

B37677

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

ANNUAL FINANCIAL REPORT

2009

CITY OF LAKE STATION

LAKE COUNTY, INDIANA



FILED
10/19/2010

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Brenda Samuels	01-01-08 to 12-31-11
Mayor	Keith Soderquist	01-01-08 to 12-31-11
President of the Board of Public Works	Keith Soderquist	01-01-08 to 12-31-11
President of the Common Council	Richard Long Todd Rogers	01-01-09 to 12-31-09 01-01-10 to 12-31-10
President of the Board of Sanitary District Commissioners	Willie Westmoreland	01-01-09 to 12-31-10
Superintendent of Public Works	Ruben Mendez Steven Schau (Interim) Raymond Ostrander	01-01-09 to 10-09-09 10-10-09 to 11-29-09 11-30-09 to 12-31-10



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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF LAKE STATION, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Station (City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2009, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note IV.F. to the financial statements, the City has been forced to reduce budgets and expenditures due to legislative tax caps and substantial deficit cash and investment balances. The amount of cash and investment deficit balances and the fact that tax levies have been set to statutory limits raises substantial doubt about the City's ability to continue as going concern. The City's plans in regards to these matters are also discussed in Note IV.F. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

In accordance with Government Auditing Standards, we have also issued a report dated September 27, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City has not presented Management's Discussion and Analysis, Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities, Budgetary Comparison Schedules, or Schedule of Capital Assets that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

September 27, 2010



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF LAKE STATION, LAKE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Station (City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in items 2009-01 and 2009-02 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider items 2009-01 and 2009-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-01 and 2009-02.

The City's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

September 27, 2010

CITY OF LAKE STATION
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2009

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 2,495,237	\$ 121,540	\$ -	\$ 191,131	\$ (2,182,566)	\$ -	\$ (2,182,566)
Public safety	2,921,801	527,677	80,943	343,865	(1,969,316)	-	(1,969,316)
Highways and streets	991,871	920	385,634	312,925	(292,392)	-	(292,392)
Sanitation	2,574,818	724,816	359,578	-	(1,490,424)	-	(1,490,424)
Economic development	617	-	4,773	-	4,156	-	4,156
Culture and recreation	330,066	29,458	6,476	-	(294,132)	-	(294,132)
Principal and interest on indebtedness	119,948	-	-	-	(119,948)	-	(119,948)
Total governmental activities	<u>9,434,358</u>	<u>1,404,411</u>	<u>837,404</u>	<u>847,921</u>	<u>(6,344,622)</u>	<u>-</u>	<u>(6,344,622)</u>
Business-type activities:							
Sanitary District	1,632,773	1,875,951	-	-	-	243,178	243,178
Water	988,094	788,646	10,959	-	-	(188,489)	(188,489)
Total business-type activities	<u>2,620,867</u>	<u>2,664,597</u>	<u>10,959</u>	<u>-</u>	<u>-</u>	<u>54,689</u>	<u>54,689</u>
Total primary government	<u>\$ 12,055,225</u>	<u>\$ 4,069,008</u>	<u>\$ 848,363</u>	<u>\$ 847,921</u>	<u>(6,344,622)</u>	<u>54,689</u>	<u>(6,289,933)</u>
General receipts:							
Property taxes					3,623,568	297,653	3,921,221
Intergovernmental					395,237	52,637	447,874
Other local sources					705,667	3,126	708,793
Net proceeds from borrowing					678,557	-	678,557
Tax anticipation warrant proceeds					2,600,000	573,364	3,173,364
Tax anticipation warrant repayments					(2,582,738)	(284,801)	(2,867,539)
Grants and contributions not restricted to specific programs					14,092	-	14,092
Investment earnings					1,726	-	1,726
Interfund loans					(200,000)	200,000	-
Transfers					981,074	(981,074)	-
Total general receipts, interfund loans, and transfers					<u>6,217,183</u>	<u>(139,095)</u>	<u>6,078,088</u>
Change in net assets					(127,439)	(84,406)	(211,845)
Net assets - beginning					<u>142,584</u>	<u>377,615</u>	<u>520,199</u>
Net assets - ending					<u>\$ 15,145</u>	<u>\$ 293,209</u>	<u>\$ 308,354</u>
<u>Assets</u>							
Cash and investments					\$ (708,449)	\$ 95,561	\$ (612,888)
Restricted assets:							
Cash and investments					<u>723,594</u>	<u>197,648</u>	<u>921,242</u>
Total assets					<u>\$ 15,145</u>	<u>\$ 293,209</u>	<u>\$ 308,354</u>
<u>Net Assets</u>							
Restricted for:							
General government					\$ 13,412	\$ -	\$ 13,412
Highways and streets					277,575	-	277,575
Culture and recreation					115,455	-	115,455
Debt service					76,853	197,648	274,501
Capital outlay					240,299	-	240,299
Unrestricted					<u>(708,449)</u>	<u>95,561</u>	<u>(612,888)</u>
Total net assets					<u>\$ 15,145</u>	<u>\$ 293,209</u>	<u>\$ 308,354</u>

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

CITY OF LAKE STATION
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2009

	General Fund	Motor Vehicle Highway	Local Road And Street	Riverboat - Infrastructure	Sewage	Ambulance Non-Reverting	Other Governmental Funds	Totals
Receipts:								
Taxes	\$ 2,933,024	\$ 229,522	\$ -	\$ -	\$ -	\$ 76,389	\$ 384,633	\$ 3,623,568
Licenses and permits	65,486	-	-	-	-	-	-	65,486
Intergovernmental	441,306	480,117	236,500	393,598	244,186	6,710	278,145	2,080,562
Charges for services	687,682	-	5,887	-	-	241,294	173,634	1,108,497
Fines and forfeits	142,000	-	-	-	-	-	96,170	238,170
Interfund loans	57,463	-	-	-	-	-	72,306	129,769
Other	182,956	31	1,886	-	149,133	-	99,056	433,062
Total receipts	4,509,917	709,670	244,273	393,598	393,319	324,393	1,103,944	7,679,114
Disbursements:								
General government	1,608,110	-	-	57,914	-	-	140,217	1,806,241
Public safety	2,416,838	-	-	-	-	140,613	161,691	2,719,142
Highways and streets	76,287	684,887	154,963	-	-	-	-	916,137
Sanitation	976,990	-	-	-	863,154	-	334,719	2,174,863
Economic development	-	-	-	-	-	-	617	617
Culture and recreation	-	-	-	-	-	-	282,410	282,410
Interfund loans	286,505	-	-	-	-	-	43,264	329,769
Debt service:								
Principal	-	-	-	-	-	-	60,000	60,000
Interest	-	-	-	-	-	-	59,948	59,948
Capital outlay:								
General government	17,579	-	-	-	-	-	671,417	688,996
Public safety	185,230	-	-	-	-	17,429	-	202,659
Highways and streets	-	33,792	36,342	-	-	-	5,600	75,734
Sanitation	149,843	-	-	-	250,112	-	-	399,955
Culture and recreation	-	-	-	-	-	-	47,656	47,656
Total disbursements	5,717,382	718,679	191,305	57,914	1,113,266	158,042	1,807,539	9,764,127
Excess (deficiency) of receipts over disbursements	(1,207,465)	(9,009)	52,968	335,684	(719,947)	166,351	(703,595)	(2,085,013)
Other financing sources (uses):								
Net proceeds from borrowing	-	-	-	-	-	-	678,557	678,557
Tax anticipation warrant proceeds	2,400,000	-	-	-	-	-	200,000	2,600,000
Tax anticipation warrant repayments	(2,338,636)	-	-	-	-	-	(244,102)	(2,582,738)
Transfers in	43,099	-	-	-	937,975	-	-	981,074
Other receipts	257,186	-	-	-	-	-	23,495	280,681
Total other financing sources (uses)	361,649	-	-	-	937,975	-	657,950	1,957,574
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(845,816)	(9,009)	52,968	335,684	218,028	166,351	(45,645)	(127,439)
Cash and investment fund balance - beginning	(1,149,332)	219,388	75,718	273,526	45,368	8,946	668,970	142,584
Cash and investment fund balance - ending	<u>\$ (1,995,148)</u>	<u>\$ 210,379</u>	<u>\$ 128,686</u>	<u>\$ 609,210</u>	<u>\$ 263,396</u>	<u>\$ 175,297</u>	<u>\$ 623,325</u>	<u>\$ 15,145</u>
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	\$ (1,995,148)	\$ 210,379	\$ -	\$ 609,210	\$ 263,396	\$ 175,297	\$ 28,417	\$ (708,449)
Restricted assets:								
Cash and investments	-	-	128,686	-	-	-	594,908	723,594
Total cash and investment assets - ending	<u>\$ (1,995,148)</u>	<u>\$ 210,379</u>	<u>\$ 128,686</u>	<u>\$ 609,210</u>	<u>\$ 263,396</u>	<u>\$ 175,297</u>	<u>\$ 623,325</u>	<u>\$ 15,145</u>
<u>Cash and Investment Fund Balance - Ending</u>								
Restricted for:								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,412	\$ 13,412
Highways and streets	-	-	128,686	-	-	-	148,889	277,575
Culture and recreation	-	-	-	-	-	-	115,455	115,455
Debt service	-	-	-	-	-	-	76,853	76,853
Capital outlay	-	-	-	-	-	-	240,299	240,299
Unrestricted	(1,995,148)	210,379	-	609,210	263,396	175,297	28,417	(708,449)
Total cash and investment fund balance - ending	<u>\$ (1,995,148)</u>	<u>\$ 210,379</u>	<u>\$ 128,686</u>	<u>\$ 609,210</u>	<u>\$ 263,396</u>	<u>\$ 175,297</u>	<u>\$ 623,325</u>	<u>\$ 15,145</u>

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

CITY OF LAKE STATION
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2009

	Sanitary District	Water	Totals
Operating receipts:			
Metered/measured	\$ -	\$ 686,126	\$ 686,126
Fire protection receipts	-	16,790	16,790
Fees	1,812,547	-	1,812,547
Penalties	60,344	16,664	77,008
Interfund loan proceeds	14,199	200,000	214,199
Miscellaneous	3,060	69,066	72,126
	<u>1,890,150</u>	<u>988,646</u>	<u>2,878,796</u>
Total operating receipts			
Operating disbursements:			
Salaries and wages	16,222	213,575	229,797
Employee pensions and benefits	22	23,436	23,458
Purchased water	-	210,533	210,533
Purchased wastewater treatment	650,528	-	650,528
Purchased power	-	59,199	59,199
Chemicals	-	25,557	25,557
Material and supplies	-	72,863	72,863
Contractual services	64,390	73,852	138,242
Rents	-	48,899	48,899
Transportation	-	1,791	1,791
Insurance claims and expense	-	47,138	47,138
Equipment and capital improvements	-	105,058	105,058
Interfund loans made/repaid	14,199	-	14,199
Miscellaneous	184,604	106,193	290,797
	<u>929,965</u>	<u>988,094</u>	<u>1,918,059</u>
Total operating disbursements			
Excess (deficiency) of operating receipts over operating disbursements	<u>960,185</u>	<u>552</u>	<u>960,737</u>
Nonoperating receipts (disbursements):			
Property taxes	297,653	-	297,653
Intergovernmental	52,637	-	52,637
Tax anticipation warrant proceeds	573,364	-	573,364
Tax anticipation warrant repayments	(284,801)	-	(284,801)
Refunds	-	3,126	3,126
Grants	-	10,959	10,959
Debt service of principal	(555,000)	-	(555,000)
Interest disbursements	(162,007)	-	(162,007)
	<u>(78,154)</u>	<u>14,085</u>	<u>(64,069)</u>
Total nonoperating receipts (disbursements)			
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	882,031	14,637	896,668
Transfers out	(981,074)	-	(981,074)
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(99,043)	14,637	(84,406)
Cash and investment fund balance - beginning	<u>329,900</u>	<u>47,715</u>	<u>377,615</u>
Cash and investment fund balance - ending	<u>\$ 230,857</u>	<u>\$ 62,352</u>	<u>\$ 293,209</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 33,209	\$ 62,352	\$ 95,561
Restricted assets:			
Cash and investments	<u>197,648</u>	<u>-</u>	<u>197,648</u>
Total cash and investment assets - December 31	<u>\$ 230,857</u>	<u>\$ 62,352</u>	<u>\$ 293,209</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 197,648	\$ -	\$ 197,648
Unrestricted	<u>33,209</u>	<u>62,352</u>	<u>95,561</u>
Total cash and investment fund balance - December 31	<u>\$ 230,857</u>	<u>\$ 62,352</u>	<u>\$ 293,209</u>

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

CITY OF LAKE STATION
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2009

	Pension Trust Fund	Agency Funds
Additions:		
Contributions:		
Employer	\$ 130,396	
State	<u>327,594</u>	
Total additions	<u>457,990</u>	
Deductions:		
Benefits	327,690	
Administrative and general	<u>1,778</u>	
Total deductions	<u>329,468</u>	
Excess (deficiency) of total additions over total deductions	128,522	
Cash and investment fund balance - beginning	<u>58,546</u>	
Cash and investment fund balance - ending	<u>\$ 187,068</u>	<u>\$ (93,058)</u>

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

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment.

