

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

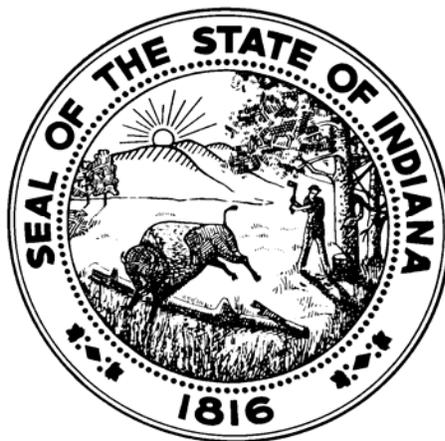
EXAMINATION REPORT

OF

TOWN OF MUNSTER

LAKE COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED
08/30/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	David F. Shafer	01-01-04 to 12-31-07
President of the Town Council	Michael Mellon Robert H. Mangus	01-01-06 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF MUNSTER, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Munster (Town), for the period of January 1, 2006 to December 31, 2006. The Town's management is responsible for the financial information 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 information 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 information referred to above presents fairly, in all material respects, the financial information of the Town for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

July 30, 2007

TOWN OF MUNSTER
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 1,756,150	\$ 10,325,549	\$ 11,933,449	\$ 148,250
Motor Vehicle Highway	437,887	3,285,683	3,473,778	249,792
Local Road and Street	38,560	262,350	251,016	49,894
Park and Recreation	235,641	1,451,605	1,448,659	238,587
Recreation Programming	73,325	634,347	644,109	63,563
Donation	22,151	13,209	16,971	18,389
Economic Development	173,945	208	455	173,698
Federal Grants	1,086	48,946	49,692	340
Law Enforcement Continuing Education	20,220	43,942	36,852	27,310
State Grants	-	32,821	32,821	-
Technology	50,134	314,869	291,609	73,394
Sewer Maintenance	148,063	3,917,212	2,440,361	1,624,914
Special Asset Forfeiture Nonreverting	17,626	17,276	26,230	8,672
Solid Waste Operating	460,908	2,421,592	2,563,692	318,808
Pool Nonreverting	67,575	347,059	412,578	2,056
Barrett Law Surplus	2,352	-	2,352	-
Park Donation	22,271	23,885	16,973	29,183
Park Land Escrow	90,428	953,159	30,759	1,012,828
Municipal Bond and Interest	1,214,675	5,385,125	6,377,211	222,589
Park Bond and Interest	425,132	3,001,332	3,338,098	88,366
Municipal Complex	824,337	3,301,456	3,961,628	164,165
Cumulative Capital Improvement	11,398	76,848	39,519	48,727
Cumulative Capital Development	97,535	473,729	568,505	2,759
Municipal Bond Proceeds	2,651,595	6,187,350	6,217,575	2,621,370
Barrett Bond Proceeds	114,076	17,679	128,594	3,161
Park Bond Proceeds	2,414,204	4,287,442	3,354,123	3,347,523
Riverboat	352,434	472,351	651,874	172,911
Local Major Moves	-	515,434	-	515,434
Proprietary Funds:				
Water Utility - Operating	421,124	3,256,813	3,207,477	470,460
Water Utility - Bond and Interest	133,753	412,160	369,913	176,000
Water Utility - Depreciation	15,902	176,894	161,766	31,030
Water Utility - Customer Deposit	328,987	129,632	233,215	225,404
Vehicle/Equipment Purchase	142,837	666,683	391,967	417,553
Medical/Life Insurance	263,031	1,521,054	1,367,145	416,940
Liability Insurance	466	935,192	785,134	150,524
Fiduciary Funds:				
Police Officers' Pension	325,809	418,897	532,920	211,786
Payroll	211,080	9,774,390	9,801,455	184,015
Insurance Payment	-	1,245,938	1,245,938	-
Intergovernmental Collections	283,082	1,560,026	1,632,866	210,242
Cable TV Security	97,082	4,553	-	101,635
Escrow	515,099	1,501,259	1,513,390	502,968
Totals	<u>\$ 14,461,960</u>	<u>\$ 69,415,949</u>	<u>\$ 69,552,669</u>	<u>\$ 14,325,240</u>

The accompanying notes are an integral part of the schedules.

TOWN OF MUNSTER
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, health and social services, culture and recreation, water, and general administrative 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.

