

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

AUDIT REPORT
OF
WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
LAPORTE COUNTY, INDIANA
January 1, 2005 to December 31, 2006



FILED
11/27/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Anne Heywood	01-01-04 to 12-31-07
President of the Town Council	John Hayes Dr. Robert Angelo	01-01-05 to 12-31-05 01-01-06 to 12-31-07
President of the Water Board	Pete Sinnott Thomas Rutkowski	01-01-05 to 12-31-05 01-01-06 to 12-31-07
Superintendent of Water Utility	Ronald Griffin	01-01-05 to 12-31-07
Superintendent of Trash/ Street Department	David Sechrist	01-01-05 to 12-31-07
Utility Office Clerk	Barbara Stupeck	01-01-05 to 12-31-07



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 AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER UTILITY AND TRASH UTILITY,
TOWN OF LONG BEACH, LAPORTE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water Utility and Trash Utility (Utilities), departments of the Town of Long Beach, as of and for the years ended December 31, 2005 and 2006. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Water and Trash Utility, Town of Long Beach, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the Town that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the Town of Long Beach as of December 31, 2005 and 2006, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Utilities have not performed an inventory of all capital assets. A detail record is maintained for the Water Utility, but it does not include all categories of assets, and it does not agree to the value maintained in the general ledger and reported in the financial statements. Additionally, dollar values of assets used to compute depreciation expense for the Water Utility do not agree to the dollar values maintained in the general ledger or in the detail record.

In our opinion, except for the effects, if any, of the lack of capital asset records, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water and Trash Utilities, as of December 31, 2005 and 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Town has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined necessary to supplement, although not required to be part of the basic financial statements.

STATE BOARD OF ACCOUNTS

October 17, 2007

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
STATEMENT OF NET ASSETS
December 31, 2005 And 2006

<u>Assets</u>	2005		2006	
	Water Utility	Trash Utility	Water Utility	Trash Utility
Current assets:				
Cash and cash equivalents	\$ 122,169	\$ 315,282	\$ 330,676	\$ 340,416
Accounts receivable (net of allowance)	49,475	21,746	71,410	14,018
Total current assets	171,644	337,028	402,086	354,434
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Customer deposits	800	-	1,000	-
Special waterworks utility	188,305	-	138,444	-
Working capital	15,763	-	18,094	-
Bond and interest	-	-	111,392	-
Debt service reserve	-	-	38,448	-
Total restricted assets	204,868	-	307,378	-
Deferred charges	38,176	-	38,176	-
Capital assets:				
Land, improvements to land and construction in progress	103,938	-	2,026,719	-
Other capital assets (net of accumulated depreciation)	870,100	-	908,758	-
Total capital assets	974,038	-	2,935,477	-
Total noncurrent assets	1,217,082	-	3,281,031	-
Total assets	1,388,726	337,028	3,683,117	354,434
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	9,573	-	9,294	-
Contracts payable	-	-	479,048	-
Taxes payable	2,741	-	496	-
Current liabilities payable from restricted assets:				
Customer deposits	800	-	1,000	-
Loans payable	71,170	-	73,335	-
Accrued interest payable	6,666	-	37,333	-
Total current liabilities	90,950	-	600,506	-
Noncurrent liabilities:				
Loans payable	226,227	-	1,560,347	-
Total liabilities	317,177	-	2,160,853	-
<u>Net Assets</u>				
Invested in capital assets, net of related debt	676,641	-	1,301,795	-
Unrestricted	394,908	337,028	220,469	354,434
Total net assets	\$ 1,071,549	\$ 337,028	\$ 1,522,264	\$ 354,434