The City's financial reporting entity is composed of the following:

Primary Government: City of Lake Station

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The City is a participant in a joint venture to operate the Northwestern Indiana Regional Planning Commission (NIRPC) which was created as a multipurpose area wide planning agency. NIRPC assists with planning economic development, transportation, environmental protection, and comprehensive planning. NIRPC enabling legislation, Indiana Code 36-7-7, provides that participating counties must provide an annual appropriation at a minimum level of thirty cents per capita. Complete financial statements for the Northwestern Indiana Regional Planning Commission (NIRPC) can be obtained from the Northwestern Indiana Regional Planning Commission's administrative office at 6100 Southport Road, Portage, Indiana, 46368.

The City is a participant in a joint venture to operate the Northwest Indiana Health Department Cooperative which was created to govern the Healthy Start Initiative federal grant program. Complete financial statements for the Northwest Indiana Health Department Cooperative can be obtained from the City of East Chicago; City Controller's Office at 4525 Indianapolis Boulevard, East Chicago, Indiana, 46312.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds,

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Motor Vehicle Highway Fund accounts for state and local monies collected for highway and street construction and improvements.

The Local Road and Street Fund is used for engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of local road and street systems.

The Riverboat - Infrastructure is used to account for riverboat tax revenue shared with Lake County and may only be used for infrastructure improvements.

The Sewage Fund accounts for the transfers from the Sanitary District for the operation and maintenance of the City's sewer system in accordance with an Interlocal Agreement between the City and Sanitary District.

The Ambulance Non-Reverting Fund accounts for the local taxes and user fees collected for the operation of the City's emergency management services.

The City reports the following major enterprise funds:

The Sanitary District Fund accounts for the operation of the wastewater treatment plant, pumping stations, collection systems, and sanitation services.

The Water Utility Fund accounts for the operation of the water distribution system.

Additionally, the City reports the following fund types:

The pension trust fund accounts for the activities of the 1925 police officers' pension plan, which accumulates resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for federal and state revenue agencies and serve as control of accounts for cash transactions during the time they are a liability to the City and the financial activity of the City Court.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City and its enterprise funds. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The City does not have any internal service funds.

When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

3. Property Taxes

Normally, property taxes levied are collected by the County Treasurer and are distributed to the City in June and in 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. 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 may 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.

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Property tax rates and levies were not established by the Indiana Department of Local Government Finance as of February 15, 2009, as required by statute due to the continued delay caused in the completion of the trending process of Lake County. The 2008 payable 2009 property tax rates were approved on July 31, 2009. The County sent the bills in October 2009, which were due in two installments, on October 28 and November 30, 2009. The City received partial collections in November 2009. Final settlement of tax collections were received in January 2010.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as a liability in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.
4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

Government-Wide Financial Statements

Interfund activity, if any, is eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

taxpayer comments. Prior to November 1, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2009, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2009
General Fund	\$ 5,430,877
Ambulance Non-Reverting	158,042
Major Moves Construction	5,600
Park GO Bond	300
Street Lighting Fund	13,336
Police Pension Fund	150,163
Sanitary District Bond	717,007
Total	\$ 6,475,325

These disbursements were funded by excess cash balances of other funds or were greater than anticipated when budgeted.

C. Cash and Investment Balance Deficits

At December 31, 2009, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as authorized by state statute:

Fund	2009
Major Fund:	
General Fund	\$ 1,995,148
Other Governmental Funds:	
Compost	151,028
Rainy Day	107,662
Drug Seizure Monies	942
Street Lighting Fund	45,904
Agency Fund:	
Employees Health Ins.	390,969

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. IC 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The City does not have a deposit policy for custodial credit risk. At December 31, 2009, the City had deposit balances in the amount of \$1,712,297.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Statutory Authorization for Investments

IC 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the City to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust have a stated final maturity of one day.

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the City's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2009</u>
Sanitary District Fund	General Fund	\$ 43,099
	Sewage Fund	<u>937,975</u>
Total		<u>\$ 981,074</u>

The City typically uses transfers for cash flow purposes as provided by various statutory provisions.

C. Tax Anticipation Warrants

The City Council and Sanitary District Board of Commissioners authorized the issuance of tax anticipation warrants (TAWs) due to property taxes not being billed or collected by Lake County in May and November as required by state statute. The TAWs were to be repaid by December 31, 2009, or April 15, 2010. The TAW transactions for 2009 and the balance outstanding at December 31, 2009, are detailed in the following schedule:

<u>Fund</u>	<u>Beginning Principal Outstanding</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Principal Outstanding</u>
Governmental activities:				
General	\$ 1,326,533	\$ 2,400,000	\$ 2,338,636	\$ 1,387,897
Park and Recreation Fund	<u>110,000</u>	<u>200,000</u>	<u>244,102</u>	<u>65,898</u>
Total governmental activities	<u>\$ 1,436,533</u>	<u>\$ 2,600,000</u>	<u>\$ 2,582,738</u>	<u>\$ 1,453,795</u>
Business-type activities:				
Sanitary District	<u>\$ -</u>	<u>\$ 573,364</u>	<u>\$ 284,801</u>	<u>\$ 288,563</u>

D. Temporary Interfund Loans

Temporary interfund loans for the year ended December 31, 2009, were as follows:

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Loan To</u>	<u>Loan From</u>	Loans Outstanding January 1, 2009	Loans	Repayments	Loans Outstanding December 31, 2009
General	Water Utility	\$ 200,000	\$ -	\$ 200,000	\$ -
Other governmental funds	General	-	72,306	43,264	29,042
Sanitary District	General	-	14,199	14,199	-
Totals		<u>\$ 200,000</u>	<u>\$ 86,505</u>	<u>\$ 257,463</u>	<u>\$ 29,042</u>

IV. Other Information

A. Risk Management

The City is 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; and natural disasters.

The risks of 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; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Interlocal Agreement

The City and Sanitary District have entered into an interlocal agreement for the City to provide all the personnel, equipment, tools, supplies, facilities, vehicles, and utility and other contracts necessary to properly operate and maintain all facets and functions of the Sanitary District's system and financial transactions. The Sanitary District will pay reasonable compensation to the City for the operation and maintenance services in the form of an annual operations and maintenance fee totaling \$908,689 and each calendar year thereafter until a different amount is agreed to in writing by the parties. Before August 1st of each year, the Mayor and the Board of Commissioners shall negotiate the appropriate operations and maintenance fee for the next calendar year so that the appropriate amounts can be included in the parties' respective budgets for the next year.

C. Holding Corporation

The City has entered into an agreement with Lake Station 2008 Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

determined to be a related party of the City. In 2009, the lessor issued \$450,000 Lake Station Building Corporation Bond Anticipation Notes to be repaid in whole on September 16, 2010, plus accrued interest. The City made no payments to the lessor in 2009.

D. Subsequent Events

Municipal Complex Facility

On August 16, 2010, the Board of Works awarded bids for the municipal complex facility as follows:

<u>Category</u>	<u>Awardee</u>	<u>Amount</u>
1. General Trades	Ziolkowski Construction	\$ 1,686,900
2. Utilities/Geothermal	Larson Danielson	1,290,351
3. Roofing	E.C. Babillia	365,039
4. Masonry	Kwiatkowski Masonry	571,000
5. Drywell/Ceilings/EIFS	Gariup Construction	1,519,000
6. Painting	Oosterbaan & Son	104,500
7. Flooring	Midwest Tile & Interior	168,197
8. HVAC/Ductwork/Plumbing	Arctic Engineers	1,455,400
9. Electrical	Continental Electric	1,123,000
10. Fire Suppression	Shambaugh & Sons	<u>213,260</u>
 Grand Total		 <u>\$ 8,496,647</u>

In September 2010, the Lake Station 2008 Building Corporation (Building Corporation) sold \$11,350,000 of First Mortgage Bonds for the acquisition, construction, installation and equipping of a new municipal complex facility, the replacement and/or improvement of certain roads, streets and sidewalks, and renovation of existing facilities which are to be leased back to the City. The Building Corporation will use \$2,500,000 of the bond proceeds to purchase the land on the northwest corner of Fairview Ave. and Grand Boulevard from the City. The City intends to use the \$2,500,000 to pay for all or a portion of the cost of undertaking any portion of the Project not undertaken by the Building Corporation.

Tax Anticipation Warrants

On December 17, 2009, the City Council approved Ordinance 2009-29 authorizing the issuance of \$2,669,000 tax anticipation warrants for several funds. In addition, the Sanitary District Board of Commissioners approved Resolution 2009-19 on December 21, 2009, authorizing the issuance of \$115,000 of tax anticipation warrants. The following schedule details the transactions and remaining balances at September 16, 2010:

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund	Beginning Principal Outstanding	Proceeds	Repayments	Ending Principal Outstanding
Governmental activities:				
General	\$ 1,387,897	\$ 1,871,000	\$ 1,630,819	\$ 1,628,078
Motor Vehicle Highway	-	360,000	230,313	129,687
Park and Recreation Fund	65,898	218,000	-	283,898
Street Lighting Fund	-	200,000	200,000	-
Cumulative Sewage Fund	-	20,000	-	20,000
Total governmental activities	<u>\$ 1,453,795</u>	<u>\$ 2,669,000</u>	<u>\$ 2,061,132</u>	<u>\$ 2,061,663</u>
Business-type activities:				
Sanitary District	<u>\$ 288,563</u>	<u>\$ 115,000</u>	<u>\$ 288,563</u>	<u>\$ 115,000</u>

Circuit Breaker Tax Credit

In 2008, the Indiana General Assembly passed House Enrolled Act 1001 (HEA 1001) which provides a property tax credit (the Circuit Breaker Tax Credit) when the taxes on any property exceed a certain percentage of the property's assessed value. The credit is phased in over two years. For taxes payable in 2010, the applicable percentages for homestead (owner-occupied) residential property, other residential property, and commercial/industrial property are 1%, 2%, and 3%, respectively. The Circuit Breaker Tax Credit will result in a reduction of property tax collections for each political subdivision in which the Circuit Breaker Tax Credit is applied. A political subdivision may not increase its property tax levy or borrow funds to offset the effects of the Circuit Breaker Tax Credit.

