

LAKELAND REGIONAL SEWER DISTRICT
Kosciusko County, Indiana

FINANCIAL STATEMENTS
December 31, 2017

LAKELAND REGIONAL SEWER DISTRICT

FINANCIAL STATEMENTS
December 31, 2017

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LAKELAND REGIONAL SEWER DISTRICT
SCHEDULE OF OFFICIALS (Unaudited)
December 31, 2017

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Michael R. DeWald	01-01-17 to 12-31-17
President of the Board	James R. Haney	01-01-17 to 12-31-17

INDEPENDENT AUDITOR'S REPORT

Those Charged with Governance
Lakeland Regional Sewer District
Warsaw, Indiana

Report on the Financial Statement

We have audited the accompanying statement of receipts, disbursements, and cash and investment balances of Lakeland Regional Sewer District (the Unit) as of and for the year ended December 31, 2017, and the related notes (the financial statements).

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6) as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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

(Continued)

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Unit as of December 31, 2017, or changes in net position or cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investment balances of the Unit as of December 31, 2017, and its cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Schedule of Officials, and Supplementary Information Schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of Officials and Supplementary Information Schedules have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Report on Other Legal and Regulatory Requirement

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018, on our consideration of the Unit's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Unit's internal control over financial reporting and compliance.


Crowe LLP

Indianapolis, Indiana
December 28, 2018

LAKELAND REGIONAL SEWER DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
REGULATORY BASIS
For The Year Ended December 31, 2017

Fund	Cash and Investments <u>01-01-17</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash and Investments <u>12-31-17</u>
Wastewater General Operating	\$ 169,529	\$ 1,596,401	\$ 1,554,358	\$ 211,572
Wastewater Sewage Works Construction Fund	90,176	2,183,836	2,106,667	167,345
Wastewater Bond & Interest Fund	-	786,964	443,579	343,385
Wastewater Debt Service Reserve	-	78,696	-	78,696
Wastewater Improvement	-	33,000	-	33,000
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 259,705</u>	<u>\$ 4,678,897</u>	<u>\$ 4,104,604</u>	<u>\$ 833,998</u>

See accompanying notes to financial statements.

LAKELAND REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Lakeland Regional Sewer District (the Unit) was established under the laws of the State of Indiana. The Unit operates under an appointed governing board.

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

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

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP), in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred. The regulatory basis also allows for all investments to be stated at cost, while GAAP requires fair value for qualifying investments.

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

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

Utility fees. Amounts received from charges for current services.

Intergovernmental receipts. Amounts received 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.

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

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

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

Debt service principal and interest. Amounts disbursed for fixed obligations resulting from financial transactions previously entered into by the Unit. It includes all expenditures for the reduction of the principal and interest of the Unit general obligation indebtedness.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility operating expenses. Amounts disbursed for operating the utilities.

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

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

Fund Accounting: Separate funds are established, maintained, and reported by the Unit. Each fund is used to account for amounts received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Unit. The amounts accounted for in a specific fund may only be available for use for certain, legally-restricted purposes. Additionally, some funds are used to account for assets held by the Unit in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and, therefore, the funds cannot be used for any expenditures of the Unit itself.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

State statutes authorize the Unit to invest in securities including, but not limited to, the following: federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units. Given the limited investment parameters applicable under state statute, certain risks, such as credit, custodial, concentration, and interest rate are not deemed significant. As of the year ended December 31, 2017 the Unit held investments in money market accounts.

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

NOTE 3 - RISK MANAGEMENT

The Unit may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters. These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third-party. The establishment of a self-insurance fund allows the Unit to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

The Unit has purchased insurance to address the risks described above.

LAKELAND REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 - DEBT

In 2016, the Unit issued revenue bonds in the amount of \$20,089,000 for the purpose of wastewater construction. The bonds mature on August 1, 2056. The Unit made principal and interest payments during the year under audit.

SUPPLEMENTAL SCHEDULES (Unaudited)

LAKELAND REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2017

	Wastewater General Operating	Wastewater Sewage Works Construction Fund	Wastewater Bond & Interest Fund	Wastewater Debt Service Reserve	Wastewater Improvement	Totals
Cash and investments - beginning	\$ 169,529	\$ 90,176	\$ -	\$ -	\$ -	\$ 259,705
Receipts:						
Intergovernmental	-	2,123,836	-	-	-	2,123,836
Utility fees	1,386,959	-	-	-	-	1,386,959
Other receipts	209,442	60,000	786,964	78,696	33,000	1,168,102
Total receipts	<u>1,596,401</u>	<u>2,183,836</u>	<u>786,964</u>	<u>78,696</u>	<u>33,000</u>	<u>4,678,897</u>
Disbursements:						
Other services and charges	48,449	-	-	-	-	48,449
Debt service - principal and interest	-	-	443,579	-	-	443,579
Capital outlay	-	2,106,667	-	-	-	2,106,667
Utility operating expenses	606,941	-	-	-	-	606,941
Other disbursements	898,968	-	-	-	-	898,968
Total disbursements	<u>1,554,358</u>	<u>2,106,667</u>	<u>443,579</u>	<u>-</u>	<u>-</u>	<u>4,104,604</u>
Excess (deficiency) of receipts over disbursements	<u>42,043</u>	<u>77,169</u>	<u>343,385</u>	<u>78,696</u>	<u>33,000</u>	<u>574,293</u>
Cash and investments - ending	<u>\$ 211,572</u>	<u>\$ 167,345</u>	<u>\$ 343,385</u>	<u>\$ 78,696</u>	<u>\$ 33,000</u>	<u>\$ 833,998</u>