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

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2005 And 2006

	2005		2006	
	Water Utility	Trash Utility	Water Utility	Trash Utility
Operating revenues:				
Unmetered water revenue	\$ 80,170	\$ -	\$ 108,521	\$ -
Metered water revenue:				
Residential	518,593	-	656,785	-
Fire protection revenue	20,165	-	24,000	-
Penalties	2,703	-	2,556	-
Other water revenue	18,970	-	80,520	-
Flat rate revenues	-	236,314	-	212,306
Other	-	211	-	5,200
Total operating revenues	<u>640,601</u>	<u>236,525</u>	<u>872,382</u>	<u>217,506</u>
Operating expenses:				
Water - operations and maintenance	17,050	-	22,061	-
Operations and maintenance	-	64,058	-	9,721
Administration and general	28,625	1,758	15,028	1,523
Salaries and wages	109,064	22,983	107,550	8,503
Employee pensions and benefits	34,375	69	29,791	171
Purchased water	186,877	-	156,272	-
Purchased power	5,108	-	3,269	-
Materials and supplies	3,532	-	5,814	-
Contractual services	108,081	129,131	-	180,182
Transportation expenses	2,385	-	2,625	-
Insurance expense	4,862	-	8,840	-
Gross receipts tax	13,343	-	10,266	-
Depreciation and amortization	67,591	-	61,134	-
Miscellaneous expenses	7,694	-	3,779	-
Total operating expenses	<u>588,587</u>	<u>217,999</u>	<u>426,429</u>	<u>200,100</u>
Operating income	<u>52,014</u>	<u>18,526</u>	<u>445,953</u>	<u>17,406</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	5,002	-	9,060	-
Interest expense	(6,536)	-	(4,298)	-
Loss on disposal of obsolete capital assets	(319,944)	-	-	-
Total nonoperating revenues (expenses)	<u>(321,478)</u>	<u>-</u>	<u>4,762</u>	<u>-</u>
Change in net assets	(269,464)	18,526	450,715	17,406
Total net assets - beginning	<u>1,341,013</u>	<u>318,502</u>	<u>1,071,549</u>	<u>337,028</u>
Total net assets - ending	<u>\$ 1,071,549</u>	<u>\$ 337,028</u>	<u>\$ 1,522,264</u>	<u>\$ 354,434</u>

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

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
STATEMENT OF CASH FLOWS
As Of And For The Years Ended December 31, 2005 And 2006

	2005		2006	
	Water Utility	Trash Utility	Water Utility	Trash Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 628,480	\$ 237,285	\$ 850,647	\$ 225,234
Payments to suppliers and contractors	(368,093)	(194,948)	(230,478)	(191,426)
Payments to employees	(143,439)	(23,052)	(137,341)	(8,674)
Net cash provided by operating activities	<u>116,948</u>	<u>19,285</u>	<u>482,828</u>	<u>25,134</u>
Cash flows from capital and related financing activities:				
Proceeds from capital debt	83,505	-	1,407,455	-
Acquisition and construction of capital assets	(115,092)	-	(1,508,560)	-
Principal paid on capital debt	(69,069)	-	(71,170)	-
Interest paid on capital debt	(6,399)	-	(8,596)	-
Net cash used by capital and related financing activities	<u>(107,055)</u>	<u>-</u>	<u>(180,871)</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	5,144	-	9,060	-
Net cash provided by investing activities	<u>5,144</u>	<u>-</u>	<u>9,060</u>	<u>-</u>
Net increase in cash and cash equivalents	15,037	19,285	311,017	25,134
Cash and cash equivalents, January 1	<u>312,000</u>	<u>295,997</u>	<u>327,037</u>	<u>315,282</u>
Cash and cash equivalents, December 31	<u>\$ 327,037</u>	<u>\$ 315,282</u>	<u>\$ 638,054</u>	<u>\$ 340,416</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 52,014	\$ 18,526	\$ 445,953	\$ 17,406
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	67,591	-	61,134	-
(Increase) decrease in assets:				
Accounts receivable	(12,121)	759	(21,935)	7,728
Increase (decrease) in liabilities:				
Accounts payable	9,573	-	(279)	-
Taxes payable	(109)	-	(2,245)	-
Customer deposits	-	-	200	-
Total adjustments	<u>64,934</u>	<u>759</u>	<u>36,875</u>	<u>7,728</u>
Net cash provided by operating activities	<u>\$ 116,948</u>	<u>\$ 19,285</u>	<u>\$ 482,828</u>	<u>\$ 25,134</u>
Noncash capital and financing activities:				
Capitalized interest payable included in construction in progress	\$ -	\$ -	\$ 34,965	\$ -
Purchase of construction in progress on account	-	-	479,048	-

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

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the Town of Long Beach (Town), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the Town, represent the Town's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other 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 activities 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.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' 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 Utilities 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.