Property tax rates and levies for 2004 taxes payable in 2005 were not established by February 15, 2005, as required by state statute due to the delay in the completion of the reassessment of Lake County. The 2005 property tax rates and levies were not established until October 2005; thus, the property taxes were not billed or collected timely. The final settlement of the 2004 taxes payable in 2005 was distributed to the various governmental entities in March 2006.

Property tax rates and levies for 2005 taxes payable in 2006 were not established by February 15, 2006, as required by state statute due to the delay in the completion of the reassessment of Lake County. The tax bills were mailed to Lake County residents in August 2006. They were due in two installments on August 29, 2006, and November 14, 2006. The final settlement of the 2005 taxes payable in 2006 was distributed to the various governmental entities on January 4, 2007.

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 MUNSTER
NOTES TO FINANCIAL INFORMATION
(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. Subsequent Events

Property tax rates and levies for 2006 taxes payable in 2007 were not established by February 15, 2007, as required by state statute due to the delay in the completion of the reassessment of Lake County. Currently, tax bills have not been mailed for the spring installment, normally due May 10.

Ordinance 1353 dated May 21, 2007, allows for the issuance of 2007 tax anticipation warrants. Such warrants were issued in June 2007 for the three Town debt service funds totaling \$1,975,000.

Resolution 1813 dated May 21, 2007, was approved by the Town Council concerning the 2007 Redevelopment Commission Bonds not to exceed \$10,600,000. The bond proceeds will be used to acquire property needed for the grade separation project at the intersection of 45th Street and Calumet Avenue. The bonds will be sold in phases and none have been sold as of July 30, 2007.

Ordinance 1354 dated June 11, 2007, authorized the issuance of 2007 Municipal General Obligation Bonds of \$1,970,000. The bonds have not been sold as of July 30, 2007.

On July 17, 2007, the Munster Parks and Recreation Board approved Resolution 2007-09 authorizing the issuance of 2007 Park General Obligation Bonds of \$1,970,000. The bonds have not been sold as of July 30, 2007.

TOWN OF MUNSTER
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2006

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.

General infrastructure assets completed since 2003 have been reported. Retroactive reporting of general infrastructure assets will occur by January 1, 2007.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 3,212,543
Infrastructure	2,616,125
Buildings	3,438,691
Improvements other than buildings	9,961,480
Machinery and equipment	10,449,959
Construction in progress	<u>2,645,756</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 32,324,554</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 137,458
Buildings	2,148,349
Improvements other than buildings	10,856,789
Machinery and equipment	<u>927,831</u>
 Total Water Utility capital assets	 <u>14,070,427</u>
 Total business-type activities capital assets	 <u>\$ 14,070,427</u>

TOWN OF MUNSTER
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Centennial Park	\$ 14,000,000	\$ 610,000
Swimming Pool	825,000	580,000
2004 Various Vehicles	46,461	46,461
2005a Police Cars	22,068	18,821
2005b Police Cars	32,706	32,706
2006a Sewer Vacuum	152,315	65,701
2006b Police Cars	82,995	39,790
Bonds payable:		
General obligation bonds:		
2002 Municipal	220,000	220,000
2004 Municipal	940,000	480,000
2005 Municipal	1,470,000	500,000
2006 Municipal	1,970,000	460,000
2003 Park District	205,000	205,000
2005 Park District	1,470,000	500,000
2006 Park District	<u>1,970,000</u>	<u>460,000</u>
Total governmental activities long-term debt	<u>\$ 23,406,545</u>	<u>\$ 4,218,479</u>
Business-type Activities:		
Water Utility		
Capital leases:		
2005 Water Meters	\$ 500,000	\$ 88,913
2006 Water Meters	375,000	58,325
Revenue bonds:		
2002 Waterworks Refunding	<u>180,000</u>	<u>180,000</u>
Total business-type activities long-term debt:	<u>\$ 1,055,000</u>	<u>\$ 327,238</u>

TOWN OF MUNSTER
EXAMINATION RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

As stated in the prior Report B27797, the Town and the Water Utility do not maintain sufficient detailed records of capital assets. The amounts reported in the annual financial report (CTAR-1), as prepared by the Town, do not contain all assets previously purchased by the Town prior to January 1, 2005. For 2005 and 2006, the costs of all capital asset acquisitions for the year are included in the CTAR-1. Therefore, records classifying and summarizing the Town's and Utility's capital assets are incomplete. Additionally, the totals in the CTAR-1 include asset values which are below the threshold set by the Town in the capital asset policy.

