campgrounds in Region A were to be billed \$38.76 per 1,000 gallons of metered usage beginning with the September 2011 billing. Two of the campgrounds were billed \$35.36 per 1,000 gallons from September through December 2011.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Indiana Code 13-26-11-2.1(e) states:

"In any case in which the basic monthly charge for a campground's sewage service is in dispute, the owner or operator shall pay, on any disputed bill issued while a review under this section is pending, the basic monthly charge billed during the year immediately preceding the year in which the first disputed bill is issued. If the basic monthly charge paid while the review is pending exceeds any monthly charge determined by the commission in a decision issued under subsection (f), the board shall refund or credit the excess amount paid to the owner or operator. If the basic monthly charge paid while the review is pending is less than any monthly charge determined by the appeals division or commission in a decision issued under subsection (f), the owner or operator shall pay the board the difference owed."

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

INCORRECT BILLING FEES FOR FAWN RIVER CROSSING

In October 2011, the District began billing ten businesses located within Fawn River Crossing, an industrial park, for water and sewer usage. Ordinance 2010-9-8 (A) established the water charges that include a metered rate of \$1.70 per 1,000 gallons, plus a base charge and a public fire protection surcharge that are based on the meter size. Ordinance 2010-9-8 (b) established the sewer charges that include a metered rate of \$4.10 per 1,000 gallons, plus a base charge that is based on the meter size. The base charge and public fire protection surcharge for water and the base charge for sewer were not being billed.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

UNTIMELY DEPOSITS FOR FAWN RIVER CROSSING

The receipts from Fawn River Crossing customers were not deposited timely. Selected receipts tested from November 14, 2011 through November 18, 2011, were not deposited until November 23, 2011. The Holiday Inn Express receipt on December 1, 2011, was not deposited until December 5, 2011, and the Therma Tru Doors receipt on December 15, 2011, was not deposited until December 27, 2011.

IC 5-13-6-1 requires all public funds shall be deposited not later than the business day following the receipt of funds on business days of the depository. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 15)

CAMPGROUND SEWER UNDER BILLING

All three campgrounds serviced by the District were tested for proper billing. One of these three campgrounds was under billed in the amount of \$1,095.49 for 2011 as described below:

Months of Under billing	Rationale
January, February	Summer billing rate was applied incorrectly
March	Did not apply summer billing rate
June, July	Rental residential rate for 3 mobile homes was not charged
September, October, November, December	Phase II of Region A rate increase was not applied

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CHRISTIAN YOUTH CAMP BILLINGS

A review of a Christian youth camp's billing since 1997 revealed a potential under billing amount for the following reasons:

1. The District billed a Christian youth camp at a campground rate based on a monthly equivalent single family dwelling unit (ESFDU) of 7.2 from 1997 through the examination period. The District had no supporting documentation as to how the ESFDU was calculated.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. Prior to Ordinance 2005-12-6(D), the monthly rate multiplied by the ESFDU for the Christian youth camp was "churches and other religious organizations without eating and/or drinking facilities, for each 200 members, or fraction thereof"; however, the Christian youth camp had eating and drinking facilities when it became a customer of the District.
3. The District did not bill two camp buildings receiving sewer services.

Indiana Code 13-26-11-2, effective July 1, 2012, provides guidance for youth camp billings. Based on this code, if a youth camp is not metered, "each bed at the youth camp may not equal more than one-eighth (1/8) of one (1) residential equivalent unit." The District currently bills all youth camps based on this code.

As of June 2012, the District had billed the Christian youth camp \$68,718.60. If the District had billed the Christian youth camp in accordance with its ordinance under "churches and other religious organizations with eating and/or drinking facilities: for each member," assuming that members represented a bed capacity count, the total under billed amount is \$12,133.74. If the District had billed the Christian youth camp under Indiana code 13-26-11-2, the total amount under billed is \$91,189.74.

The District Board and their legal counsel should discuss with the Christian youth camp a billing solution for the past errors noted above.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

NO DISTRICT APPROVAL FOR SEWER CONNECTION EXEMPTION

The District governing board did not approve, in a public board meeting, a Christian youth camp's sewer connection exemption. The sewer connection exemption was granted through a verbal agreement between legal counsel of the two parties.

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 managements' 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)

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states in part:

"(a) . . . ' original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . . "

Further, Indiana Code 26-2-28-111(a) and (e) state:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

ACCOUNTS PAYABLE VOUCHERS

Accounts payable vouchers did not always include both of the required signatures. The vouchers require both a signature certifying that the attached invoices are true and correct and the materials or services have been received and a signature certifying the attached invoices are true and correct and have been audited in accordance with Indiana Code 5-11-10-1.6. Of the 33 Accounts Payable Vouchers examined, 15 were not signed certifying that the invoices were true and correct and the materials or services have been received and 11 were not signed certifying that the invoices were true and correct and have been audited.

