

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

EXAMINATION REPORT
OF
CITY OF LEBANON
BOONE COUNTY INDIANA
January 1, 2006 to December 31, 2006



FILED
12/31/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah S. Ottinger	01-01-04 to 12-31-07
Mayor	James Acton	01-01-04 to 12-31-07
City Judge	Patricia Renner Crow	01-01-04 to 12-31-07
President of the Board of Public Works	James Acton	01-01-04 to 12-31-07
President of the City Council	John W. Lasley	01-01-06 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 ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF LEBANON, BOONE COUNTY, INDIANA

We have examined the financial information presented herein of the City of Lebanon (City), for the period of January 1, 2006 to December 31, 2006. The City'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 City 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.

STATE BOARD OF ACCOUNTS

September 13, 2007

CITY OF LEBANON
SCHEDULES 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	\$ 2,162,000	\$ 6,841,597	\$ 6,605,740	\$ 2,397,857
Motor Vehicle Highway	306,926	542,965	550,149	299,742
Local Road and Street	62,556	78,842	101,012	40,386
Park and Recreation	190,934	279,703	402,105	68,532
Park Nonreverting OP	26,713	20,102	15,729	31,086
Law Enforcement Continuing Education	12,566	2,118	-	14,684
Police Fees (LPD Misc. Income)	15,639	2,977	-	18,616
Deferral Program	2,728	4,941	-	7,669
Drug Defense	959	-	-	959
General Levy Excess	262,458	-	-	262,458
Hazardous Material Fund	157	-	113	44
LPD - State Grant Funds	-	28,208	15,872	12,336
LPD - Federal Grants	-	2,115	-	2,115
State Drug Investigation	-	250	-	250
DARE Program	(294)	-	1,958	(2,252)
Fire Tower Training Facility	4,125	7,400	4,362	7,163
Fire Unrestricted Donation	1,801	1,155	2,280	676
Police Donation	1,683	6,758	6,754	1,687
Street Unrestricted Donation	434	-	-	434
City Unrestricted Donation	(2,851)	2,205	-	(646)
Park Unrestricted Donation	4,068	-	2,354	1,714
Economic Develop	-	500	500	-
Food and Beverage	-	287,264	-	287,264
Cumulative Capital Improvement	158,833	50,808	64,274	145,367
Cumulative Capital Development	(37,773)	286,924	218,468	30,683
Public Works Building	210	10	5	215
COIT Capital Development Fund	2,782,373	52,786	99,411	2,735,748
Employee Benefit (old)	243	-	-	243
COIT Savings Spending	-	96,810	22,495	74,315
Storm Water Bond Phase 1	409,618	417,573	490,078	337,113
Storm Water - Phase III EXP	854,831	3,500,706	3,626,822	728,715
Storm Water Construction	3,410,029	(3,388,400)	-	21,629
Sanitation	109,392	508,779	536,559	81,612
Enterprise Blvd. Construction	245,304	160,985	-	406,289
Enterprise Blvd. TIF Allocation	3,529,654	1,712,510	722,438	4,519,726
Enterprise Blvd. Reserve	417,615	-	-	417,615

The accompanying notes are an integral part of the financial information.

CITY OF LEBANON
SCHEDULES 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
(Continued)

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Proprietary Funds:				
Electric Utility:				
Operating	3,022,807	30,144,792	29,236,903	3,930,696
Renewal and Replacement	5,909,221	5,255,547	5,180,020	5,984,748
Water Utility:				
Operating	1,338,059	2,371,257	2,284,350	1,424,966
Bond and Interest	17,153	-	-	17,153
Depreciation Reserve	3,734,241	4,502,514	4,334,804	3,901,951
Availability	469,365	79,182	2,647	545,900
Wastewater Utility:				
Operating	616,913	3,973,934	3,303,916	1,286,931
Bond and Interest	136,727	968,143	1,023,977	80,893
Debt Service Reserve	755,085	50	50	755,085
Construction	4,085,658	169,646	2,786,067	1,469,237
Improvement	765,076	536,698	406,313	895,461
Availability	-	78,945	78,945	-
Telecommunication:				
Operating	12,309	107,849	9,735	110,423
Renewal and Replacement	-	8,699	-	8,699
Construction	148,269	3,115,223	2,015,351	1,248,141
Fiduciary Funds:				
Police Officers' Pension	59,193	170,909	188,433	41,669
Firefighters' Pension	(53,279)	370,265	278,515	38,471
City Court (Includes Petty Cash)	97,114	71,450	69,348	99,216
Payroll	233,749	4,762,689	4,802,439	193,999
Fire Pension Excess Levy	8,882	-	-	8,882
Police Pension Excess Levy	472	-	-	472
MVH Excess Levy Excess	5,877	-	-	5,877
Parks and Recreation Levy Excess	40,303	-	-	40,303
Cum Cap Development Levy Excess	22,476	-	-	22,476
Storm Water Sewer Levy Excess	32,519	-	-	32,519
Sanitation Excess Levy Fund	10,771	-	-	10,771
Utilities PERF Reimbursement	-	3,226	3,226	-
Solid Waste	(2,400)	18,508	16,110	(2)
Totals	<u>\$ 36,399,491</u>	<u>\$ 68,218,117</u>	<u>\$ 69,510,627</u>	<u>\$ 35,106,981</u>