The Town officials are working with a consultant during 2007 to prepare a detailed listing of capital assets for the Town and the Water Utility.

Every governmental unit should have a complete inventory of all capital assets owned which reflect 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)

CUSTOMER DEPOSITS REGISTER

For the Water Utility, the detailed customer deposit register (detail) has not been reconciled with the balance in Fund 604 Customer Deposits (control). During 2006, use of the prescribed form was implemented by the Water Utility officials. However, a monthly reconciliation of the detail to control was not performed. The balance in Fund 604 Customer Deposits as of December 31, 2006, was \$225,403.74.

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

LACK OF INTERNAL CONTROLS - PARK DEPARTMENT

The Park Department uses cash registers at the Park pool and the concession stand. We reviewed the manual register summaries, daily cash reports, drawer balance reports, and register z tapes over a period of two weeks. Twelve of the fourteen reviewed had register generated reports and tapes that did not balance with the manual summaries. Controls for receipts are ineffective in the area of exchanging cash during transactions, and resulted in daily cash overages and shortages. A similar comment appeared in the prior Report B27797.

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

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MUNSTER
EXIT CONFERENCE

The contents of this report were discussed on August 2, 2007, with Robert H. Mangus, President of the Town Council; David F. Shafer, Clerk-Treasurer; Patricia L. Abbott, Accounting Supervisor; Thomas F. DeGiulio, Town Manager; Eugene M. Feingold, Town Attorney; Robert M. O'Shaughnessy, Director of Parks and Recreation; Barbara Holajter, Superintendent of Recreation; and Jerry Rosko, Superintendent of Park Maintenance. The official response has been made a part of this report and may be found on pages 11 and 12.



August 6, 2007

Mr. Bruce A. Hartman, CPA, State Examiner
Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, Indiana 46204

Re: Town of Munster
Examination for the Year 2006
OFFICIAL RESPONSE

Dear Mr. Hartman:

Following are our responses to comments resulting from an examination of the Town of Munster for the year ending December 31, 2006.

CAPITAL ASSET RECORDS

The State Board of Accounts observed that the Town and its Water Utility do not maintain sufficiently detailed records of capital assets.

Response: The State Board of Accounts is aware that the Town engaged the services of an independent accounting firm in 2004 to establish detailed records of its capital assets. Unfortunately, the accounting firm underperformed and was dismissed. Due to the delays in receiving property tax distributions from the County, the Town lacked sufficient funds to cure this continued non-compliance until the 2007 budget year. In 2007, the Town secured the services of a different firm to assist in the efforts to comply in all regards. We anticipate that the capital asset records will be in full compliance before the end of this year.

CUSTOMER DEPOSITS REGISTER

The State Board of Accounts observed that the detailed water customer deposit register has not been reconciled with the balance in the control fund.



CUSTOMER DEPOSITS REGISTER (cont.)

Response: Many years ago, the Town of Munster Water Utility replaced the paper-based deposit register by storing the equivalent information in a computerized spreadsheet format. Subsequently, the State Board of Accounts objected that data in the computer could be illegally accessed and altered. Rather than password-protect computerized worksheets or entire files, the State Board of Accounts required the locking of individual computer cells of data, a requirement the Town believes cannot be met without incurring excessive cost. To effect the most economical resolution of this issue, the Town is now in the process of replacing the computerized register with a paper-based deposit register. When the transcription process is completed later this year, the monthly reconciliation practice will be resumed.

LACK OF INTERNAL CONTROLS – PARK DEPARTMENT

The State Board of Accounts found shortcomings in the Park Department's use of cash registers at the swimming pool and concession stand.

Response: We concur. Performance has improved since this comment was first received last year. The present Park training and supervision of employees will be intensified. Notwithstanding that the daily amounts of difference are minimal, the Town's request to use an overage/underage system, common in the private sector, is not acceptable to the State Board of Accounts. We will use our best efforts to meet the present standards of your office.

Thank you for considering our position.

Sincerely,



David F. Shafer, IAMC, CMC
Clerk-Treasurer, Town of Munster

cc: Ms. Patricia L. Abbott, IAMC, CMC, Accounting Supervisor
Mr. Thomas F. DeGiulio, Town Manager
Mr. Eugene M. Feingold, Town Attorney
Hon. Robert H. Mangus, Town Council President
Mr. Robert M. O'Shaughnessy, Director—Parks and Recreation
Ms. Mary Jo Small, CPA, State Board of Accounts Field Supervisor