The Indiana Department of Local Government Finance (IDLGF) has taken an administrative position that existing law requires taxing units to fully fund any levies for the payment of outstanding debt service or lease rental obligations regardless of any reduction in property tax collections due to the application of the Circuit Breaker Tax Credit. The IDLGF's position is that property taxes collected by a political subdivision must first be applied to pay debt service or lease rental obligations on all outstanding bonds or lease rental revenue bonds. If property tax collections are insufficient to fully fund debt service requirements due to the Circuit Breaker Tax Credit, the IDLGF has indicated the taxing units must use non property tax revenues or revenues from property tax levies for other funds (including operating) to offset revenue loss to the debt service fund.

Property Taxes

Due to delays caused by trending of assessments, the assessed valuations of Lake County were not finalized by February 15, 2010 as required. Therefore, the 2009 pay 2010 property tax rates and levies, as well as related budget orders for 2010, were not established. The County issued a provisional billing due May 10, 2010, based upon the 2008 pay 2009 tax rates. The 2009 pay 2010 tax rates and levies were established as of September 2010. The County has not determined when final billings will be sent.

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Payment in Lieu of Taxes

On September 13, 2010, the Sanitary District Board of Commissioners approved Resolution 2010-16 authorizing the payment of \$200,000 to the General Fund for payment in lieu of taxes for 2010.

E. Contingent Liabilities

The City has been named as a defendant in several pending lawsuits of which the outcome and the amount of potential damages has not been estimated.

The City is a defendant in a lawsuit with an engineering firm for \$417,000 of engineering fees. The engineering firm was engaged by the City in 1990 to pursue a public works project for road and bridge design which was to be paid from government grants. The grants never materialized so the City did not pay the engineering firm. In 2002, the Trial Court found for the City and rendered judgment accordingly in August 2003. The engineering firm filed an appeal and the Court of Appeals heard the arguments in the fall of 2004. On November 3, 2004, the Court of Appeals reversed the decision of the trial court and remanded the case back to the trial court. The case was tried by jury in June 2010 and the jury rendered a verdict for the engineering firm of \$960,000. The City is appealing.

The Sanitary District billed the Town of New Chicago (Town) \$543,000 for the Town's proportionate share of the total cost to handle the Town's waste from 1994 to 2005 based on the City's \$5,377,805.92 settlement with the Gary Sanitary District in 2005. Initial settlement with the Town failed and the City and Sanitary District, on March 23, 2007, filed suit to collect. The City's motion for Summary Judgment was granted on liability of the Town. The Town is appealing.

Agreed Order

An Agreed Order resolving the wastewater overflow complaint from the Indiana Department of Environmental Management (IDEM) against the City of Lake Station (City) was approved in July 2009. The City was assessed a civil penalty of \$1,125, which was paid on August 18, 2009, by the Sanitary District. The Agreed Order contains both specific and general tasks and obligations and goals which are to be accomplished within prescribed deadlines. The Agreed Order provides for the payment of stipulated penalties in the event the City fails to submit a Spill Response Plan, implement the approved compliance plan, achieve the ceasing of sewage discharges subsequent to completion of the implementation plan, submit additional discharge elimination compliance plan, if required within 15 days of becoming aware of violation incident, notify IDEM, in writing, within 10 days of completion of each milestone contained in the approved plan, and submit application for Operation Permit in the timeframe required.

The Sanitary District is in full compliance with the Agreed Order as of September 20, 2010. An inspection of the collection system has been made and the District is in the process of determining priority and scheduling of the necessary major improvements to the collection system. At this time, it appears the District may have to finance construction projects with bonds depending on the speed with which IDEM requires the Sanitary District to act on needed improvements. The District would look to State Revolving Fund and grant funding, if necessary, for all major system repairs and improvements.

CITY OF LAKE STATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

F. Current and Future Financial Considerations

At December 31, 2009, the City's overall net cash and investment balance of the Governmental Activities and Agency Funds (without the City Court) was a negative \$344,227 with the General Fund cash and investment balance at a negative \$1,995,148. The remaining balance of 2009 property tax collections received in 2010, less tax anticipation warrants outstanding at year end were insufficient to cover the substantial deficit balance of the General Fund.

Indiana Code 6-1.1-20.6 and House Enrolled Act 1001 have, and will, significantly reduce the amount of taxes that the City is able to collect. The Indiana Department of Local Government Finance (IDLGF) has set the tax rate and levy at the statutory limit for the General Fund for 2010. The estimated tax and miscellaneous revenue for 2010 totaled \$4,093,361. The Mayor, through his executive powers, reduced the 2010 City Council approved General Fund budget but only to \$4,520,652. The IDLGF approved \$1,158,381 appropriations for General Fund in 2010. In September 2010, the City and Sanitary District approved to have the Sanitary District pay \$200,000 to the General Fund for Payment in Lieu of Taxes. The City also increased the office rent charged to the Water Utility and Sanitary District in an effort to increase General Fund revenues.

The estimated cash balance of the General Fund, excluding vendor payments from September 21 to December 31, 2010, was determined to be approximately negative \$1,524,703 at December 31, 2010, as determined below:

	General Fund
Actual cash balance at September 21, 2010	\$ (1,361,128)
Remaining tax collections (90% tax collection rate)	1,904,553
Other taxes (FIT, Excise, etc.)	238,319
Estimated payroll and related benefits disbursements	(678,369)
Outstanding Tax Anticipation Warrant	(1,628,078)
Estimated cash balance at December 31, 2010	\$ (1,524,703)

G. Termination Benefits

The City offers termination benefits to employees who retire from the City. All employees hired after January 1, 2000, are entitled to receive 75% of the value of their accumulated personal sick days. All full-time employees hired prior to January 1, 2000, are entitled to receive 100% of the value of their accumulated personal sick days. In 2009, the City paid \$5,842 in termination benefits to one employee.

H. Rate Structure – Enterprise Funds

Water Utility

On December 15, 1988, the City Council adopted Ordinance 88-38 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on September 16, 2004.

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Wastewater Utility

The current rate structure was approved by the City Council on March 5, 2009.

I. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. 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 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 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 member's 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. 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

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The total contributions made to PERF by the City during the period were \$151,820.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Public Employees' Retirement Fund as provided under IC 5-10.3-11. The State of Indiana has contributed \$327,594 on behalf of the City. On behalf contributions from the State of Indiana approximates the amount paid out for benefits.

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

PERF 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

The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan during the period were \$292,831.

CITY OF LAKE STATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009

	Alcohol Program Monitor	Park Non-Reverting Fund	Ambulance Donation Fund	Police - K9 Donation	Economic Development	Police Donation Fund	Streets & Sanitation Clothing
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	4,773	-	2,108
Charges for services	-	26,906	-	-	-	-	-
Fines and forfeits	450	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-
Other	-	32,643	-	-	-	999	4,054
Total receipts	450	59,549	-	-	4,773	999	6,162
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	3,192	-	-	-	-	1,077	-
Sanitation	-	-	-	-	-	-	5,329
Economic development	-	-	-	-	617	-	-
Culture and recreation	-	16,162	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Total disbursements	3,192	16,162	-	-	617	1,077	5,329
Excess (deficiency) of receipts over disbursements	(2,742)	43,387	-	-	4,156	(78)	833
Other financing sources (uses):							
Net proceeds from borrowing	-	-	-	-	-	-	-
Tax anticipation warrant proceeds	-	-	-	-	-	-	-
Tax anticipation warrant repayments	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,742)	43,387	-	-	4,156	(78)	833
Cash and investment fund balance - beginning	2,742	72,068	125	116	9,027	500	(784)
Cash and investment fund balance - ending	\$ -	\$ 115,455	\$ 125	\$ 116	\$ 13,183	\$ 422	\$ 49
Cash and Investment Assets - Ending							
Cash and investments	\$ -	\$ -	\$ 125	\$ 116	\$ 13,183	\$ 422	\$ 49
Restricted assets:							
Cash and investments	-	115,455	-	-	-	-	-
Total cash and investment assets - ending	\$ -	\$ 115,455	\$ 125	\$ 116	\$ 13,183	\$ 422	\$ 49
Cash and Investment Fund Balance - Ending							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	115,455	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	-	-	125	116	13,183	422	49
Total cash and investment fund balance - ending	\$ -	\$ 115,455	\$ 125	\$ 116	\$ 13,183	\$ 422	\$ 49

CITY OF LAKE STATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Compost	Local Law Enforcement Continuing Education	Clerk's Record Perpetuation	Deferral - Police	Unsafe Building Non-Reverting	Park and Recreation Fund	Users Fee - Lake Station Continuing Education
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 211,943	\$ -
Intergovernmental	115,392	-	-	-	-	18,496	-
Charges for services	125,609	17,883	-	-	-	2,552	-
Fines and forfeits	-	-	2,732	82,827	-	-	8,306
Interfund loans	-	-	-	-	-	-	-
Other	2,957	-	-	-	-	9,675	-
Total receipts	243,958	17,883	2,732	82,827	-	242,666	8,306
Disbursements:							
General government	-	-	380	-	-	-	9,664
Public safety	-	10,886	-	69,105	256	-	-
Sanitation	329,390	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	256,830	-
Interfund loans	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	47,656	-
Total disbursements	329,390	10,886	380	69,105	256	304,486	9,664
Excess (deficiency) of receipts over disbursements	(85,432)	6,997	2,352	13,722	(256)	(61,820)	(1,358)
Other financing sources (uses):							
Net proceeds from borrowing	-	-	-	-	-	-	-
Tax anticipation warrant proceeds	-	-	-	-	-	200,000	-
Tax anticipation warrant repayments	-	-	-	-	-	(244,102)	-
Other receipts	-	-	-	-	-	21,331	-
Total other financing sources (uses)	-	-	-	-	-	(22,771)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(85,432)	6,997	2,352	13,722	(256)	(84,591)	(1,358)
Cash and investment fund balance - beginning	(65,596)	(1,602)	11,060	2,214	10,257	106,971	2,041
Cash and investment fund balance - ending	<u>\$(151,028)</u>	<u>\$ 5,395</u>	<u>\$ 13,412</u>	<u>\$ 15,936</u>	<u>\$ 10,001</u>	<u>\$ 22,380</u>	<u>\$ 683</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ (151,028)	\$ 5,395	\$ -	\$ 15,936	\$ 10,001	\$ 22,380	\$ 683
Restricted assets:							
Cash and investments	-	-	13,412	-	-	-	-
Total cash and investment assets - ending	<u>\$(151,028)</u>	<u>\$ 5,395</u>	<u>\$ 13,412</u>	<u>\$ 15,936</u>	<u>\$ 10,001</u>	<u>\$ 22,380</u>	<u>\$ 683</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
General government	\$ -	\$ -	\$ 13,412	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	(151,028)	5,395	-	15,936	10,001	22,380	683
Total cash and investment fund balance - ending	<u>\$(151,028)</u>	<u>\$ 5,395</u>	<u>\$ 13,412</u>	<u>\$ 15,936</u>	<u>\$ 10,001</u>	<u>\$ 22,380</u>	<u>\$ 683</u>