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 Special Districts, Chapter 10)

SALES TAX

Purchases were observed for which sales tax was paid. In our examination of Accounts Payable Vouchers for payments to the credit card company for the period January 1, 2010 through September 12, 2012, we noted that 18 of the 33 vouchers included \$177.07 of sales tax. It was also noted that Accounts Payable Vouchers paid to reimburse employees for purchases sometimes included sales tax.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

SUPPORTING DOCUMENTATION

Payments were made for charges to the District's credit card without any supporting documentation or adequate supporting documentation, such as receipts, invoices, and other public records. Of the 33 payments to the credit card company, 4 payments were made for charges that had no supporting documentation and 18 payments were made for charges without adequate supporting documentation. The payments made without adequate supporting documentation were paid from credit card slips that were not itemized or internet

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

purchase confirmations instead of an invoice. Payments made without supporting documentation and without adequate supporting documentation totaled \$929.30 and \$742.17, respectively. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Credit card payment should not be made on the basis of a statement or a credit card slip only. Procedures for credit card payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

All claims, invoice, receipt, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

PENALTIES, INTEREST, AND OTHER CHARGES

Information presented for examination indicates that, payments to the credit card company were not always made on time. During the examination of the 33 payments made to the credit card company from January 1, 2010 through September 12, 2012, we noted seven times the District was assessed late fees and/or finance charges. The District paid \$157.92 in late fees and/or finance charges.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

PERSONAL EXPENSES

In our examination of the 33 payments to the credit card company for the period January 1, 2010 through September 12, 2012, we noted the following personal expenses:

1. Three charges totaling \$2,863.73 were at two local restaurants and were for Christmas parties in 2009, 2010, and 2011 for the District employees and their spouses.
2. Twenty-two charges totaling \$1,314.50 were made for Christmas gifts, Christmas ornaments, Christmas candy, and Christmas wrap or gift bags.
3. Sixty-three charges totaling \$1,509.23 were for food purchases made locally. Twenty-six of these charges had no itemized receipt or invoice attached to the claim for reimbursement, only an unsigned charge slip.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

4. Ten charges totaling \$297.33 were for items that appeared to be gifts for individuals.

Regarding the establishment of rates and charges for services provided by a regional district, Indiana Code 13-26-11-8 and 13-26-11-9 state in part:

"The board shall, by ordinance, establish just and equitable rates or charges for the use of and the service provided by a works."

"Just and equitable rates and charges are those that produce sufficient revenue to:

- (1) pay all expenses incident to the operation of the works, including maintenance cost, operating charges, upkeep, repairs, and interest charges on bonds or other obligations;
- (2) provide the sinking fund for the liquidation of bonds or other evidence of indebtedness and reserves against default in the payment of interest and principal of bonds; and
- (3) provide adequate money to be used as working capital, as well as money for making improvements, additions, extensions, and replacements."

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

GIFT CARDS

A total of \$1,935.38 was expended for gift cards given to District employees at Thanksgiving and Christmas in 2009, 2010, and 2011.

In an explanation of De Minimis Fringe Benefits, information available on the IRS website states:

"Cash or cash equivalent items provided by the employer are never excludable from income. An exception applies for occasional meal money or transportation fare to allow an employee to work beyond normal hours. Gift certificates that are redeemable for general merchandise or have a cash equivalent value are not de minimis benefits and are taxable."

"If the benefits qualify for exclusion, no reporting is necessary. If they are taxable, they should be included in wages on Form W-2 and subject to income tax withholding. If the employees are covered for social security and Medicare, the value of the benefits are also subject to withholding for these taxes. You may optionally report any information in box 14 of Form W-2."