LAKELAND REGIONAL SEWER DISTRICT
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2017

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Wastewater	\$ -	\$ -
Governmental activities	-	-
Totals	<u>\$ -</u>	<u>\$ -</u>

LAKELAND REGIONAL SEWER DISTRICT
 SCHEDULE OF LEASES AND DEBT
 December 31, 2017

<u>Type</u>	<u>Description of Debt</u>	<u>Purpose</u>	<u>Ending Principal Balance</u>	<u>Principal and Interest Due Within One Year</u>
Wastewater:				
Revenue bonds	Revenue Bonds of 2016		\$ 19,931,000	\$ 785,509
			<hr/>	<hr/>
Total Wastewater			<u>19,931,000</u>	<u>785,509</u>
Totals			<u>\$ 19,931,000</u>	<u>\$ 785,509</u>

LAKELAND REGIONAL SEWER DISTRICT
SCHEDULE OF CAPITAL ASSETS
December 31, 2017

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	<u>Ending Balance</u>
Governmental activities:	
Total governmental activities	\$ <u> -</u>
Wastewater:	
Infrastructure	<u> 24,969,792</u>
Total capital assets	<u>\$ 24,969,792</u>

LAKELAND REGIONAL SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2017

Federal	CFDA	
<u>Pass-through/Program Title</u>	<u>Number</u>	<u>Amount</u>
<u>United States Department of Agriculture</u>		
Water and Waste Disposal Systems for Rural Communities		
Grant 00-04	10.760	\$ 2,106,667
Loan 92-01	10.760	9,500,000
Loan 92-02	10.760	8,500,000
Loan 92-03	10.760	<u>2,089,000</u>
Total Federal Expenditures		<u>\$ 22,195,667</u>

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

LAKELAND REGIONAL SEWER DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lakeland Regional Sewer District (the "Unit") under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Unit, it is not intended to and does not present the receipts, disbursements, and cash and investment balances – regulatory basis of the Unit. Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Unit has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 - FEDERAL LOANS DISBURSED

After the United States Department of Agriculture (USDA) Rural Utilities Service (RUS) has made a commitment on a loan, the Unit may obtain interim financing from commercial sources for the construction period in accordance with 7 CFR section 1780.39d. Expenditures from these commercial sources that will be repaid from the proceeds of the RUS loan should be considered Federal awards expended. The Unit received a commitment from RUS on September 15, 2010 for the Lakeland Regional Sewer District Wastewater Project (Project).

On December 27, 2016, the Unit received the RUS loans and repaid an outstanding balance from interim financing.

In years after the program funds are expended and construction is completed, and the only ongoing financial activity of the program is the repayment of principal and interest on outstanding loan balances, the prior loan balances will not be considered to have continuing compliance requirements under 2 U.S. Code of Federal Regulations Part 200 section 502(d).

However, because the Project was in the construction period, the balance reported on the Schedule represents the prior year principal balance of the RUS financing as of December 31, 2016 as follows:

Loan 92-01	\$ 9,500,000
Loan 92-02	8,500,000
Loan 92-03	<u>2,089,000</u>
Total	<u>\$ 20,089,000</u>

The balance of the RUS financing as of December 31, 2017 was as follows:

Loan 92-01	\$ 9,426,000
Loan 92-02	8,433,000
Loan 92-03	<u>2,072,000</u>
Total	<u>\$ 19,931,000</u>

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

Those Charged with Governance
Lakeland Regional Sewer District
Decatur, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lakeland Regional Sewer District ("Unit"), which comprise the statement of receipts, disbursements, and cash and investment balances of the Unit as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 and 2017-002 that we consider to be material weaknesses.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Unit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

The Unit's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Unit's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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


Crowe LLP

Indianapolis, Indiana
December 28, 2018

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

Those Charged with Governance
Lakeland Regional Sewer District
Decatur, Indiana

Report on Compliance for Each Major Federal Program

We have audited Lakeland Regional Sewer District's (Unit) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Unit's major federal program for the year ended December 31, 2017. The Unit's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Unit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Unit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Unit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

(Continued)

Report on Internal Control Over Compliance

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

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

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

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


Crowe LLP

Indianapolis, Indiana
December 28, 2018

LAKELAND REGIONAL SEWER DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 December 31, 2017