CITY OF LAKE STATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Firefighters Grant	Park Donation Fund	Fire Donation	Fire Hazardous Non-Reverting	Police - Insurance Repair	Rainy Day	Drug Seizure Monies
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	8,716	-	-
Charges for services	-	-	-	684	-	-	-
Fines and forfeits	-	-	-	-	-	-	1,855
Interfund loans	-	-	-	-	-	-	-
Other	-	993	-	-	-	-	-
Total receipts	-	993	-	684	8,716	-	1,855
Disbursements:							
General government	-	-	-	-	8,717	-	-
Public safety	-	-	-	435	-	-	4,497
Sanitation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Total disbursements	-	-	-	435	8,717	-	4,497
Excess (deficiency) of receipts over disbursements	-	993	-	249	(1)	-	(2,642)
Other financing sources (uses):							
Net proceeds from borrowing	-	-	-	-	-	-	-
Tax anticipation warrant proceeds	-	-	-	-	-	-	-
Tax anticipation warrant repayments	-	-	-	-	-	-	-
Other receipts	-	-	-	-	2,164	-	-
Total other financing sources (uses)	-	-	-	-	2,164	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	993	-	249	2,163	-	(2,642)
Cash and investment fund balance - beginning	31	2,761	822	15,149	11,053	(107,662)	1,700
Cash and investment fund balance - ending	<u>\$ 31</u>	<u>\$ 3,754</u>	<u>\$ 822</u>	<u>\$ 15,398</u>	<u>\$ 13,216</u>	<u>\$ (107,662)</u>	<u>\$ (942)</u>
Cash and Investment Assets - Ending							
Cash and investments	\$ 31	\$ 3,754	\$ 822	\$ 15,398	\$ 13,216	\$ (107,662)	\$ (942)
Restricted assets:							
Cash and investments	-	-	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ 31</u>	<u>\$ 3,754</u>	<u>\$ 822</u>	<u>\$ 15,398</u>	<u>\$ 13,216</u>	<u>\$ (107,662)</u>	<u>\$ (942)</u>
Cash and Investment Fund Balance - Ending							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	31	3,754	822	15,398	13,216	(107,662)	(942)
Total cash and investment fund balance - ending	<u>\$ 31</u>	<u>\$ 3,754</u>	<u>\$ 822</u>	<u>\$ 15,398</u>	<u>\$ 13,216</u>	<u>\$ (107,662)</u>	<u>\$ (942)</u>

CITY OF LAKE STATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Drunk Driving/ Blitz Fund	Major Moves Construction	Police - Vests	Civic Center	Park GO Bond	Park Security Deposit	Street Lighting Fund
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 131,408	\$ -	\$ -
Intergovernmental	72,227	-	-	-	10,508	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	72,306	-	-
Other	-	-	-	31,200	-	9,635	-
Total receipts	72,227	-	-	31,200	214,222	9,635	-
Disbursements:							
General government	-	-	-	23,293	-	-	87,600
Public safety	72,243	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	9,418	-
Interfund loans	-	-	-	-	43,264	-	-
Debt service:							
Principal	-	-	-	-	60,000	-	-
Interest	-	-	-	-	59,948	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Highways and streets	-	5,600	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Total disbursements	72,243	5,600	-	23,293	163,212	9,418	87,600
Excess (deficiency) of receipts over disbursements	(16)	(5,600)	-	7,907	51,010	217	(87,600)
Other financing sources (uses):							
Net proceeds from borrowing	-	-	-	-	-	-	-
Tax anticipation warrant proceeds	-	-	-	-	-	-	-
Tax anticipation warrant repayments	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(16)	(5,600)	-	7,907	51,010	217	(87,600)
Cash and investment fund balance - beginning	113	154,489	2,030	71,562	25,843	(103)	41,696
Cash and investment fund balance - ending	\$ 97	\$ 148,889	\$ 2,030	\$ 79,469	\$ 76,853	\$ 114	\$ (45,904)
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ 97	\$ -	\$ 2,030	\$ 79,469	\$ -	\$ 114	\$ (45,904)
Restricted assets:							
Cash and investments	-	148,889	-	-	76,853	-	-
Total cash and investment assets - ending	\$ 97	\$ 148,889	\$ 2,030	\$ 79,469	\$ 76,853	\$ 114	\$ (45,904)
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	148,889	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Debt service	-	-	-	-	76,853	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	97	-	2,030	79,469	-	114	(45,904)
Total cash and investment fund balance - ending	\$ 97	\$ 148,889	\$ 2,030	\$ 79,469	\$ 76,853	\$ 114	\$ (45,904)

CITY OF LAKE STATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Cumulative Sewage Fund	Municipal Complex	Cumulative Capital Improvement	Park Capital Improvement	Grand Boulevard Lake Enhancement	Totals
Receipts:						
Taxes	\$ 41,282	\$ -	\$ -	\$ -	\$ -	\$ 384,633
Intergovernmental	3,156	-	42,769	-	-	278,145
Charges for services	-	-	-	-	-	173,634
Fines and forfeits	-	-	-	-	-	96,170
Interfund loans	-	-	-	-	-	72,306
Other	-	-	-	-	6,900	99,056
Total receipts	44,438	-	42,769	-	6,900	1,103,944
Disbursements:						
General government	-	-	459	-	10,104	140,217
Public safety	-	-	-	-	-	161,691
Sanitation	-	-	-	-	-	334,719
Economic development	-	-	-	-	-	617
Culture and recreation	-	-	-	-	-	282,410
Interfund loans	-	-	-	-	-	43,264
Debt service:						
Principal	-	-	-	-	-	60,000
Interest	-	-	-	-	-	59,948
Capital outlay:						
General government	-	671,417	-	-	-	671,417
Highways and streets	-	-	-	-	-	5,600
Culture and recreation	-	-	-	-	-	47,656
Total disbursements	-	671,417	459	-	10,104	1,807,539
Excess (deficiency) of receipts over disbursements	44,438	(671,417)	42,310	-	(3,204)	(703,595)
Other financing sources (uses):						
Net proceeds from borrowing	-	678,557	-	-	-	678,557
Tax anticipation warrant proceeds	-	-	-	-	-	200,000
Tax anticipation warrant repayments	-	-	-	-	-	(244,102)
Other receipts	-	-	-	-	-	23,495
Total other financing sources (uses)	-	678,557	-	-	-	657,950
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	44,438	7,140	42,310	-	(3,204)	(45,645)
Cash and investment fund balance - beginning	105,661	-	184,053	633	10,000	668,970
Cash and investment fund balance - ending	<u>\$ 150,099</u>	<u>\$ 7,140</u>	<u>\$ 226,363</u>	<u>\$ 633</u>	<u>\$ 6,796</u>	<u>\$ 623,325</u>
Cash and Investment Assets - Ending						
Cash and investments	\$ 150,099	\$ -	\$ -	\$ 633	\$ -	\$ 28,417
Restricted assets:						
Cash and investments	-	7,140	226,363	-	6,796	594,908
Total cash and investment assets - ending	<u>\$ 150,099</u>	<u>\$ 7,140</u>	<u>\$ 226,363</u>	<u>\$ 633</u>	<u>\$ 6,796</u>	<u>\$ 623,325</u>
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,412
Highways and streets	-	-	-	-	-	148,889
Culture and recreation	-	-	-	-	-	115,455
Debt service	-	-	-	-	-	76,853
Capital outlay	-	7,140	226,363	-	6,796	240,299
Unrestricted	150,099	-	-	633	-	28,417
Total cash and investment fund balance - ending	<u>\$ 150,099</u>	<u>\$ 7,140</u>	<u>\$ 226,363</u>	<u>\$ 633</u>	<u>\$ 6,796</u>	<u>\$ 623,325</u>

CITY OF LAKE STATION
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2009

	Payroll	Employees Health Ins.	Court Costs Due County	City Court	Totals
Additions:					
Agency fund additions	\$ 3,617,910	\$ 66,126	\$ 51,091	\$ 753,442	\$ 4,488,569
Deductions:					
Agency fund deductions	3,620,390	33	51,091	748,736	4,420,250
Excess (deficiency) of total additions over total deductions	(2,480)	66,093	-	4,706	68,319
Cash and investment fund balance - beginning	34,077	(457,062)	-	261,608	(161,377)
Cash and investment fund balance - ending	<u>\$ 31,597</u>	<u>\$ (390,969)</u>	<u>\$ -</u>	<u>\$ 266,314</u>	<u>\$ (93,058)</u>

CITY OF LAKE STATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2009

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
Ambulance	\$ 58,671	\$ 31,616
Park tractor	8,368	8,862
Fire department pumper	243,392	47,021
Local road and street truck	9,806	10,263
Mayor vehicle	19,916	5,611
Police 911 equipment	77,106	41,615
Garbage trucks and toters/containers	1,314,768	293,491
Code enforcement vehicle	11,046	4,033
Sewage truck	4,958	5,117
Bonds payable:		
General obligation bonds:		
2005 \$1,500,000 park improvements	1,310,000	122,248
2009 \$235,000 municipal complex	<u>235,000</u>	<u>118,453</u>
Total governmental activities debt	<u>\$ 3,293,031</u>	<u>\$ 688,330</u>
Business-type activities:		
Sanitary District:		
Bonds payable:		
General obligation bonds:		
2005 \$5,500,000 judgment bond	<u>\$ 3,470,000</u>	<u>\$ 715,706</u>

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS

A going concern explanatory paragraph was added to the financial report opinion due to concerns over the large deficit cash balance of the General Fund and the continued spending over the approved budget orders of the Indiana Department of Local Government Finance. If the City's executive and legislative bodies continue to operate outside the statutory limits allowed regarding the tax levies and appropriations, the City's options will be limited as to resolving the financial situation. In addition, we are unaware of any discussions of future reductions in spending (i.e. payroll) or any other cost savings initiatives.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

REVENUE CLASSIFICATION

The City's annual report was determined to have improper revenue recognition based on the receipt classifications posted to the City's ledger. It was determined that property tax revenues, interfund loan proceeds, license excise tax, state contributions, and tax anticipation warrant proceeds were posted to the incorrect classification on the unit's ledger which improperly reported the revenues on the City's financial statements. The following details the funds and classifications affected:

	<u>City Classification</u>	<u>Proper Classification</u>	<u>Total Amount Misclassified</u>
General Fund	License excise tax	Property tax	\$ 1,274,029
	Sources other - misc	Interfund loan proceeds	57,463
Motor Vehicle Highway	State distributions	Property tax	51,818
	License excise tax	Property tax	104,228
Park and Recreation Operating	License excise tax	Property tax	137,248
Ambulance Non-Reverting	Charges for services	Property tax	76,389
		License excise tax	6,710
Park GO Bond	License excise tax	Property tax	62,547
Cumulative Sewer	License excise tax	Property tax	20,599
	Total Governmental Activities		<u>1,791,031</u>
Police Pension	Property tax	State contribution	173,748
	Payroll deduction	State contribution	153,846
	Total Pension Trust		<u>327,594</u>

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

	City Classification	Proper Classification	Total Amount Misclassified
Sanitary District Bond	Bond	Property tax	297,653
		License excise tax	52,637
		Tax anticipation warrant proceeds	573,364
Water Utility	Metered residential	Interfund loan proceeds	200,000
			<u>1,123,654</u>
	Total Enterprise Funds		<u>1,123,654</u>
	Total All		<u>\$ 3,242,279</u>

The Clerk-Treasurer approved adjustments to the financial statements presented herein to reflect the proper revenue classification.

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 objections, 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)

DISBURSEMENTS EXCEED APPROPRIATIONS

The City was notified on July 24, 2009, by the Indiana Department of Local Government Finance (IDLGF) of the 2009 certified budget, rates and levies by receiving the 1782 Notice Notes Report. Per the 1782 Report, the following funds were not provided a budget for 2009:

- a. For the General Fund, IDLGF was unable to verify revenues and the January to June expenditures could not be verified.
- b. For the Ambulance Non-Reverting Fund, IDLGF denied the budget since a budget was not advertised by the City.
- c. For the Sanitary District Bond Fund, IDLGF denied the budget since a budget or levy was not advertised. The IDLGF did approve a rate and levy that would raise enough tax revenue for the 2009 bond obligation.

The City had 10 calendar days from receiving the notice to provide a written response to the IDLGF for any errors noticed. The City chose not to respond at that time to restore the budgets which were denied but opted to obtain the additional appropriations. However, the City did not initiate the additional appropriation process during 2009, resulting in the General, Ambulance Non-Reverting, and Sanitary District Bond Funds to not have an appropriation from which a warrant could have been drawn upon.