No taxes were withheld relative to the gift cards and the gift card amounts were not reported on the W-2 forms issued for 2009, 2010, or 2011.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 14)

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on May 2, 2013, with Robert Jarolim, Treasurer; Ronald Kantorak, President of the Board; Michael Sutter, former Board member; Robert Murphy, former Board member; Jack Dold, former Board member; Heidi Sisco, District Administrative Manager; and Donald Skinner, District Operations Manager. The Official Response has been made a part of this report and may be found on pages 24 through 29.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT

P.O. Box 270
LaGrange, IN 46761
260-499-6349

July 11, 2013

VIA CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Mr. Bruce A. Hartman, CPA
State Examiner
State Board of Accounts
302 W. Washington St., Room E418
Indianapolis, IN 46204-2765

Re: **OFFICIAL RESPONSE**
LaGrange County Regional Utility District
2010 and 2011 Examination Results and Comments

Dear Mr. Hartman:

We write on behalf of the LaGrange County Regional Utility District to provide the District's response to the examination results and comments from the State Board of Accounts' audit of the District's records for the years 2010 and 2011. Our responses to each item raised by the field examiners are as follows:

BILLING FEES FOR CAMPGROUNDS

The District understands and accepts the comments. The District has taken the following measures to remedy the items noted by the examiners: The District staff was instructed to review the applicable rate ordinances to ensure their understanding of the ordinances' application, and they have done so. To the extent necessary, billing software has been reprogrammed to result in charges consistent with the applicable rate ordinances. Since the District was first advised of the items by the field examiners, the District has been charging the campgrounds according to the applicable rate ordinances. The District amended its rate ordinance to reduce what the State Board refers to as a "monthly meter charge" to the level approved by the Indiana Utility Regulatory Commission. While the District will follow the State Board's instructions should a similar item arise in the future, it is the District's position that the manner by which it addressed the question of whether the monthly meter charge was too high resulted in no loss of appropriate revenue to the District.

Mr. Bruce A. Hartman
July 11, 2013
Page 2

BILLING FEES FOR FAWN RIVER CROSSING

The District understands and accepts the comments. The District immediately took the following measures to remedy the items noted by the examiners when the examiners first brought the items to the District's attention late in 2012: The District staff was instructed to review the applicable rate ordinance to ensure their understanding of the ordinance's application, and they have done so. Because the item identified by the examiners was the result of improperly programmed billing software, the billing software was reprogrammed to result in charges consistent with the applicable rate ordinances. As soon as the billing software was reprogrammed, the District began to charge the property owners in the service area according to the applicable rate ordinance. The District initiated an effort to recover the amounts owed from the property owners in the service area and has now recovered all of the amounts owed. An effort was made to recover the previously unpaid amount from the billing software vendor that caused the item, but that effort was unavailing.

DEPOSITS OF FAWN RIVER CROSSING RECEIPTS

The District understands and accepts the comment. The District immediately took the following measure to remedy the item noted by the examiners when the examiners first brought the item to the District's attention late in 2012: The District began depositing money received in payment for monthly charges within one business day of receipt as instructed by the State Board. It will continue to do so in the future.

CAMPGROUND SEWER BILLING

The District understands and accepts the comments with one exception. The District was not aware that the property owner was making three (3) mobile homes available for use as year-round, single-family dwellings. The property owner had previously represented to the District that the mobile homes were being used as seasonal, camping units, and the District had been billing for that use under the campground metered rate charged to the property owner.

The District immediately took the following measures to remedy the items noted by the examiners when the examiners first brought the items to the District's attention late in 2012: The District staff was instructed to review the applicable rate ordinance and Indiana statute to ensure their understanding of the ordinance's application, and they have done so. The District began charging the property owner in a manner consistent with the Indiana statute, the District's rate ordinance, and the information the District gathered about the owner's use of the mobile homes and will continue to do so in the future. The District charged the property owner for

Mr. Bruce A. Hartman
July 11, 2013
Page 3

Phase II of the rate increase in the service area and the amount owed for those months when it should have been charged has been recovered.

CHRISTIAN YOUTH CAMP BILLING

The District understands the comments but takes exception to them. The District acknowledges that there is no documentation to explain who developed the monthly charge to the camp or how it was arrived at, but it is clear from the nature of the charge and the documentation that is available that it was arrived at rationally and therefore lawfully from the applicable rate ordinance and the schedule of rates and charges incorporated therein. The rate classification identified by the examiners as appropriate was not deemed to be applicable to the way that the owners of the property used the property. Although it is not clear from the examination results which two camp buildings the preliminary discussion draft refers to, the District did not charge for two camp buildings because they were not connected to the District's system and therefore were not receiving sewer service. (The connection exemption for the two buildings will be addressed in the next section of this response.)

I.C. 13-26-11-2, the statute cited by the examiners as providing guidance for appropriate youth camp billing, had not yet been enacted at the time of the charges the examiners call into question and therefore it would not have been available to the District in shaping an appropriate charge for the property use. Not long after the statute became effective on July 1, 2012, the District began discussions with the property owner to make the property owner aware of its rights under I.C. 13-26-11-2 and to change the way the District charged the property owner so that the District complied with the statute. Since those conversations were concluded, the District has been charging the property owner according to its rate ordinance and I.C. 13-26-11-2.

