

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

EXAMINATION REPORT

OF

TOWN OF CLEAR LAKE

STEUBEN COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED
08/21/2008

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OFFICIALS

Office

Official

Term

Clerk-Treasurer

Virginia A. Nye

01-05-05 to 12-31-11

President of the Town Council

John McArdle
Larry Armstrong

01-01-06 to 12-31-07
01-01-08 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF CLEAR LAKE, STEUBEN COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Clear Lake (Town), for the period of January 1, 2006 to December 31, 2007. 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 years ended December 31, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

July 10, 2008

TOWN OF CLEAR LAKE
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES
As Of And For The Years Ended December 31, 2006 And 2007

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 282,887	\$ 138,989	\$ 186,554	\$ 235,322
Motor Vehicle Highway	136,656	33,891	114,613	55,934
Local Road and Street	4,018	4,701	-	8,719
Law Enforcement Continuing Education	892	541	970	463
Trash collection	131,144	62,745	53,462	140,427
Rainy Day	4,387	-	-	4,387
Hanna Nature Preserve	350	-	-	350
Levy Excess	-	3,114	3,114	-
Cumulative Capital Improvement	4	872	400	476
Cumulative Capital Development	131,280	10,503	139,556	2,227
County Economic Development Income Tax	42,770	10,216	1,500	51,486
Build Indiana	64,276	32,842	87,377	9,741
Local Major Moves Construction	-	131,520	-	131,520
Proprietary Funds:				
Wastewater Utility - Operating	164,383	665,932	513,679	316,636
Wastewater Utility - Bond and Interest	3,806	261,521	260,855	4,472
Wastewater Utility - Debt Service Reserve	157,096	52,366	-	209,462
Wastewater Utility - Improvement	400,241	104,642	199,847	305,036
Wastewater Utility - Connection Permit	102,119	-	102,119	-
Wastewater Utility - Construction	2,523	-	2,523	-
Totals	<u>\$ 1,628,832</u>	<u>\$ 1,514,395</u>	<u>\$ 1,666,569</u>	<u>\$ 1,476,658</u>

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 235,322	\$ 203,834	\$ 320,496	\$ 118,660
Motor Vehicle Highway	55,934	60,491	52,034	64,391
Local Road and Street	8,719	4,709	5,311	8,117
Law Enforcement Continuing Education	463	590	-	1,053
Trash Collection	140,427	72,317	74,203	138,541
Rainy Day	4,387	1,713	-	6,100
Hanna Nature Preserve	350	-	-	350
Master Plan Donation	-	10,000	5,180	4,820
Cumulative Capital Improvement	476	857	725	608
Cumulative Capital Development	2,227	222,966	129,427	95,766
County Economic Development Income Tax	51,486	10,552	43,903	18,135
Build Indiana	9,741	-	9,741	-
Local Major Moves Construction	131,520	4,681	-	136,201
Proprietary Funds:				
Wastewater Utility - Operating	316,636	712,136	532,823	495,949
Wastewater Utility - Bond and Interest	4,472	261,521	260,444	5,549
Wastewater Utility - Debt Service Reserve	209,462	52,365	-	261,827
Wastewater Utility - Improvement	305,036	-	77,205	227,831
Totals	<u>\$ 1,476,658</u>	<u>\$ 1,618,732</u>	<u>\$ 1,511,492</u>	<u>\$ 1,583,898</u>

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

TOWN OF CLEAR LAKE
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, culture and recreation, general administrative services, and wastewater and trash collection 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.

TOWN OF CLEAR LAKE
NOTES TO FINANCIAL INFORMATION
(Continued)

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.

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.

TOWN OF CLEAR LAKE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Wastewater Utility		
SRF loan payable:		
Construction of wastewater utility	\$ 2,873,821	\$ 59,142

TOWN OF CLEAR LAKE
EXAMINATION RESULTS AND COMMENTS

PRESCRIBED FORMS

The following prescribed or approved forms were not in use: Ledger of Receipts, Disbursements, and Balances (City or Town Form No. 208); Ledger of Appropriations, Encumbrances, Disbursements, and Balances (City or Town Form No. 209); Clerk-Treasurer's Monthly Financial Statement-Depository Statement and Cash Reconciliation (City or Town Form No. 206); and Simplified Cash Journal Wastewater Utility-Class C (Utility Form 323).

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)

INTEREST ON INVESTMENTS

Interest earned on some investments was automatically added to the principal and not recorded in the records in some instances.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPENSATION AND BENEFITS

Laura Farquhar, Billing Clerk and Deputy Clerk-Treasurer, received payments of \$300 per month from June 1, 2007 to the date of the examination which were not included in the payroll system.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing 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)

APPROPRIATIONS

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

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General	2007	\$ 14,061
Local Road and Street	2007	311
Cumulative Capital Development	2007	80,697

TOWN OF CLEAR LAKE
EXAMINATION RESULTS AND COMMENTS
(Continued)

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."

CAPITAL ASSET RECORDS

As stated in the prior Report B27172, the Town does not maintain a complete record of capital assets owned.