CITY OF LAKE STATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

The City's disbursements exceeded appropriations for the following funds:

Fund	Disbursements in Excess of Approved Appropriations
General	\$ 5,430,877
Ambulance Non-Reverting	158,042
Major Moves Construction	5,600
Park GO Bond	300
Street Lighting	13,336
Police Pension	150,163
Sanitary District Bond	717,007

IC 6-1.1-17-16(d) states:

"Except as provided in subsection (i), IC 20-46, or IC 6-1.1-18.5, the department of local government finance may not increase a political subdivision's budget by fund, tax rate, or tax levy to an amount which exceeds the amount originally fixed by the political subdivision. However, if the department of local government finance determines that IC 5-3-1-2.3(b) applies to the tax rate, tax levy, or budget of the political subdivision, the maximum amount by which the department may increase the tax rate, tax levy, or budget is the amount originally fixed by the political subdivision, and not the amount that was incorrectly published or omitted in the notice described in IC 5-3-1-2.3(b). The department of local government finance shall give the political subdivision written notification specifying any revision, reduction, or increase the department proposes in a political subdivision's tax levy or tax rate. The political subdivision has ten (10) calendar days from the date the political subdivision receives the notice to provide a written response to the department of local government finance's Indianapolis office. The response may include budget reductions, reallocation of levies, a revision in the amount of miscellaneous revenues, and further review of any other item about which, in the view of the political subdivision, the department is in error. The department of local government finance shall consider the adjustments as specified in the political subdivision's response if the response is provided as required by this subsection and shall deliver a final decision to the political subdivision."

IC 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."

IC 6-1.1-18-5 states in part:

"(a) If the proper officers of a political subdivision desire to appropriate more money for a particular year than the amount prescribed in the budget for that year as finally determined under this article, they shall give notice of their proposed additional appropriation. The notice shall state the time and place at which a public hearing will be held on the proposal. The notice shall be given once in accordance with IC 5-3-1-2(b).

CITY OF LAKE STATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

(b) If the additional appropriation by the political subdivision is made from a fund that receives:

- (1) distributions from the motor vehicle highway account established under IC 8-14-1-1 or the local road and street account established under IC 8-14-2-4; or
- (2) revenue from property taxes levied under IC 6-1.1; the political subdivision must report the additional appropriation to the department of local government finance."

IC 6-1.1-18-10(a) states:

"If the proper officers of a political subdivision make an appropriation for an item which exceeds the amount which they are permitted to appropriate under this chapter, they are guilty of malfeasance in office and are liable to the political subdivision in an amount equal to the sum of one hundred and twenty-five percent (125%) of the excess so appropriated and court costs."

IC 36-4-8-2 states in part:

"Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted . . ."

NONUSE OF PURCHASE ORDERS

The City does not utilize purchase orders to encumber/reserve appropriations when purchases are initiated. An analysis of 2009 accounts payable vouchers revealed that 2008 invoices were paid from 2009 appropriations without being properly encumbered. The following schedule reflects the total paid in 2009, by fund, for September to December 2008 invoice dates and the total paid in 2010 for October to December 2009 invoice dates:

<u>Fund</u>	<u>September to December 2008 Invoice Dates</u>	<u>October to December 2009 Invoice Dates</u>
General	\$ 219,790	\$ 23,467
Motor Vehicle Highway	18,247	163
Local Road and Street	58,075	864
Park and Recreation	8,285	1,719
Ambulance Non-Reverting	4,202	1,163
Street Lighting	7,636	-
Totals	<u>\$ 316,235</u>	<u>\$ 27,376</u>

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

IC 5-22-18-5(b) states in part:

"Within thirty (30) days after the acceptance of an offer, the purchasing agent shall deliver in person or by first class mail to the successful offeror the original of each purchase order or lease, retain a copy for the purchasing agent's records, and file a copy for public record and inspection as follows: (1) When a purchase or lease is made for a county or municipality, the copy of the purchase order or lease must be filed with the fiscal officer of the unit. . . ."

The purchase order (General Form No. 98) is used in conjunction with City and Town Form No. 209, Ledger of Appropriations, Encumbrances, Disbursements and Balances. Provision is made for certification of an unobligated balance being available in the appropriation from which purchase is to be made, in compliance with the law.

This will require the encumbering of appropriations for each order as it is issued.

It is necessary that all orders pass through the hands of the Clerk-Treasurer, who is responsible for appropriation accounting.

The original will be delivered to the vendor, the duplicate copy filed with the purchasing authority and the triplicate copy filed with the Clerk-Treasurer.

The purchase order number must appear on all invoices and claims or original order prepared by the vendor.

Provision is made on copies for certificate of the party receiving the merchandise. In case of centralized purchasing, a copy should be delivered to the department for execution of this certificate, to be signed and returned to the purchasing authority upon receipt of the merchandise.

Purchase orders issued on bids and contracts must be delivered to the vendor within thirty (30) days after acceptance by the board. [IC 5-22-18-5]

The original copy of a purchase order must be given to the vendor at the time of purchase.

The original purchase order issued to the vendor at the time the purchase is made must accompany the bill or invoice and accounts payable voucher to the department before payment is made, or the number thereof must be shown on the bill or invoice and accounts payable voucher.

An itemized accounts payable voucher covering the purchase must be filed with the department after delivery is made.

It will be observed that there is a sequence of time that must be followed. The order comes first, in the same manner as though an order was being made from a catalog. The Clerk-Treasurer must be advised of the order so that the fund will be encumbered and not obligated more than once. The bill or invoice and accounts payable voucher must be fully prepared, not just a statement of account.

It is to the advantage of the Clerk-Treasurer to know at all times what purchases have been entered into and how the appropriation ledger stands, for purposes of anticipating the year's needs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

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)

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES

The cash balances of the following funds were overdrawn as of December 31, 2009:

<u>Fund</u>	<u>2009</u>
Major Fund:	
General Fund	\$ 1,995,148
Other Governmental Funds:	
Compost	151,028
Rainy Day	107,662
Drug Seizure Monies	942
Street Lighting Fund	45,904
Agency Fund:	
Employees Health Ins.	390,969

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)

BANK RECONCILEMENT

As of December 31, 2009, the City's general bank account reconciled balance is less than the ledger balance by an unidentified amount totaling \$3,809.07. In addition, the reconciliation revealed outstanding checks in excess of two years for the city and water bank accounts totaling \$5,656.87 and \$514.45, respectively.

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)

IC 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

IC 5-11-10.5-3 states in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year."

IC 5-11-10.5-5(a) states:

"Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks."

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

TEMPORARY TRANSFER OF FUNDS

Temporary transfers of \$72,306 and \$14,199 were made in 2009 from the General Fund to the Park GO Bond and Sanitary District Funds. The Park GO Bond temporary loan was not paid in full by year-end. Neither City Council nor Sanitary District Board of Commissioners approval by ordinance or resolution was provided for audit.

IC 36-1-8-4 concerning temporary transfer states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

PAYROLL

Ordinance No. 2008-21, approved by the City Council on October 16, 2008, fixed the 2009 salaries and wages for appointed officials and employees and designated the funds from which the salaries and wages are to be paid. The salary and wage ordinance is to be approved before September 30 of the ensuing budget year.

1. Crossing guards were to be paid \$8.40 per hour; however, a crossing guard was only paid \$8.16 per hour.

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

2. Emergency medical technicians (EMT) were to be paid \$11.67 per hour; however, two EMT's were only paid \$11.33 per hour.
3. One employee was classified as the Board of Works - Personal Assistant and a refuse salaried employee. The employee was paid \$9,999.86 as the personal assistant and \$19,132.88 for refuse. Per the salary ordinance, the personal assistant wage was \$18,540 - \$25,133. The only salaried refuse position was for supervisor which had a range of \$32,000 to \$40,000. No part-time positions for these classifications were noted. In addition, the ordinance stipulates that the Board of Works - Personal Assistant is payable from the General Fund; however, the payroll postings totaling \$7,958.85 were adjusted from the General Fund to the Sewer Fund.

Ordinance No. 2007-17, approved by the City Council on September 6, 2007, states: "Members of commissions and boards shall be paid for meetings that they attend. The payment shall be computed by dividing the total annual salary by the regularly scheduled meetings. Each meeting attended shall be compensated by the amount determined by the aforementioned calculation. If there is no agenda for a particular meeting, its commission and board members shall not be paid." The Hearing Authority, Plan Commission, Board of Zoning and Appeals (B.Z.A.) and Park Board salaries established in the 2009 salary ordinance are stated in terms of an amount payable per year without an attendance requirement. The City does decrease the members' payments for missed or canceled meetings for all boards except for the Hearing Authority.

The City leases a vehicle for the Mayor which is considered to be a taxable fringe benefit to the Mayor. An amount was not added to the Mayor's Wage and Tax Statement (Form W-2) in accordance with federal tax guidelines reporting the fringe benefit.

IC 36-4-7-3 states in part:

"(b) Subject to the approval of the city legislative body, the city executive shall fix the compensation of each appointive officer, deputy, and other employee of the city. The legislative body may reduce but may not increase any compensation fixed by the executive. Compensation must be fixed under this section not later than September 30 of each year for the ensuing budget year. (c) Compensation fixed under this section may be increased or decreased by the executive during the budget year for which it is fixed."

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)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ACCOUNTS PAYABLE VOUCHERS

When an employee's personal automobile is used for transportation for City business, the City will reimburse the employee for the number of miles traveled multiplied by the IRS mileage rate allowed. In 2009, the IRS mileage rate allowed was \$0.55. Employees and elected officials were reimbursed at \$0.585 per mile.

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Seven accounts payable vouchers reviewed for audit could not be found on an accounts payable voucher register certified by the fiscal officer and approved by the Board of Works.

The park board approves their accounts payable vouchers by each member signing each voucher. The fiscal officer does not sign each park accounts payable voucher certifying the vouchers were audited in accordance with IC 5-11-10-1.6. Furthermore, disbursements were paid from park funds which were not approved by the park board.

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)

IC 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: . . .

- (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."

OFFICIAL BONDS

The Clerk-Treasurer's official bond coverage for 2009 and 2010 was \$75,000. Effective July 1, 2009, the bond coverage should be \$30,000 per \$1,000,000 of receipts up to a maximum of \$300,000. Based on the 2009 financial statements, the City receipted approximately \$15,500,000; this requires the Clerk-Treasurer's official bond coverage to be \$300,000.

The official bonds for the deputy chief clerk, deputy clerks, city judge, park department employee blanket bond, and mayor's secretary were all set at \$8,500 for 2009 and 2010. Effective July 1, 2009, the minimum bond increased to \$15,000. In addition, the police pension secretary was bonded for 2009 for \$8,500, however; the bond was canceled as of March 2010. Per IC 36-8-6-3(e), the police pension secretary is to be bonded for faithful performance of duties at \$15,000.

Furthermore, the bonds were not recorded with the county recorder.

IC 5-4-1-18(c) states in part:

". . . the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

- (1) The amount of annual coverage must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) The amount of annual coverage may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount of annual coverage for the officer or employee. The amount of annual coverage of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars (\$15,000)."

IC 36-8-6-3(e) states: "The secretary shall, in the manner prescribed by IC 5-4-1, execute a bond conditioned upon the faithful discharge of the secretary's duties."

IC 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . ."

CREDIT CARDS

On December 28, 2004, the Board of Works approved Resolution 2004-08 Authorizing Use of a City Credit Card. The Resolution states in part: ". . . the credit card will be used solely by the Mayor of the City of Lake Station and . . . the credit card shall be used for schools, seminars, lodging and city emergencies only."

