

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

EXAMINATION REPORT

OF

TOWN OF BURNS HARBOR AND WASTEWATER UTILITY

PORTER COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED
10/10/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jane M. Jordan	01-01-04 to 12-31-07
President of the Town Council	James McGee Bernard Poparad	01-01-04 to 12-31-05 01-01-06 to 12-31-06
President of the Sanitary Board	James McGee	01-01-04 to 12-31-06



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF BURNS HARBOR
AND WASTEWATER UTILITY, PORTER COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Town of Burns Harbor (Town) and Wastewater Utility, for the period of January 1, 2004 to December 31, 2005. The Town's management is responsible for the schedules. 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 schedule of receipts, disbursements, and cash and investment balances 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 schedules referred to above present fairly, in all material respects, the cash transactions of the Town for the years ended December 31, 2004 and 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

August 29, 2006

TOWN OF BURNS HARBOR AND WASTEWATER UTILITY
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2004 And 2005

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 1,492,284	\$ 620,459	\$ 1,972,064	\$ 140,679
Motor Vehicle Highway	140,608	76,381	103,532	113,457
Local Road and Street	83,137	13,753	10,000	86,890
Park and Recreation	65,736	55	39,779	26,012
Park Nonreverting	3,347	3,248	341	6,254
Park Donation	2,199	1,125	1,169	2,155
Law Enforcement Continuing Education	16,815	3,763	3,764	16,814
Police Donation	4,996	500	1,629	3,867
Fire Donation	-	5,950	-	5,950
Cumulative Capital Cigarette Tax	2,769	2,859	-	5,628
Cumulative Capital Development	505,575	5,313	15,037	495,851
CEDIT	-	37,927	15,840	22,087
1994 General Obligation Water Bond	21,244	396,331	71,728	345,847
Proprietary Funds:				
Wastewater Utility - Operating	85,208	162,898	50,354	197,752
Wastewater Utility - Bond and Interest	1,656,355	1,598,986	938,439	2,316,902
Wastewater Utility - C C Improvement	4,272	9,847	14,119	-
Fiduciary Fund:				
Payroll	544	203,902	203,190	1,256
Totals	<u>\$ 4,085,089</u>	<u>\$ 3,143,297</u>	<u>\$ 3,440,985</u>	<u>\$ 3,787,401</u>

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 140,679	\$ 1,394,555	\$ 1,161,484	\$ 373,750
Motor Vehicle Highway	113,457	106,415	109,707	110,165
Local Road and Street	86,890	13,862	10,000	90,752
Park and Recreation	26,012	45,493	38,647	32,858
Park Nonreverting	6,254	4,150	1,007	9,397
Park Donation	2,155	2,635	1,333	3,457
Law Enforcement Continuing Education	16,814	3,825	3,093	17,546
Rainy Day	-	557,380	154,142	403,238
Police Donation	3,867	361	144	4,084
Fire Donation	5,950	300	5,877	373
County Mobile Enforcement Grant	-	1,600	-	1,600
Homeland Security Grant	-	48,681	48,681	-
Cumulative Capital Cigarette Tax	5,628	2,368	-	7,996
Cumulative Capital Development	495,851	24,089	165,872	354,068
CEDIT	22,087	37,927	20,780	39,234
1994 General Obligation Water Bond	345,847	212,283	558,130	-
Proprietary Funds:				
Wastewater Utility - Operating	197,752	273,642	88,099	383,295
Wastewater Utility - Bond and Interest	2,316,902	1,229,576	2,856,923	689,555
Wastewater Utility - Improvement	-	36,940	-	36,940
Fiduciary Fund:				
Payroll	1,256	417,143	418,680	(281)
Totals	<u>\$ 3,787,401</u>	<u>\$ 4,413,225</u>	<u>\$ 5,642,599</u>	<u>\$ 2,558,027</u>

The accompanying notes are an integral part of the schedules.