SECTION 1 - SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors report issued Adverse as to GAAP, Unmodified as to regulatory basis

Internal control over financial reporting

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

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

Internal control over major programs

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

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

<u>CFDA Number</u> 10.760	<u>Name of Federal Program or Cluster</u> Water and Waste Disposal System for Rural Communities
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Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 750,000</u>
-------------------------------------------------------------------------	-------------------

Auditee qualified as low-risk auditee?	<u> </u>	Yes	<u> X </u>	No
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LAKELAND REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2017

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

Finding 2017-001 – Amount of Federal Expenditures Reported

- Criteria:** Uniform Guidance requires a Schedule of Expenditures of Federal Awards (SEFA) to be prepared in accordance with 2 CFR 200.502 – Basis for Determining Federal Awards Expended.
- Condition:** The originally provided SEFA amount included \$3,000,000 of insurance coverage in effect for the period, which was not from a federal entity. Additionally, the loan amount reported was improperly reduced by \$158,000 of principal payments made during the year while 2 CFR 200.502(b) requires the reporting of the new loans received plus the prior year loan balance.
- Context:** A SEFA was submitted via the Indiana Gateway system, but did not report the amount of funding in accordance with 2 CFR 200.502.
- Effect:** Expenditures reported on the SEFA were overstated by \$2,842,000.
- Cause:** The condition appears to relate to a lack of understanding of how to report federal program expenditures in accordance with 2 CFR 200.502.
- Recommendation:** We recommend management implement a process to monitor and compile the expenditure of federal funding and the implementation of a secondary review of the SEFA to ensure financial and non-financial information is accurate and complete in accordance with 2 CFR 200.502, including requirements to on whether or not to report expenditures under continuing compliance requirements. We also recommend management reconcile federal grant expenses to federal grant revenue on the general ledger on a periodic basis to ensure general ledger activity is properly captured.
- Management's Response:** Management concurs with this finding. See the corrective action plan.

Finding 2017-002 – Bank Account Reconciliation Review

- Criteria:** Indiana Code 5-13-6-1(e) states, *"All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."*
- Condition:** During testing, we noted the Unit did prepare bank reconciliations on at least a monthly basis. However, we noted no formal, documented review process over these reconciliations during a portion of the year under audit. We noted the Unit began formally reviewing bank reconciliations during 2017.
-

LAKELAND REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2017

Context: During testing of controls over cash, it was noted that bank reconciliations were not reviewed by the Board or management for a portion of the period under audit.

Effect: Cash accounts have the potential to be misstated or reconciled erroneously.

Cause: The above condition appears to be the result of a lack of internal controls over cash reconciliation processes.

Recommendation: We recommend management implement a process to ensure bank reconciliations are reviewed by the Board on a monthly basis.

Management's Response: Management concurs with this finding. See the corrective action plan.

LAKELAND REGIONAL WASTE DISTRICT
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
December 31, 2017

Finding 2016-001 – Amount of Federal Expenditures Reported

Description: A SEFA was submitted via the Indiana Gateway system, but did not report the correct amount of funding in accordance with 2 CFR 200.502. The originally provided SEFA amount included \$3,000,000 of insurance coverage in effect for the period, which was not from a federal entity. Expenditures reported on the SEFA were overstated by \$3,000,000.

Status: Repeat Finding. See Finding 2017-001.

FINDING 2016-001 – Bank Account Reconciliation

Criteria: During testing, we noted the Unit did prepare bank reconciliations on at least a monthly basis. However, we noted no formal, documented review process over these reconciliations during the year.

Status: Repeat Finding. See Finding 2017-002.

LAKELAND REGIONAL SEWER DISTRICT
EXIT CONFERENCE
January 1, 2015 to December 31, 2017

The contents of this report were discussed on December 28, 2018, with Mike DeWald, Treasurer, and James Haney, President of the Board. The officials acknowledged the findings. The Official Response has been made a part of this report and may be found immediately following the findings on the previous page.

Lakeland Regional Sewer District

5102 E 100 N

Warsaw, IN 46582

February 21, 2019

Crowe, LLC

(via email)

The Lakeland Regional Sewer District is pleased to submit the following action plan relative to your findings regarding your audits for 2015, 2016 and 2017.

Findings 2015-001, 2016-001 and 2017-001

The outside accountant who submits the SEFA reports using the Gateway system has received additional training on the SEFA reporting requirements. Management believes that the lack of understanding of the reporting requirements should not recur and that future reports will be submitted correctly.

Findings 2015-002, 2016-002 and 2017-002

During 2017, the District began having a Board member other than the Treasurer review and sign the monthly bank reconciliations. All months in 2018 were reviewed and signed.

This reply was approved by the District's Board at its regularly scheduled meeting held on February 20, 2019.



Michael R. DeWald, CPA, Treasurer

Lakeland Regional Sewer District