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

2. 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 balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. 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 as of December 31, 2006, (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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and land rights	\$ 5,000	Straight-line	*
Structures and improvements	5,000	Straight-line	50
Distribution reservoirs and sandpipes	5,000	Straight-line	50
Transmission and distribution mains	5,000	Straight-line	50
Services	5,000	Straight-line	50
Meters and meter installation	5,000	Straight-line	50
Hydrants	5,000	Straight-line	50
Office furniture and equipment	5,000	Straight-line	10
Transportation equipment	5,000	Straight-line	10
Tools, shop and garage equipment	5,000	Straight-line	10
Computer software	5,000	Straight-line	5

*The capital assets under this category are not depreciated.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capitalized interest of \$36,278 was included as part of the cost of capital assets under construction in connection with the installation of new water mains.

4. Compensated Absences

- a. Sick Leave – Utilities' employees earn sick leave at the rate of 6 days per year. Sick leave does not accumulate from year to year.
- b. Vacation Leave – Utilities' employees earn vacation leave at rates from 5 days to 30 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. State Revolving Fund (SRF) Loan issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight-line method. Repayment on the SRF loan does not begin until the year 2009. Hence, amortization of the deferred charges will not begin until 2009. The Town has not issued revenue bonds. The schedule below illustrates the changes in long term debt for loans payable.

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2005:					
Business-type activities:					
Water Utility:					
Loan payable	\$ 244,785	\$ -	\$ 69,069	\$ 175,716	\$ 71,170
SRF loan payable	-	121,681	-	121,681	-
Total loans payable	<u>\$ 244,785</u>	<u>\$ 121,681</u>	<u>\$ 69,069</u>	<u>\$ 297,397</u>	<u>\$ 71,170</u>
2006:					
Water Utility:					
Loan payable	\$ 175,716	\$ -	\$ 71,170	\$ 104,546	\$ 73,335
SRF loan payable	121,681	1,407,455	-	1,529,136	-
Total loans payable	<u>\$ 297,397</u>	<u>\$ 1,407,455</u>	<u>\$ 71,170</u>	<u>\$ 1,633,682</u>	<u>\$ 73,335</u>

II. Detailed Notes on All Funds

A. 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.

B. Capital Assets

Water Utility capital asset activity for the year ended December 31, 2005 and 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
2005:				
Capital assets, not being depreciated:				
Land and land rights	\$ 20,433	\$ -	\$ -	\$ 20,433
Construction in progress	-	83,505	-	83,505
Capital assets, being depreciated:				
Water organization	30,415	-	30,415	-

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
2005:				
Capital assets, being depreciated (continued):				
Structures and improvements	466,319	-	116,319	350,000
Lake intakes	69,993	-	69,993	-
Electric pumping equipment	120,771	-	120,771	-
Water treatment equipment	8,898	-	8,898	-
Distribution reservoirs and sandpipes	186,669	-	127,144	59,525
Transmission and distribution mains	714,073	19,459	109,234	624,298
Services	119,495	95	125	119,465
Meters and meter installation	130,885	2,292	10,416	122,761
Hydrants	60,223	1,072	-	61,295
Miscellaneous equipment	16,574	-	16,574	-
Office furniture and equipment	36,859	948	29,813	7,994
Transportation equipment	59,497	-	36,497	23,000
Tools, shop and garage equipment	22,582	7,721	3,501	26,802
Computer software	15,000	-	-	15,000
Power operated equipment	29,303	-	29,303	-
Less accumulated depreciation	<u>(868,037)</u>	<u>(67,591)</u>	<u>395,588</u>	<u>(540,040)</u>
Total Water Utility capital assets, net	<u>\$ 1,239,952</u>	<u>\$ 47,501</u>	<u>\$ 1,104,591</u>	<u>\$ 974,038</u>
2006:				
Capital assets, not being depreciated:				
Land and land rights	\$ 20,433	\$ -	\$ -	\$ 20,433
Construction in progress	83,505	1,922,781	-	2,006,286
Capital assets, being depreciated:				
Structures and improvements	350,000	-	-	350,000
Distribution reservoirs and sandpipes	59,525	11,832	-	71,357
Transmission and distribution mains	624,298	72,366	-	696,664
Services	119,465	-	-	119,465
Meters and meter installation	122,761	12,896	-	135,657
Hydrants	61,295	-	-	61,295
Office furniture and equipment	7,994	-	-	7,994
Transportation equipment	23,000	2,698	-	25,698
Tools, shop and garage equipment	26,802	-	-	26,802
Computer software	15,000	-	-	15,000
Less accumulated depreciation	<u>(540,040)</u>	<u>(61,134)</u>	<u>-</u>	<u>(601,174)</u>
Total Water Utility capital assets, net	<u>\$ 974,038</u>	<u>\$ 1,961,439</u>	<u>\$ -</u>	<u>\$ 2,935,477</u>