The accompanying notes are an integral part of the financial information.

CITY OF LEBANON
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

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

Note 2. Fund Accounting

The City 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 City 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. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

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 City 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.

CITY OF LEBANON
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City 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 City 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.

CITY OF LEBANON
EXAMINATION RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations, during 2006:

<u>Fund</u>	<u>Amount</u>
Storm Water Bond Phase 1	\$ 52,587
Sanitation	18,801
Cumulative Capital Improvement	1,188

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

RECEIPT DEPOSITS (Park and Recreation)

Fifty percent of receipts tested for 2006 were found to have been deposited later than the next business day.

Indiana Code 5-13-6-1(d) states in part: "A city or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories selected by the city or town as provided in an ordinance adopted by the city or the town and approved as depositories of state funds."

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPT ISSUANCE (Police Department)

Receipts were not issued or recorded for all monies received.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS (City Court)

Internal controls over cash receipts are weak. The Court Clerk, who is responsible for all accounting for the Court, works each Tuesday evening. The Court also has a "day clerk" who works two to three hours a day during regular business hours. The "day clerk" accepts payments from people during the day. She does not have authority to write receipts or make bank deposits. The payments are placed in a file until the Court Clerk has an opportunity to write the receipts and prepare bank deposits. This could be up to six days after receipt of the payments.

Officials have recently found several payments, in excess of one year old, that were never deposited. Many of the payments were in the form of money orders that have lost value.

CITY OF LEBANON
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 for City and Town Courts, chapter 4)

All funds collected by a city or town court shall be deposited not later than the business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town and approved as depositories of state funds. [IC 5-13-6-1(d)]

TRUST FUND REGISTER (City Court)

The City Court maintains two trust fund registers (subsidiary ledgers) to account for funds held by the Court. One register is for cash bonds and the other is for trust items. The total of the open items in each of these trust fund registers should be reconciled to the total cash held for trust in the city court cash book. There was no evidence presented for examination that court officials had reconciled the detail in either of these trust fund registers to the cash book balances during the examination period.

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 City and Town Courts, Chapter 4)

The total of all unpaid items as shown by the trust fund register must agree with the balance in trust as shown by the court cash book. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 1)

OVERDRAWN CASH BALANCES

The cash balances of the funds listed below were overdrawn on December 31, 2006, as follows:

DARE Program	\$ 2,252
City Unrestricted Donation	647
Solid Waste	2

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LEBANON
EXIT CONFERENCE

The contents of this report were discussed on September 13, 2007, with Patricia Renner Crow, City Judge.

The contents of this report were discussed on October 3, 2007, with Deborah S. Ottinger, Clerk-Treasurer; and James Acton, Mayor. The official response has been made a part of this report and may be found on page 11.

CITY OF LEBANON
401 South Meridian Street
Lebanon IN 46052
Mayor's Office - (765) 482-1201
Clerk-Treasurer's Office - (765) 482-1218
FAX (765) 482-8883

October 4, 2007

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis IN 46204-2765
FAX 317-232-4711

OFFICIAL RESPONSE

With regard to the expenditures in excess of budgeted appropriations during 2006, the following is my response:

Sewer Bond - The bond payments are set for January 1st and July 1st and when the notice was received; it was paid in December to avoid any type of late fee. We are going to attempt to correct this by requesting enough money to pay January, July and then make an additional payment in December. By making three payments one year it will allow us to make the following year's payment in June and December and keep that cycle for all future payments. In addition, any new bonds will have January 15 and July 15 pay dates.

Sanitation - This was the result of an increase in the trash removal fees due to a fuel surcharge.

Cumulative Capital Improvement - This was the result of paying a claim from CCI instead of the COIT line item.

We will be reviewing appropriation balances more closely in October and November each year and request additional appropriations when needed.

Respectfully submitted,



Deborah S. Ovinger
LEBANON CLERK-TREASURER
dso

TOTAL P.01