The City has a credit card with a line of credit of \$10,000. The City has authorized the Mayor, Clerk-Treasurer, Police Chief, Fire Chief, Public Works Director, and Park Director to have credit cards under the same line of credit. The City pays the credit card from the invoices submitted.

A review of the credit card activity from January 1, 2009 to September 20, 2010, noted the following:

1. The balance due as of August 26, 2010, was \$6,626.54 and payment was due by September 18, 2010. No payments were applied to the credit card account from August 26 to September 20, 2010. Only new charges were posted to the account and as of September 20, 2010, the outstanding balance owed was \$8,987.84.
2. From January 1, 2009 to September 20, 2010, the City has been accessed and paid late fees, finance/interest charges, and over limit fees totaling \$635.94.
3. Payments were made from the invoices which included a tip amount; however, the tip was not subsequently charged to the credit card.
4. Duplicate payments of the same invoices totaling \$570.99 were made.
5. Invoices totaling \$650.15 were paid which were not charges on the credit card.
6. Checks #9579 and #9581, dated December 30, 2009, for \$87.72 and \$20.31, respectively, were payments made to Chase. However, the payments were not noted on the credit card activity as applied credits. The checks did clear the City bank account in January 2010.

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

CONSUMER METER DEPOSITS - WATER UTILITY

The Water Utility requires a consumer meter deposit on all accounts. The meter deposits are to be receipted to a Water Meter Deposit Fund and a Guarantee Deposit Register is to be maintained by customer of all meter deposits on hand. The Guarantee Deposit Register should be reconciled monthly with the cash balance in the Water Meter Deposit Fund.

The Water Utility does not have a Meter Deposit Fund. All meter deposit activity is posted to the Water Utility Operating Fund. Thus, the cash balance of the Operating Fund must be at least, if not greater than the balance of the Guarantee Deposit Register at any given time.

Officials were unable to provide a detail deposit register as of December 31, 2009, with their new software since not all consumer deposits had been entered and a detail report was not created as of that date. However, a balance of customer deposits as of September 20, 2010 was provided. The following calculation of the 2010 balance was made to estimate the December 31, 2009 balance.

Deposit Register Balance, September 20, 2010	\$ 127,881
Less: Deposits Collected, January 1, 2010 to September 21, 2010	(13,160)
Add: Deposits refunded/applied January 1, 2010 to September 21, 2010	<u>12,402</u>
Calculated Register Balance, December 31, 2009	127,123
Water Utility Operating Cash Balance, December 31, 2009	<u>62,352</u>
Amount Needed to Fund Consumer Deposits, December 31, 2009	<u><u>\$ 64,771</u></u>

As of December 31, 2009, the Water Utility Operating Fund's cash balance was less than the calculated register balance; therefore, the Water Utility used customer deposits to fund operations. As of September 21, 2010, the deposit register balance was \$127,881 with the Water Utility operating cash balance at \$66,440, resulting in \$61,441 needed to fund Meter Deposits on hand.

The "Guarantee Deposit Register" Form 314 should be reconciled monthly with the balance in the Meter Deposit Fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

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)

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)

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

CONDITION OF RECORDS - WATER UTILITY AND SANITARY DISTRICT

The Utilities switched billing software as of July 2009. The Customer Billing Registers were not maintained for audit for August through December 2009. The software vendor stated that if the billing history is not saved on the day bills are run, they cannot be reprinted. A test of the July 2009 billing register reflected that customers were under-billed in accordance with the approved water rate ordinance. Officials did not correct the billing until October of 2009. Officials did not bill customers for under billed amounts from July to September 2009.

The accounts receivable report as of December 31, 2009, was not broken down by service type (water, sanitary, or trash); thus, a year end accounts receivable balance for the Water, Sanitary District, and City could not be determined. Officials contacted the software company and determined the report by service type cannot be reprinted for a prior date.

IC 5-15-6-3(d) concerning the removal and destruction of records states:

"No financial records or records relating thereto shall be destroyed until the earlier of the following actions:

1. The audit of the records by the State Board of Accounts has been completed, report filed, and any exceptions set out in the report satisfied.
2. The financial record or records have been copied or reproduced as described in subsection (e)."

DEPOSIT COMPOSITION - CITY COURT

Several instances of cash collections not being deposited intact were noted. In October of 2009, five daily deposits were short \$50 to \$100 of cash. Notations on the daily reports stated that cash was being withheld from the deposits for cash change. The cash withheld from the collections was subsequently deposited; however, a cash change fund should be increased so that cash collections are deposited intact.

IC 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

The establishment of a cash change fund is recommended for each department of a city or town collecting licenses, fees, utility service charges or any other cash revenues. The authority for such fund is IC 36-1-8-2. The fiscal body of the political subdivision must authorize the establishment of the cash change fund. An accounts payable voucher should be filed by the officer or employee who is charged with the duty of collecting the cash revenues for the amount deemed necessary for presentation to the proper board. The amount of the fund must be established by the fiscal body. The accounts payable voucher should contain a statement regarding the necessity for such fund together with the statutory reference authorizing its establishment statement regarding the necessity for such fund together with the statutory reference authorizing its establishment. (The Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS - CITY COURT

As stated in the prior report, court personnel have not reconciled the court cash book to the depository balance since September, 2007. Various old bonds from 2000 to 2007 from the manual bond book have not been entered into the Court View software program. To arrive at a ledger balance at December 31, 2009, court officials quickly determined a balance of the old bonds not entered into Court View which was added to the Court View Bank Balance Listing amount. Based on the calculation at December 31, 2009, the bank balance appears to exceed the ledger balance by \$27,438.16.

IC 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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 Town Courts, Chapter 4)

CASH BONDS – CITY COURT

1. The register of trust funds has not been maintained or reconciled since September 27, 2007.
2. As of September 16, 2010, it was estimated that \$63,671 in cash bonds from 2000 to 2006 have still not been entered into the computerized records.
3. The manual trust register contained numerous items that were unreadable due to white out.
4. Bonds were posted to the court records and deposited in the bank up to 25 days after being collected at the Police Department.
5. The Court Trust Fund includes various bonds from 2001, 2002, and 2003 that should be remitted to the State Attorney General as unclaimed property.

IC 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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)

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for City and Town courts, Chapter 4)

CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

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. (Accounting and Uniform Compliance Guidelines Manual for City and Town courts, Chapter 4)

CAPITAL ASSET RECORDS

The City, Water Utility, and Sanitary District only maintain capital asset records of land and machinery and equipment. Infrastructure, such as roads or water and wastewater pipes, is not included in the capital asset records.

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)

CHRISTMAS BANNER SALES - MAYOR'S OFFICE

The Mayor's office did not issue official receipts at the time of collections for the sale of Christmas banners. The collections were not remitted timely to the Clerk-Treasurer's office. The dates on the copies of the checks for payment ranged from November 25, 2009 to January 5, 2010. The Clerk-Treasurer's official receipt was dated December 31, 2009, and the deposit was taken to the bank on January 6, 2010. In addition, the City Council did not approve the fee for the sale of the Christmas banners.

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)

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PARK RECEIPTS

Collections were deposited up to fourteen days after the receipt was written. In addition, receipts were not properly completed and lacked the necessary information identifying who the collections were received from and the designation of the type of payment.

IC 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . . ."

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)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF LAKE STATION, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Lake Station (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2009. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-03.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

September 27, 2010

CITY OF LAKE STATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2009

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass-Through Indiana Criminal Justice Institute Edward Byrne Memorial Justice Assistance Grant Program	16.738	05-DJ-132	\$ <u>5,000</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	PT-09-04-01-32	<u>15,000</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Disaster #1795	<u>681,910</u>
Total federal awards expended			<u>\$ <u>701,910</u></u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF LAKE STATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Lake Station (City) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

II. Subsequent Events

The City was awarded \$186,183 COPS Hiring Recovery Program, financed with American Recovery and Reinvestment Act (ARRA) funds, through the U.S. Department of Justice during 2009. The City did not start the program until 2010.

The City was awarded \$262,000 Congestion Mitigation and Air Quality (CMAQ) Improvement Program, through the Indiana Department of Transportation in 2010.

CITY OF LAKE STATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2009-01, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. The City's annual report was determined to have improper revenue recognition based on the receipt classifications posted to the City's ledger. It was determined that property tax revenues, interfund loan proceeds, license excise tax, state contributions, and tax anticipation warrant proceeds were posted to the incorrect classification on the unit's ledger which improperly reported the revenues on the City's financial statements. The following details the funds and classifications affected:

CITY OF LAKE STATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

Fund	City Classification	Proper Classification	Total Amount Misclassified
General	License excise tax	Property tax	\$ 1,274,029
	Sources other - misc	Interfund loan proceeds	57,463
Motor Vehicle Highway	State distributions	Property tax	51,818
	License excise tax	Property tax	104,228
Park and Recreation Operating	License excise tax	Property tax	137,248
Ambulance Non-Reverting	Charges for services	Property tax	76,389
		License excise tax	6,710
Park GO Bond	License excise tax	Property tax	62,547
Cumulative Sewer	License excise tax	Property tax	20,599
	Total Governmental Activities		<u>1,791,031</u>
Police Pension	Property tax	State contribution	173,748
	Payroll deduction	State contribution	153,846
	Total Pension Trust		<u>327,594</u>
Sanitary District Bond	Bond	Property tax	297,653
		License excise tax	52,637
		Tax anticipation warrant proceeds	573,364
Water Utility	Metered residential	Interfund loan proceeds	200,000
	Total Enterprise Funds		<u>1,123,654</u>
	Total All		<u>\$ 3,242,279</u>

The Clerk-Treasurer approved adjustments to the financial statements presented herein to reflect the proper revenue classification.

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 objections, 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)

2. The City was notified on July 24, 2009 by the Indiana Department of Local Government Finance (IDLGF) of the 2009 certified budget, rates and levies by receiving the 1782 Notice Notes Report. Per the 1782 Report, the following funds were not provided a budget for 2009:

- a. For the General Fund, IDLGF was unable to verify revenues and the January to June expenditures could not be verified.

CITY OF LAKE STATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

b. For the Ambulance Non-Reverting Fund, IDLGF denied the budget since a budget was not advertised by the City.

c. For the Sanitary District Bond Fund, IDLGF denied the budget since a budget or levy was not advertised. The IDLGF did approve a rate and levy that would raise enough tax revenue for the 2009 bond obligation.

The City had 10 calendar days from receiving the notice to provide a written response to the IDLGF for any errors noticed. The City chose not to respond at that time to restore the budgets which were denied but opted to obtain the additional appropriations. However, the City did not initiate the additional appropriation process during 2009, resulting in the General, Ambulance Non-Reverting, and Sanitary District Bond Funds to not have an appropriation from which a warrant could have been drawn upon.

The City's disbursements exceeded appropriations for the following funds:

Fund	Disbursements in Excess of Approved Appropriations
General	\$ 5,430,877
Ambulance Non-Reverting	158,042
Major Moves Construction	5,600
Park GO Bond	300
Street Lighting	13,336
Police Pension	150,163
Sanitary District Bond	717,007

IC 6-1.1-17-16(d) states:

"Except as provided in subsection (i), IC 20-46, or IC 6-1.1-18.5, the department of local government finance may not increase a political subdivision's budget by fund, tax rate, or tax levy to an amount which exceeds the amount originally fixed by the political subdivision. However, if the department of local government finance determines that IC 5-3-1-2.3(b) applies to the tax rate, tax levy, or budget of the political subdivision, the maximum amount by which the department may increase the tax rate, tax levy, or budget is the amount originally fixed by the political subdivision, and not the amount that was incorrectly published or omitted in the notice described in IC 5-3-1-2.3(b). The department of local government finance shall give the political subdivision written notification specifying any revision, reduction, or increase the department proposes in a political subdivision's tax levy or tax rate. The political subdivision has ten (10) calendar days from the date the political subdivision receives the notice to provide a written response to the department of local government finance's Indianapolis office. The response may include budget reductions, reallocation of levies, a revision in the amount of miscellaneous revenues, and further review of any other item about which, in the view of the political subdivision, the department is in error. The department of local government finance shall consider the adjustments as specified in the political subdivision's response if the response is provided as required by this subsection and shall deliver a final decision to the political subdivision."