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Installation of new water mains	<u>\$ 4,645,000</u>	<u>\$ 2,006,286</u>	<u>\$ 2,638,714</u>	<u>\$ -</u>

D. Long-Term Liabilities

1. Notes and Loans Payable

The Water Utility has entered into two loans. In 2004, the Water Utility obtained a five year loan for \$350,000 from the City of Michigan City to pay for the costs of extending lines to the Town. In 2005, the Water Utility obtained authorization for a \$4,645,000 loan from the State Revolving Loan Program. As of December 31, 2006, the Water Utility has drawn \$1,529,136.

Annual debt service requirements to maturity for the loans, including interest of \$259,823, are as follows:

2007	\$ 129,066
2008	137,968
2009	185,655
2010	201,020
2011	211,603
2012-2016	<u>1,028,193</u>
Total	<u>\$ 1,893,505</u>

2. Advance Refunding

In prior years, the Water Utility defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Utility's financial statements. The following outstanding bonds, at December 31, 2006, were considered defeased:

	<u>Amount</u>
Municipal Water Utility bonds of 1981	<u>\$ 1,800</u>

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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.

Job Related Illness or Injuries to Employees

During 1996, the Town and Utilities joined with other governmental entities in the Indiana Public Employee's Plan, a public entity risk pool currently operating as a common risk management and insurance program for 679 member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illness or injuries to employees. The Town pays an annual premium to the risk pool for its job related illness or injuries 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. Rate Structure

1. Water Utility

The current rate structure was approved by the Town Council on December 12, 2005.

2. Trash Utility

The current rate structure was approved by the Town Council on December 31, 2005.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town, including the Utilities, 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 PERF Board, most requirements of the system and give the Utility 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 three 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.

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The 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 plan members for PERF are established by the Board of Trustees of PERF. The Utilities' annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the Town and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the Town as a whole and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 30,886
Interest on net pension obligation	(2,115)
Adjustment to annual required contribution	2,411
Annual pension cost	31,182
Contributions made	38,671
Decrease in net pension obligation	(7,489)
Net pension obligation, beginning of year	(29,179)
Net pension obligation, end of year	\$ (36,668)
Contribution rates:	
Utilities	6.50%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 29,536	131%	\$ (15,398)
	06-30-05	23,729	158%	(29,179)
	06-30-06	31,182	163%	(36,668)

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 532,209	\$ 559,651	\$ (27,442)	95%	\$ 435,946	(6%)
07-01-05	559,834	679,304	(119,470)	82%	478,533	(25%)
07-01-06	773,808	726,509	47,299	107%	533,683	9%

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
AUDIT RESULTS AND COMMENTS

ACCOUNTS RECEIVABLE DETAIL AND CONTROL

For the years 2005 and 2006, the detail of the accounts receivable does not agree to the accounts receivable reported in the general ledger. The variances range from the detail exceeding the ledger by \$148.48 to \$1,070.06 for the period tested. A comparison of the general ledger to the aging reports also showed similar variances.

At all times, the manual and/or 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)

BILLING ADJUSTMENTS POSTED

As noted in the prior report, billing adjustments are not properly maintained. We compared the "Billing Register by Customer Number" to the amounts posted to the water accounts receivable account and to the related revenue accounts. For each of the four periods tested in 2006, differences existed, which were posted as adjustments to the general ledger. The "Transaction Register Daily by Reference Number" lists the adjustments and a reason for the adjustment; however, adjustments are not being reviewed or approved. Adequate supporting documentation was not available for all adjustments.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT REGISTER

The hand-posted customer deposit register and hand written receipts issued for customer deposits do not agree to the customer deposit amount posted to the general ledger.

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)

PERSONAL PROPERTY USE

Most employees of the Utilities use Town cell phones during normal work hours and have access to the cell phones outside of normal work hours. A log was not presented for audit documenting business versus personal use.