TOWN OF BURNS HARBOR
AND WASTEWATER UTILITY
NOTES TO SCHEDULES

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, and wastewater treatment services.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

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

Note 5. Deposits and Investments

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

State statute (IC 5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

TOWN OF BURNS HARBOR
AND WASTEWATER UTILITY
NOTES TO SCHEDULES
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town 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 this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

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

Note 7. Long-Term Debt

In 2005, the Town issued bonds to refund the outstanding General Obligation Bonds of 2001 and to pay the expenses associated with the refunding bonds. The General Obligation Refunding Bonds of 2005 were issued in the amount of \$5,550,000 at an interest rate of 4.664% and mature in eleven years. Repayments of the principal and interest began January 15, 2006.

TOWN OF BURNS HARBOR
AND WASTEWATER UTILITY
EXAMINATION RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Monthly bank account reconciliations were prepared but were not in balance with the funds ledger. At December 31, 2004, the bank balance exceeded the fund balances by \$1,162.17 and at December 31, 2005 the bank balance was \$1,893.56 less than the fund balance.

Indiana Code 5-13-6-1(e) states in part: "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."

INVESTMENTS IN STOCK

On October 26, 2001, the Town's health insurance carrier, Principal Financial Group, Incorporated closed on their initial public offering of common stock; thus, completing their conversion from a mutual insurance holding company to a stock company. As a result, the Town was issued 1,655 shares of common stock in Principal Financial Group, Incorporated on December 10, 2001. Officials have not recorded or reported the investment in their records. The Town has received \$910.25 in 2004 and \$1,075.75 in 2005 in dividends from the stock, which has been posted as interest and miscellaneous revenue, respectively, to the General Fund.

Each investing officer may invest or reinvest any funds that are held by the officer and available for investment in any investment authorized in Indiana Code 5-13-9 under the guidelines established by the fiscal body. [IC 5-13-9-1] (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

A capital asset policy which establishes a capitalization threshold has not been adopted. The capital asset records have not been properly maintained. Park department and sewage utility assets have not been included, despite the fact that the Town had acquired a sewage treatment plant during the audit period at a donated value of \$450,000, made improvements to the plant in the amount of \$1,150,000, and installed distribution lines throughout the town. Also, the Town records do not always indicate acquisition dates, or dates of disposals.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Tangible property of a permanent nature (other than land, buildings and improvements) should be inventoried. Examples include machinery, trucks, cars, furniture, typewriters, adding machines, calculators, bookkeeping machines, data processing equipment, desks, safes, cabinets, books, etc. The value of such items should be carried in the inventory at the purchase cost. The governing body should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which equipment items will be recorded. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

TOWN OF BURNS HARBOR
AND WASTEWATER UTILITY
EXAMINATION RESULTS AND COMMENTS
(Continued)

COMPUTER CONTROLS

During a review of disbursements, it was noted that the same check number was entered into the system twice, in differing amounts.

The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, that information is entered into the system only once, and that all information entered into the system is authorized by management.

The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely . . . Output reports must have appropriate subtotals to allow reconciliation of reports within the system and reconciliation to external documentation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYROLL FUND - WITHHOLDINGS

During a review of the payroll withholding account, it was noted that the account balance was not reconciled to the total of all the individual payroll deduction accounts in 2004 and 2005. In reviewing subsequent payments of payroll taxes and benefits withheld, we noted that the Payroll Fund had an accumulated balance of \$889.93 that was not earmarked for the subsequent remittance of withholdings.

Payroll deductions will be accumulated in the payroll fund, and then disbursed from this fund at the proper time to the various receiving agencies by payroll warrants. It is suggested, the payroll fund ledger sheet is supported by subsidiary ledger sheets for each type of payroll deduction, in order to see that no unidentified balance is allowed to accumulate in the payroll fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

ASSIGNMENT OF LEASE

The Town leases land to American Tower. On March 8, 2000, the Council approved resolution 2000-8, assigning the lease payments to be received by the Town to a not-for-profit, Burns Harbor Scholarship Fund, Incorporated. From the March 8, 2000, assignment date to December 31, 2005, the not-for-profit received \$69,391.93 in lease rental payments due to the Town.