CITY OF LAKE STATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

IC 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."

IC 6-1.1-18-5 states in part:

"(a) If the proper officers of a political subdivision desire to appropriate more money for a particular year than the amount prescribed in the budget for that year as finally determined under this article, they shall give notice of their proposed additional appropriation. The notice shall state the time and place at which a public hearing will be held on the proposal. The notice shall be given once in accordance with IC 5-3-1-2(b).

(b) If the additional appropriation by the political subdivision is made from a fund that receives:

- (1) distributions from the motor vehicle highway account established under IC 8-14-1-1 or the local road and street account established under IC 8-14-2-4; or
- (2) revenue from property taxes levied under IC 6-1.1; the political subdivision must report the additional appropriation to the department of local government finance."

IC 6-1.1-18-10(a) states:

"If the proper officers of a political subdivision make an appropriation for an item which exceeds the amount which they are permitted to appropriate under this chapter, they are guilty of malfeasance in office and are liable to the political subdivision in an amount equal to the sum of one hundred and twenty-five percent (125%) of the excess so appropriated and court costs."

IC 36-4-8-2 states in part:

"Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if: (1) an appropriation has been made for that purpose and the appropriation is not exhausted . . ."

3. The City does not utilize purchase orders to encumber/reserve appropriations when purchases are initiated. The nonuse of purchase orders weakens the City's internal controls over ensuring the City has the authority to make purchases and the disbursements are posted to the proper fund. An analysis of the 2009 accounts payable vouchers revealed that 2008 invoices were paid from 2009 appropriations without being properly encumbered. The following schedule reflects the total paid in 2009, by fund, for September to December 2008 invoice dates and the total paid in 2010 for October to December 2009 invoice dates:

CITY OF LAKE STATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

Fund	September to December 2008 Invoice Dates	October to December 2009 Invoice Dates
General	\$ 219,790	\$ 23,467
Motor Vehicle Highway	18,247	163
Local Road and Street	58,075	864
Park and Recreation	8,285	1,719
Ambulance Non-Reverting	4,202	1,163
Street Lighting	7,636	-
Totals	<u>\$ 316,235</u>	<u>\$ 27,376</u>

IC 5-22-18-5(b) states in part:

"Within thirty (30) days after the acceptance of an offer, the purchasing agent shall deliver in person or by first class mail to the successful offeror the original of each purchase order or lease, retain a copy for the purchasing agent's records, and file a copy for public record and inspection as follows: (1) When a purchase or lease is made for a county or municipality, the copy of the purchase order or lease must be filed with the fiscal officer of the unit. . . ."

The purchase order (General Form No. 98) is used in conjunction with City and Town Form No. 209, Ledger of Appropriations, Encumbrances, Disbursements and Balances. Provision is made for certification of an unobligated balance being available in the appropriation from which purchase is to be made, in compliance with the law.

This will require the encumbering of appropriations for each order as it is issued.

It is necessary that all orders pass through the hands of the Clerk-Treasurer, who is responsible for appropriation accounting.

The original will be delivered to the vendor, the duplicate copy filed with the purchasing authority and the triplicate copy filed with the Clerk-Treasurer.

The purchase order number must appear on all invoices and claims or original order prepared by the vendor.

Provision is made on copies for certificate of the party receiving the merchandise. In case of centralized purchasing, a copy should be delivered to the department for execution of this certificate, to be signed and returned to the purchasing authority upon receipt of the merchandise.

Purchase orders issued on bids and contracts must be delivered to the vendor within thirty (30) days after acceptance by the board. [IC 5-22-18-5]

The original copy of a purchase order must be given to the vendor at the time of purchase.

CITY OF LAKE STATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The original purchase order issued to the vendor at the time the purchase is made must accompany the bill or invoice and accounts payable voucher to the department before payment is made, or the number thereof must be shown on the bill or invoice and accounts payable voucher.

An itemized accounts payable voucher covering the purchase must be filed with the department after delivery is made.

It will be observed that there is a sequence of time that must be followed. The order comes first, in the same manner as though an order was being made from a catalog. The Clerk-Treasurer must be advised of the order so that the fund will be encumbered and not obligated more than once. The bill or invoice and accounts payable voucher must be fully prepared, not just a statement of account.

It is to the advantage of the Clerk-Treasurer to know at all times what purchases have been entered into and how the appropriation ledger stands, for purposes of anticipating the year's needs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

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)

We recommended officials establish procedures to ensure receipts are posted to the proper accounts on the City's ledgers so the financial statements prepared will recognize the proper revenue classification. We also recommended officials ensure the proper authority to disburse funds per Indiana Code are granted to the City and to begin the process of using purchase orders to encumber/reserve appropriations before all purchases are initiated.

FINDING 2009-2, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not prepare a Schedule of Federal Grant Receipts and Disbursements for 2009. The City did not ensure that the appropriate employees had the federal grant information or adequate training, nor did they take advantage of available opportunities to seek the guidance necessary, to prepare a schedule of expenditures of Federal awards. Adequate internal control over reporting of Federal awards requires that employees be aware of the applicable requirements and that they have the requisite knowledge and skills to prepare accurate schedules. In addition, adequate internal control requires sufficient supervision and oversight by management and the governing bodies to ensure accurate reporting of Federal awards.

IC 36-4-8-15 states: "Each city agency, board, commission, district, or other city entity shall file one (1) copy of that agency's, board's, commission's, district's, or entity's financial records with the city fiscal officer."

Circular No. A-133, Audit of States, Local Governments, and Non-Profit Organizations, Subpart C, has the following requirements for grantees:

CITY OF LAKE STATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.

§___.310 Financial statements.

- (b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately.

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)

We recommended that officials implement procedures to adequately identify and accurately report all Federal award programs.

Section III – Federal Award Findings and Questioned Costs

FINDING 2009-3, ACCOUNTING RECORDS, DISASTER GRANTS - PUBLIC ASSISTANCE

Federal Agency: U.S. Department of Homeland Security
Federal Program: Disaster Grants - Public Assistance (Presidentially Declared Disasters)
CFDA Number: 97.036
Pass-through: Indiana Department of Homeland Security
Award Number: Disaster #1795

The Disaster Grants are to provide assistance to local governments following a Presidential declaration of a major disaster or an emergency. From September through October 2008, the City experienced damage due to floodwaters from severe storms. The public assistance program awards are made based upon a Project Worksheet (PW) which details the eligible scope and related costs of the

CITY OF LAKE STATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

work for the cleanup and repairs due to storm damage. The PW's were not completed until February 2009 and included both actual and estimated allowable costs. The City is then reimbursed 75% of the eligible amounts once supporting documentation of the payment for the allowable costs are provided to the State.

The reimbursements received should be receipted back to the fund from which the allowable costs were originally disbursed. A verification of the PW's costs to the City's ledgers indicated the reimbursements were not posted to the same fund the related cost was disbursed from. The following table details, by project, the receipt amounts not posted properly and to what fund the reimbursement should have been posted to.

Project Number	Fund Received To	Fund Reimbursement Should Have Been Posted	Amount
PW-00182	Motor Vehicle Highway	Rainy Day	\$ 6,146.85
	Water	Rainy Day	1,882.18
	Sewer	Rainy Day	7,302.43
	Streets & Sanitation Clothing	Motor Vehicle Highway	2,107.57
PW-00717	Motor Vehicle Highway	Rainy Day	5,417.67
	Sewer	Motor Vehicle Highway	8.47
		Local Road & Streets	466.65
PW-00721	General	Ambulance Non-Reverting	4,656.92
PW-00734	General	Rainy Day	31,115.20
PW-00759	Parks	General	2,094.38
		Motor Vehicle Highway	425.25
PW-00829	Sewer	General	23,031.68
		Rainy Day	1,742.25
PW-00792	Sewer	Rainy Day	<u>9,178.55</u>
		Total	<u>\$ 95,576.05</u>

Furthermore, in 2008, the City posted \$107,661.95 of disbursements relating to the flood to the Rainy Day Fund. A comparison of the vendor disbursements posted to the Rainy Day Fund to the Project Worksheets (PW) determined that \$21,868.58 of those disbursements were not included in the Project Worksheets as eligible costs for reimbursement. In addition to the amounts noted in the above table, \$20,548.27 of payroll overtime disbursements, representing the 25% local match, will have to be reimbursed from other City funds. Therefore, the City needs to transfer funds from the General, Motor Vehicle Highway, Park and Recreation, Water and Sewer Funds in amounts of \$27,260.61, \$3,854.84, \$606.76, \$627.39 and \$10,067.25, respectively, to reimburse the Rainy Day Fund.

CITY OF LAKE STATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

CFR 44 § 13.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

We recommended the City establish internal controls to ensure the grant reimbursements are posted to the fund which disbursed the eligible costs and the proper associated costs for reimbursements are easily identifiable in the accounting records.

CITY OF LAKE STATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



3701 Fairview Ave. Lake Station, IN 46405
Phone: (219) 962-3111 Fax: (219) 963-9275
Clerk-Treasurer: Brenda Samuels

**CITY OF LAKE STATION
CORRECTIVE ACTION PLAN**

2009 Financial Statement Findings By State Board of Accounts

Auditee Contact Person/Title: Brenda Samuels, Clerk-Treasurer
Keith Soderquist, Mayor

Phone No.: 219-962-3111

**FINDING NO. 2009-01: INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS
AND REPORTING**

1. Various different revenues posted to the incorrect classification on the City's ledger resulting in incorrect reporting of the revenues on the financial statements.

Corrective Action

All revenues are posted to the correct classification and all revenue postings by staff are reviewed for correctness by Clerk-Treasurer. Written protocol explains proper posting procedure and staff is provided a copy and instructed as to correct posting procedures and any errors are corrected immediately.

2. Failure to meet deadlines for responding to 1782 Report from the DLGF regarding lack of approved budgets for 2009 for several City funds, failure to obtain the resultant necessary additional appropriations for those funds, and disbursing money from those funds anyway.

Corrective Action

All deadlines concerning the budgeting process are identified in writing before beginning the budget process and a written schedule is prepared identifying the date each required step in the budgeting process will occur. The schedule is distributed to all office holders and department heads. Budgeting work is scheduled so that all necessary items are completed as scheduled and all deadlines met up to and including submitting levy and budget documentation to DLGF for

review and approval. The Clerk-Treasurer promptly and timely responds in writing to all DLGF correspondence.

No disbursements are made unless there is an appropriation in place with a remaining balance of at least the amount of the requested disbursement. The City's accounting is programmed to issue a warning if a disbursement in excess of appropriation is attempted. The Clerk-Treasurer performs monthly reviews of appropriation reports to verify compliance. Department heads are routinely provided appropriation reports for their respective departments so that they are knowledgeable about the appropriation balances remaining in the various line items of their respective approved budgets. Department heads are instructed on how to request intrafund transfers.

3. City does not utilize purchase orders to encumber/reserve appropriations when purchases are initiated.

Corrective Action

The City will use purchase orders when initiating purchases in order to encumber/reserve appropriations. Written protocols specifying who can initiate a purchase, the necessary process and procedure that needs to be followed to make a purchase, and the forms that need to be used shall be drafted. All authorized personnel shall be instructed on the proper use of the purchasing process, procedures, and forms. Except in the unusual instance where an emergency requires otherwise, no disbursement for a purchase will be allowed by the Clerk-Treasurer unless a purchase order has been properly completed and approved and the appropriation in the appropriate budget line item has been encumbered in the amount of the purchase order. Any invoice received in the succeeding year against an encumbered balance carried over from the previous year will be charged against the carried over encumbered balance.