As soon as the items identified by the examiners were first brought to the District's attention in late 2012, the District directed its attorney to look into the question of whether some or all of the sums the examiners believed the District should have charged the property owner could be recovered. After considerable research, the attorney advised the District's Board of Trustees that he did not believe the District had a legal basis for doing so and, even if the District did have a legal basis for pursuing recovery from the property owner, the property owner had defenses that made the success of a recovery action doubtful. The Board decided that the benefits of a recovery action against the owner were outweighed by the costs of such an action and the risk that the District would not be successful. It elected accordingly not to pursue an action.

Mr. Bruce A. Hartman
July 11, 2013
Page 4

SEWER CONNECTION EXEMPTION

The District acknowledges that there was an agreement between the owner of the property that is used as the aforementioned Christian youth camp and the District to exempt from connection a parcel of property on which are located two buildings used for residential purposes. The District further acknowledges that there was no documentation of this agreement beyond an exchange of letters by the attorneys for the property owner and the District. However, the District takes exception to the comment to the extent it suggests that the attorneys made the agreement without the authority to do so from their clients. The District's attorney has stated he would not have negotiated an agreement of that type without the authority to do so from either an appropriate District official or from the Board.

When the item was brought to the attention of the District by the examiners, the District entered into discussions with the property owner to make it aware of its options with regard to connection under legislation that had been enacted by the General Assembly the year before. The District asked the owner to choose how it wished to proceed. The owner has now exercised a right it has by statute and common law to exempt it from connection, and the District formally acknowledged its acceptance of the owner's action by a vote of the Board of Trustees, all of which was duly recorded in the Board's meeting minutes.

OPTICAL IMAGES OF CHECKS

The District understands and accepts the comments. As soon as the examiners brought this item to the District's attention, it made arrangements with both of the banks that serve the District to provide copies of both the front and back of each check on paper.

ACCOUNTS PAYABLE VOUCHERS

The District understands and accepts the comment. When the examiners brought the item to the District's attention, the District began having the District's Administrative Manager and its Treasurer both sign vouchers in the manner prescribed by the State Board. It will continue to do so in the future.

SALES TAX

The District understands and accepts the comment. When the examiners brought the item to the District's attention, the District immediately took the following measures to remedy the

Mr. Bruce A. Hartman
July 11, 2013
Page 5

item noted by the examiners: The District advised employees that it would not reimburse them for sales tax charged as a result of employees paying for purchases on behalf of the District. District employees will be provided with documentation to show vendors the District's tax-exempt status when employees make purchases on behalf of the District. The District has been opening accounts with regularly used vendors so that purchases can be charged against those accounts with the understanding that sales tax is not to be charged. The District has been contacting regularly used vendors with which it previously had opened accounts to clarify with those vendors that sales tax is not to be charged.

SUPPORTING DOCUMENTATION

The District acknowledges and accepts the comment. When the examiners brought the item to the District's attention, the District staff immediately began to obtain and file the documentation described by the examiners. It will continue to do so in the future.

PENALTIES, INTEREST, AND OTHER CHARGES

The District acknowledges and accepts the comment. When the examiners brought the item to the District's attention, the District took steps to ensure that no late charges, fees, or penalties will accrue on credit card purchases. As an additional measure and as suggested by the examiners, the District will draft and enact an ordinance authorizing the Administrative Manager to pay bills in a timely way without prior Board approval if necessary to avoid late charges, fees, or penalties subject to subsequent ratification by the Board.

PERSONAL EXPENSES

The District acknowledges and accepts the comments. In order to address the comments, the District Board will undertake a review of its personnel policies concerning expenses of the sort cited by the examiners. Changes to those policies are expected soon. In the meantime, the District staff has been instructed not to incur similar expenses.

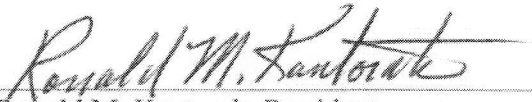
GIFT CARDS

The District acknowledges and accepts the comment. When the examiners brought the item to the District's attention, the District discontinued the practice and will not do it again in the future.

Mr. Bruce A. Hartman
July 11, 2013
Page 6

Thank you for the opportunity to respond to the biennial audit for 2010 and 2011.

Respectfully submitted on behalf of the LaGrange County Regional Utility District,



Ronald M. Kantorak, President
Board of Trustees



John R. Gastineau, Attorney for the District

RECEIVED
JUL 14 2013
BOARD OF TRUSTEES