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. Indiana Code 36-10-2-4 and 5 allow cities and towns to establish, aid, maintain and operate libraries, museums, cultural historical and scientific facilities and programs and community service facilities and programs, neighborhood centers, community centers, civic centers, convention centers, auditoriums, arenas, and stadiums. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPENSATION NON-EMPLOYEES

The Town of Burns Harbor does not have a written contract with the Burns Harbor Volunteer Fire Department. In 2004 and 2005, payments were made to the individual members of the Volunteer Fire Department.

Payments for services provided by an organization should go directly to the organization and not to an individual employee of the organization. All payments for services should be supported by a written contract. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF BURNS HARBOR
AND WASTEWATER UTILITY
EXIT CONFERENCE

The contents of this report were discussed on September 12, 2006, with Bernard Poparad, President of the Town Council; and Jane M. Jordan, Clerk-Treasurer. The official response has been made a part of this report and may be found on pages 10 and 11.

Town of Burns Harbor

1240 NORTH BOO ROAD
BURNS HARBOR, INDIANA 46304-9707
TELEPHONE 219-787-9413 • FAX 219-787-1353

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SEP 25 2006



STATE BOARD OF ACCOUNTS

JANE M. JORDAN
CLERK-TREASURER

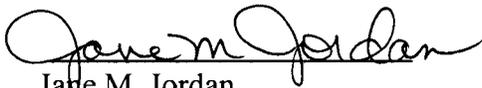
September 19, 2006

State Board of Accounts
Mr. Charlie Pride
302 West Washington Street
4th Floor, Room E418
Indianapolis, IN 46204-2765

In connection with your audit of the financial statements of the Town of Burns Harbor as of December 31, 2005, and for the two year period then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all materials respects, the cash and investment balances of the Town of Burns Harbor and the results of the receipts collected and disbursements paid on the cash basis of accounting, the following audit results and comments are being handled in the following manner:

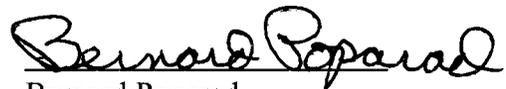
1. Bank account reconciliation – The Clerk-Treasurer has accounted for all funds except for \$1,181.16 consistently from months January 2006 through August 2006. It has not yet been determined if this is an error caused by computer controls. The Town's software vendor is reviewing some of the Town's 2004 records. The Clerk-Treasurer is reconciling each month and if the Town funds continue to remain out of balance by \$1,181.16 for the remainder of the year, the Town Council will move to make an adjustment to Town funds.
2. Investment in stock – This stock was not purchased by the Town. It was received by the Town from the Town's previous insurance company when the company went public. The Clerk-Treasurer will schedule a meeting with the Town Council to discuss their options on the matter in accordance with IC 5-13-9. The Clerk-Treasurer will record this financial transaction in the Town's records.
3. Capital assets records – The Town is currently in the processes of establishing a capitalization threshold and properly maintaining capital asset records. Assets for all the Town's departments as well as the sewage treatment plant will be included in the records.

4. Computer controls – The Clerk-Treasurer has made the Town’s computer software vendor aware of the computer control issues that concerned the auditors during our review.
5. Payroll fund/withholdings – The Clerk-Treasurer has been able to consistently show an accumulated balance of \$889.93 for the months from January 2006 through August 2006. The Clerk-Treasurer is reconciling each month and if the fund continues to remain out of balance by \$889.93 for the remainder of the year, the Town Council will move to transfer that amount to the Town’s General Fund.
6. Assignment of lease – The Town’s attorney is reviewing the State Statute and the Town’s records and will forward a letter to the State Board of Accounts pertaining to this matter on behalf of the Town.
7. Compensation non-employees – The Town Council and Town’s volunteer fire department are in the processes of negotiating a contract. Once the contract is in place, the Town will make payments directly to the organization in the manner that will facilitate compliance with state and federal reporting requirements.



Jane M. Jordan
Clerk-Treasurer for the
Town of Burns Harbor

9-21-2006



Bernard Poparad
Town Council President for the
Town of Burns Harbor

9-22-2006