FINDING 2009-2: SCHEDULE FO EXPENDITURES OF FEDERAL AWARDS

The City did not prepare a Schedule of Federal Grant Receipts and Disbursements for 2009. The City did not ensure that the appropriate employees had received the federal grant information, adequate training to prepare an appropriate Schedule of Federal Grant Receipts and Disbursements, or adequate supervision monitoring compliance with grant requirements. All of the necessary financial records of all City agencies, boards, commissions, districts, and entities were not filed with the Clerk-Treasurer.

Corrective Action

An appropriate Schedule of Federal Grant Receipts and Disbursements shall be prepared for each federal grant through which the City receives grant funds and management will prepare and provide all appropriate employees with the grant information and adequate training to insure they have the knowledge necessary to comply with all grant requirements, including preparation and maintenance of all necessary records and a Schedule of Grant Receipts and Disbursements. The

Mayor and/or Clerk-Treasurer will monitor compliance with all grant requirements. All of the financial records of all City agencies, boards, commissions, districts, and entities, including those related to federal grants, shall be filed with the Clerk-Treasurer.

FINDING 2009-3: ACCOUNTING RECORDS, DISASTER GRANTS-PUBLIC ASSISTANCE

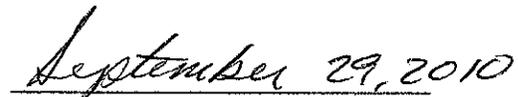
Federal Agency: U.S. Department of Homeland Security
Federal Program: Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA Number: 97.036
Pass-through: Indiana Department of Homeland Security
Award Number: Disaster #1795

The City failed to receipt and post the grant reimbursements to the funds from which the allowable costs were originally disbursed. The City disbursed some grant funds for expenditures not included on the approved Project Worksheet.

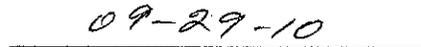
Corrective Action

All grant reimbursements shall be receipted and posted to the funds from which the allowable costs were originally disbursed. The City will only disburse grant funds for authorized costs and will promptly reimburse any unauthorized disbursements upon becoming aware of such. To simplify compliance, to the extent reasonably practical, the City will establish a separate fund for each grant to be used to account for all disbursements and receipts regarding a particular grant. Appropriate written protocols regarding making and posting disbursements and posting grant receipts will be prepared and disseminated to all personnel involved in managing the implementation of a grant. The Clerk-Treasurer will monitor compliance with all accounting requirements of each grant. The Mayor and Clerk-Treasurer will monitor compliance by City personnel with all other grant requirements.


Keith Soderquist, Mayor


Date


Brenda Samuels, Clerk-Treasurer


Date

CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on September 29, 2010, with Keith Soderquist, Mayor; Brenda Samuels, Clerk-Treasurer; and James Meyer, Sanitary District Attorney. The official response has been made a part of this report and may be found on pages 68 through 73.



3701 Fairview Ave. Lake Station, IN 46405
Phone: (219) 962-3111 Fax: (219)963-9275
Clerk-Treasurer: Brenda Samuels

"OFFICIAL RESPONSE"

October 8, 2010

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

Mary Jo Small
msmall@sboafe.in.gov

RE: SBOA exit conference of 09/29/10
For the calendar year 2009

Responses

1) FINANCIAL REPORT OPINION MODIFICATIONS

This is an inherited problem from the previous administration but the City has engaged the HJ Umbaugh and Associates, financial consultants, to assist the City to determine and implement the viable options to eliminate the General Fund deficit as quickly as reasonably possible.

2) REVENUE CLASSIFICATION

We have already approved the adjustments to the 2009 financial statements as suggested by the State Board of Accounts. We are adjusting our Revenue classification listing and disseminating that information to the appropriate personnel to assure all future postings will be to the proper revenue classifications.

3) DISBURSEMENTS EXCEED APPROPRIATIONS

A) For reasons that are not known at this time, the proper procedures for adopting an additional appropriation after the 1782 Notice were not completed and it is too late to address

the problem for 2009. We have since followed the proper budget adoption procedures for 2010 and are doing so for 2011. We will not allow expenditures in excess of appropriations.

B) The ambulance Non-Reverting Fund was advertised in two local newspapers along with the City's budget. Advertisement was in the Post-Tribune on 11/03/08 and 11/08/08, and The Times on 11/04/08 and 11/07/08. Copies attached.

C) We were unaware the Sanitary District Bond Fund had not been advertised properly, and when made aware immediately contacted a consultant to work with the DLGF to get the existing obligation bond rate and levy approved to pay the 2009 bond payment.

4) NONUSE OF PURCHASE ORDERS

We have already started taking steps to start adopt policies for creation and implementation of the purchase order system within our current software. We are seeking advice on implementing the "procedure" process for all departments within the City.

5) OVERDRAWN CASH BALANCES

The overdrawn cash balance of the General fund existed when we took office and we have hired HJ Umbaugh and Associates to help us rectify the overdrawn condition of this fund over a reasonable amount of time. Most of the other items mentioned were posted to incorrect accounts due to clerical error; they will be adjusted to the correct accounts before the end of the year; and I am taking steps and implementing measures to minimize the possibility of this happening in the future.

6) BANK RECONCILEMENT

The bank account was not in balance when I took office in 2008. Although I have found what some of the errors were in the total of \$3,809.07, I believe most occurred within the process the City had at the time when transferring payroll to the budget system within the Keystone software. Since that time, we have implemented an additional module of Keystone called "clearing", which has rectified this problem. Since that time, I have balanced all checkbooks to the penny. I will take measures to adjust the \$3,809.07 based on the identifiable correction issues. I will also address the issue of canceling old checks outstanding in excess of two years and try to have this rectified before the end of the year.

7) TEMPORARY TRANSFER OF FUNDS

We were unaware we needed an ordinance or resolution for temporary transfer of funds since it had historically been done without such formalities but I will make sure the proper procedures are followed in the future if the need arises.

8) PAYROLL

- 1) The mayor will submit a signed payroll status form for each employee of the city as to what they are to be paid and the original will be placed in the employee personnel file.
- 2) The mayor will submit a signed payroll status form for each employee of the city as to what they are to be paid and the original will be placed in the employee personnel file.
- 3) As we rolled out the new Garbage Pick-up system midyear, the mayor had an employee do other duties. This employee had several responsibilities and as the responsibilities crossed over from one department to another, the salary was also adjusted and paid from each department. The employee's total pay did not exceed the amount in the Refuse line as approved by the City Council.

The Hearing Authority only meets when required, i.e. when business in on their agenda.

To the best we can establish, no prior mayor had their lease vehicle added to their Form W-2. Now being made aware of this, we will take the proper corrective measures in payroll.

9) ACCOUNTS PAYABLE VOUCHERS

We had been using a notice received from one of my classes at Clerk Treasurer's school (copy attached to payable voucher), which stated "After June 30, 2008, you may deduct 58.5 cents per mile for business use." Through inadvertence, we were unaware this had changed until advised by the State Board of Accounts. Going forward, we will check the IRS website each time a voucher is submitted for reimbursement to make sure we are paying the proper rate.

We will re-check all future accounts payable voucher registers to assure all vouchers are listed.

I did not sign each Park voucher, as they are on the accounts payable vouchers and registers I sign and are submitted to the Board of Works for approval. After discussion with the State Board of Accounts, I will do a separate accounts payable voucher register for the Park. A couple of Park payables were submitted accidentally on the "white" standard voucher (not the "green" Park voucher) and, therefore, were not submitted to the Park Board for approval. I have informed those responsible for submitting the vouchers to my office for payment that the Park payables "must" be on a "green" payable voucher, which also insures they will then be submitted to the Park Board for approval.

10) OFFICIAL BONDS

When I took office, I continued the Clerk Treasurer's bond for the amount the previous Clerk Treasurer had. I was unaware of the increase of July 1, 2009. Being made aware, I've already contacted the proper vendor to get the bond updated to the correct amount.

The same is true for the regular bonds for the clerks, judge, park and mayor's secretary. I was also unaware that the Police Pension secretary needed a bond when they were not being paid for those duties. Being made aware of these issues, I've already contacted the proper vendor to get the bonds updated to the correct amount and to have the Police Pension secretary bond reissued.

According to my records, the Clerk Treasurer's bond was the only one that had ever been recorded. Being made aware "all" bonds need to be recorded. I will make sure all future bonds are recorded, not just the Clerk Treasurer's.

11) CREDIT CARDS

- 1 & 2 -- All monthly statements will be completed and paid on time avoiding any fees and the credit card will only be available when necessary.
- 3 We will continue to only pay the amount on the statement.
- 4 No duplicate payments will be made.
- 5 Payments will only be made based on a charge on the credit card.
- 6 The city will make sure that credits are given and that all payments are applied.

12) CONSUMER METER DEPOSITS – WATER UTILITY

The Water Utility did start utilizing new software which has created a few issues with obtaining the necessary reports but are now aware of when and how they must generate these reports. We are taking the necessary steps to create a Water Meter Deposit fund and a Guarantee Deposit Register, and will assign a person to be responsible for reconciling them on a monthly basis via Form 314. We will also take the necessary steps to get the actual Water Meter Deposit fund balance up to the "calculated" balance.

13) CONDITION OF RECORDS – WATER UTILITY AND SANITARY DISTRICT

The city obtained new software in July 2009, and were unaware there was no option to print the required reports unless done so the same day. Being made aware, all reports will be generated in a timely manner. The city will investigate rebilling customers that were not billed correctly.

Appropriate steps will be taken to make sure the Utility software system will generate accounts receivable reports broken down by service type.

14) DEPOSIT COMPOSITION – CITY COURT

See attached response from Judge Anderson.

15) BANK ACCOUNT RECONCILIATIONS – CITY COURT

See attached response from Judge Anderson.

16) CASH BONDS – CITY COURT

See attached response from Judge Anderson.

17) CAPITAL ASSET RECORDS

The City has been working on the proper steps to establish the Capital Asset Inventory for Infrastructure which may take some time as there has never been a listing on file at the City.

18) CHRISTMAS BANNER SALES – MAYOR'S OFFICE

Receipts were used and given for each payment with the payment attached to each receipt. However, the City will use receipts approved by the State Board of Accounts in the future. All payments received will be promptly given to the Clerk Treasurer's office for deposit and will be deposited in a timely manner.

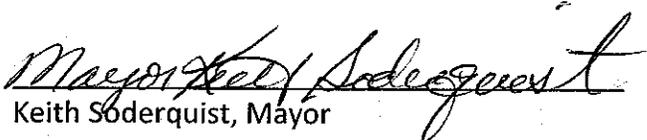
19) PARK RECEIPTS

Department personnel will be instructed to deposit all funds within 24 hours of receiving. All receipts will be properly completed. The Clerk Treasurer's office will monitor compliance.

Respectfully submitted,



Brenda Samuels, Clerk Treasurer



Keith Soderquist, Mayor



3625 Central Ave. Lake Station, IN 46405
Phone: (219) 962-2145 Fax: (219)962-1080
Judge: Christopher A. Anderson

October 8, 2010

Moving forward, the City Court will address each of the issues that were listed in the State Board of Accounts Audit for 2009. The City Court is in the process of entering the old cases into Courtview and applying the bonds so that the Manual Trust Register matches the computerized version. The City Court is also in the process of remitting the bonds from 2001, 2002, and 2003 to the State Attorney General as unclaimed property.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ch A A".

Judge Christopher Anderson