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 Manual for Cities and Towns, Chapter 7)

PUBLIC WORKS PROJECT

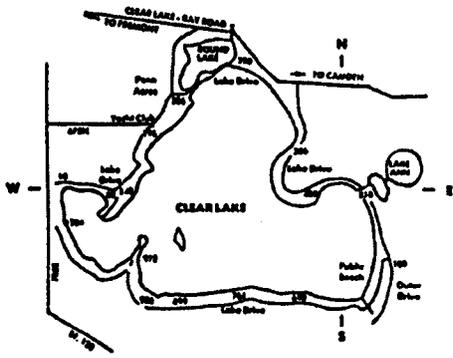
The Town of Clear Lake, during 2006, constructed a Town Hall. The total of construction costs paid for the project was \$323,404. There was no evidence presented for examination that sealed bids were requested or received.

Indiana Code 36-1-12-4(a) states in part: "This section applies whenever the cost of a public work project will be: (1) at least seventy-five thousand dollars (\$75,000) in: (A) a consolidated city or second class city; (B) a county containing a consolidated city or second class city; or (C) a regional water or sewage district established under IC 13-26; (2) at least fifty thousand dollars (\$50,000) in: (A) a third class city or town with a population of more than five thousand (5,000), or (B) a county containing a third class city or town with a population of more than five thousand (5,000); or (3) at least twenty-five thousand dollars (\$25,000) in a political subdivision or an agency not described in subdivision (1) or (2)."

Indiana Code 36-1-12-4(b) states in part: "The board must comply with the following procedure: (1) The board shall prepare general plans and specifications describing the kind of public work required, but shall avoid specifications which might unduly limit competition. . . . (2) The board shall file the plans and specifications in a place reasonably accessible to the public, which shall be specified in the notice required by subdivision (3). (3) Upon the filing of the plans and specifications, the board shall publish notice in accordance with IC 5-3-1 calling for sealed proposals for the public work needed. . . ."

TOWN OF CLEAR LAKE
EXIT CONFERENCE

The contents of this report were discussed on July 10, 2008, with Virginia A. Nye, Clerk-Treasurer; and Larry Armstrong, President of the Town Council. The official response has been made a part of this report and may be found on pages 11 through 13.



TOWN OF CLEAR LAKE

5950 Gecowets Drive, Clear Lake

Fremont, Indiana 46737

(260) 495-9158

July 23, 2008

State Board of Accounts
302 Washington Street, Room E418
Indianapolis, IN 46204-2765

Dear Sir:

This is the Town of Clear Lake Officials' Response to the Exit Conference held on July 10, 2008.

PRESCRIBED FORMS

The Clerk has been using replacement forms that came from her predecessor upon the advice of Umbaugh and Associates, Inc. We went to a computerized format and, in their view, made a more efficient way to proceed. In the May 2006 audit exit conference, the examiner had no problem with the format being used, which the Clerk took as tacit approval.

However, in accordance with the examiners recommendation, usage of the prescribed forms has been re-implemented.

INTEREST ON INVESTMENTS

The finance committee disagrees that interest should not be added into principal on CD's so long as interest income is accurately accounted for. This is so that the Town can get interest on interest.

We believe that since this practice is widely accepted because of the compounding effect, and benefit to the taxpayers, that this policy be carefully reviewed by the State.

In the meantime, when CD's mature we are requesting a check for interest in lieu of "adding on" interest.

COMPENSATION AND BENEFITS

This was brought to the auditor's attention by us. The funds were a negotiated health care benefit. Prior to the exit interview, we had instituted compliance with state and federal reporting requirements.

In addition, town's legal counsel is being asked to prepare a revised budget ordinance reflecting this change.

APPROPRIATIONS

Excess amounts expended reflected a portion of the proceeds that came from the sale of the old town hall property.

The transaction occurred after the 2007 budget was prepared and was reported to the State Board of Accounts. The unanticipated funds were used for road improvements.

This was a one time transaction and should not occur again.

CAPITAL ASSET RECORDS

Discussions have taken place with the Clerk/ Treasurer and the inventory of all capital assets over \$1,000 will begin August 15, 2008.

PUBLIC WORKS PROJECT

(See the attached RESPONSE TO PUBLIC WORKS PROJECT AUDIT NOTATION)

Sincerely,



Larry D. Armstrong
President, Town Council



Virginia A. Nye
Clerk Treasurer

RESPONSE TO PUBLIC WORKS PROJECT AUDIT NOTATION

State Auditor maintained the total of construction costs of the Town Hall project was \$323,404 and that no evidence was presented for audit that sealed bids were requested or received. She noted several I.C. Sections listing requirements to support her contention. We respectfully respond with the following information.

- a) In 2000 the Town was awarded a \$50,000 Build Indiana grant for the construction of a new town hall as town's current facility was woefully inadequate. A 2005 State audit examination pointed out the immediate need to commit the grant to the building project.
- b) The town board was comprised of two volunteers who were appointed after the resignation of the previous board in mid-term just prior to the 2005 State financial audit and one newly elected member with no prior governmental experience.
- c) The Town had limited financial resources and not in a position to borrow, or seek a bond issue, to construct a new town hall. The Board decided to proceed with the project in increments as finances permitted. A building committee of local residents was named.
- d) Building plans for a town hall structure, only, were submitted to the State in 2006 and approved.
- e) At least three (3) bids were received by the building committee for each portion of the project including materials purchase, supplies, and labor. Each of these bids were well documented but not sealed as required by the I.C. Section articulated by the auditor. All documents regarding accounting and costs of the project were submitted to the auditor and, to our knowledge, no irregularities were noted in the audit.
- f) It was neither the intent nor desire of the board or building committee to unduly limit competition in any part of the construction process.
- g) The inexperience of the Board as well as the fact that it was not clearly understood that sealed bids were required contributed to this examination result and comments.