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit. Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
AUDIT RESULTS AND COMMENTS
(Continued)

ACCOUNTS PAYABLE VOUCHER DEFICIENCIES

The following deficiencies were noted in our testing of disbursements:

1. A majority of the invoices paid did not indicate that the clerk-treasurer or her designee had reviewed the invoices for accuracy and availability of funds, by signing either the accounts payable voucher, or the claim docket.
2. Because the computer system is an accrual based accounting application, when amounts are entered on the system for payment, the amounts are posted as an expense and an accounts payable amount. Check numbers are only indicated for the accounts payable posting and not the expense portion of the entry, because technically, checks are not yet written. Then, when the checks are written, the accounts payable is eliminated, and cash is posted. Once again, check numbers are not indicated, because cash is posted in total and not individual amounts by check number. Thus, individual checks could not be traced to the posted ledgers. In order to look up a payment in the ledger, you would have to look at the check register to determine the vendor, amount, and the fund and account to which the payment was posted.
3. The incorrect mileage reimbursement rate was used.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

"(e) The certification provided for in subsection (c)(4) must be on a form prescribed by the state board of accounts."

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
AUDIT RESULTS AND COMMENTS
(Continued)

Town of Long Beach Ordinance 0503 section 1 (c) states: "Rate of reimbursement for a calendar year shall be the rate in effect on January 1st of the year as established by the United States Internal Revenue Service."

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALARY ORDINANCE

Salaries and wages for the Water Utility employees were not set by ordinance.

All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the legislative 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 Cities and Towns, Chapter 7)

PRESCRIBED FORMS

Mileage Claim (General Form 101) was not in use for reimbursing employees for travel claims.

Mileage claim form (General Form 101) is designed to serve as a claim for mileage to be presented to the board for allowance. Officers and employees may be reimbursed for actual miles traveled in their own motor vehicles on official business of the city or town at a reasonable rate per mile as fixed by ordinance or resolution of the board. Reimbursement mileage shall not include travel to and from the officer's or employee's home and the office. If two or more persons ride in the same motor vehicle, only one mileage reimbursement is allowable. The speedometer reading columns on this form are to be used only when distance between points cannot be determined by fixed mileage or official state highway map.

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 Cities and Towns, Chapter 7)

LOAN FROM MICHIGAN CITY WATER UTILITY

As noted in the prior report, the Town of Long Beach received a loan from the City of Michigan City Water Utility to pay for the costs of extending lines so that the Long Beach Water Utility can purchase water from Michigan City Water Utility. The loan will be repaid over a period of five years, at an interest rate of 3%.

Indiana Code 8-1.5-2-18 states in part:

"(a) To provide money to pay for the construction or acquisition of a utility under this chapter, or its extension, improvement, or replacement in whole or in part, or its repair, the municipal legislative body may issue and sell bonds bearing interest at any rate, executed and payable at times not to exceed forty (40) years from the date of issuance, and at places as the legislative body determines. The bonds and interest on them are payable only out of a special account, and the bonds do not constitute an indebtedness of the municipality within the meaning of the constitutional limitations."

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
AUDIT RESULTS AND COMMENTS
(Continued)

"(d) This section provides an alternative method of financing for all municipalities, notwithstanding any other law."

Indiana Code 8-1.5-2-19 states:

"(a) A municipality may not issue bonds, notes, or other obligations under this chapter without the approval of the commission, except as authorized by IC 8-1-2.2-11.

(b) If the evidence presented to the commission establishes that the rates and charges proposed by the municipally owned utility will provide sufficient funds for the operation, maintenance, and depreciation of the utility, and to pay the principal and interest of the proposed bond issue, together with a surplus or margin of at least ten percent (10%) in excess, the commission shall so certify in its order approving the issuance of bonds."

CAPITAL ASSET RECORDS – WATER UTILITY

The Town Council adopted a capital asset policy for the Town and the Utilities on December 28, 2006. The Water Utility's assets are being depreciated, but not based upon rates established by Town Ordinance 0607.

A double entry or accrual based accounting system is maintained by officials for the Water Utility. Within the general ledger, amounts are recorded for capital assets by category (land, structures and improvements, transportation equipment, etc.); however, the amounts recorded in the general ledger are not supported by detailed capital asset records. Officials do not maintain detailed records on several large categories of assets accounted for in the general ledger. For example, in the general ledger, land and land rights are recorded at \$20,433; structures and improvements, \$350,000; and transmission and distribution mains, \$696,664. Detailed lists of assets for these categories were not available for audit. For some categories of assets, such as office furniture and equipment, transportation equipment, and miscellaneous, tools, shop and garage, and power operated equipment, detailed records are maintained, but the balances reflected in the general ledger materially exceed the balances recorded on the detail records.

A separate ledger is maintained by asset category for computing depreciation; however, the costs of the assets used as the basis for depreciation expense do not agree to the general ledger, or to the few categories of assets maintained in the detail capital asset records. As of December 31, 2005 and 2006, asset costs in the ledger used for computing depreciation expense exceeded the general ledger capital asset costs by \$145,848, and \$35,141, respectively. This translated into different amounts being recorded for depreciation expense in the general ledger as opposed to the detail depreciation ledger.

Additionally, the Water Utility disposed of obsolete assets on its records but no detailed supporting documentation was available for audit.

The Water Utility does not have a listing of capital assets which would document acquisition costs for land, buildings and new infrastructure, etc.

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. 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 for Cities and Towns, Chapter 7)

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSET RECORDS - TRASH UTILITY

1. City and Town Form 211, Capital Asset Ledger was not being used.
2. Disposals of assets were not provided for audit.
3. The Trash Utility (Garbage Fund 244) asset records are commingled with the Town's Street Department's inventory. For example, in 2005, the Garbage Fund purchased a wood chipper for \$35,500 and a leaf collector for \$27,500. Both were listed on the Street Department's inventory. A complete listing of Trash Utility assets was not available for audit.

Officials indicated that the Town is in the process of having an outside consultant prepare a complete capital asset records; however, as of October 4, 2007, this was not completed.

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. 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)

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 Cities and Towns, Chapter 7)

WATER AND TRASH UTILITIES
TOWN OF LONG BEACH
EXIT CONFERENCE

The contents of this report were discussed on October 17, 2007, with Anne Heywood, Clerk-Treasurer; and Robert Schaefer, Water Board member. The official response has been made a part of this report and may be found on pages 22 and 23.

LONG BEACH WATER DEPARTMENT
2400 ORIOLE TRAIL
LONG BEACH, IN 46360
(219) 879-9353 * FAX (219) 879-6099

November 9, 2007

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

RE: Town of Long Beach Clerk-Treasurer's Office recent audit of 2005 & 2006

This correspondence is in response to the recent 2005 & 2006 findings and comments from the State Board of Accounts regarding its audit of Long Beach Water & Trash Utilities for the periods of January 1, 2005 to December 31, 2006.

On October 17, 2007, State Board of Accounts' representatives met with me, and a member from the town council who also sits on the water board to discuss the contents of their report and the following responses are hereby submitted.

ACCOUNTS RECEIABLE DETAIL AND CONTROL

(Response)

The State Board of Accounts suggested that if the water department would close their books at the end of each month the ledgers would stay balanced. There were some concerns about the billing procedures; if we would have to change when bills are due. I will be talking with the water board to explain that at the beginning of the year the water department ledger will close at the end of each month instead of the middle of month. It will not reflect on changing the way our billing cycle operates.

BILLING ADJUSTMENTS POSTED

The procedures for any type of adjustment needs to be approved by the water board, on file we had a list of procedures that the board would like us to follow. This document was not signed by the board. Since this oversight, this document has been signed by the board an placed in the procedure book.

ACCOUNTS PAYABLE VOUCHER

All claim dockets are reviewed by me, the Clerk-Treasurer checks are then signed. A Water Board member always comes in before every monthly meeting reviews them again and signs off, then they are presented at a water meeting for signature.

The State would also like to have another report generated to trace check numbers. After the State Board left I realized that this report is already in the system, it can be found under, Accounts Payable, Table Lists, Check History. This report can be printed by month, check number, date or vendor or all.

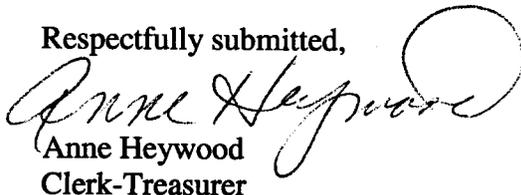
SALARY ORDINANCE

The Water Utility salaries have never been listed with the Town's. However, we will be sure to include the Water Department from now on.

CAPTIAL ASSETS RECORDS

The State Board of Accounts noted there were few deficiencies listed in the recording of water assets. The departments were not using a form #211, each department was doing its own spreadsheets, but lacked dates of purchase or missing disposal dates. The street department purchases equipment for various reasons, if using other funds such as the Trash Fund to purchase equipment example: a leaf vac will need a separate form #211 inventory sheet needs to be filled out. We also indicated that the Water Department are in the process of having an outside consultant prepare a complete capital asset record.. We are waiting for the completion of the new infrastructure project.

Respectfully submitted,



Anne Heywood
Clerk-Treasurer