

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

EXAMINATION REPORT

OF

CITY OF LAKE STATION

LAKE COUNTY, INDIANA

January 1, 2010 to December 31, 2010



**FILED**  
10/25/2011



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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	Todd Rogers John McDaniel	01-01-10 to 12-31-10 01-01-11 to 12-31-11
President of the Board of Sanitary District Commissioners	Willie Westmoreland	01-01-10 to 12-31-11
Street Superintendent	Raymond Ostrander	01-01-10 to 12-31-11
Judge	Christopher Anderson	01-01-08 to 12-31-11



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial statement of the City of Lake Station (City), for the period of January 1, 2010 to December 31, 2010. The City's management is responsible for the financial statement. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2010, on the basis of accounting described in Note 1.

The accompanying financial statement has been prepared assuming that the City will continue as a going concern. As discussed in Note 7 to the financial statement, 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 7. The financial statement does not include any adjustments that might result from the outcome of this uncertainty.

The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis and the Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the examination procedures applied to the financial statement and, accordingly, we express no opinion on them.

INDEPENDENT ACCOUNTANT'S REPORT  
(Continued)

The City's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine 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 and City Council, 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 20, 2010

FINANCIAL STATEMENT

CITY OF LAKE STATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2010

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General Fund	\$ (1,995,148)	\$ 7,632,267	\$ 7,488,081	\$ (1,850,962)
Motor Vehicle Highway	210,380	964,761	1,052,900	122,241
Local Road And Street	128,686	311,937	112,106	328,517
Park Non-Reverting Fund	115,455	-	115,422	33
Alcohol Program Monitor	-	2,811	2,750	61
Ambulance Donation Fund	125	-	-	125
Police K9 Donation	116	2,150	-	2,266
Economic Development	13,183	4,725	681	17,227
Police Donation Fund	422	-	277	145
Refuse Department	-	675,779	669,822	5,957
Compost	(151,028)	416,822	257,401	8,393
Local Law Enforcement Continuing Education	5,395	14,918	5,855	14,458
Clerk's Record Perpituat	13,412	1,102	5,000	9,514
Deferral - Police	15,936	-	12,112	3,824
Unsafe Building Non-Rever	10,001	-	6,712	3,289
Riverboat Infrastructure	609,210	203,459	584,654	228,015
Park And Recreation Fund	22,381	612,519	501,719	133,181
Users Fee-L.S. Cont Ed	683	4,360	4,747	296
Firefighters Grant	31	-	-	31
Park Donation Fund	3,754	1,730	3,000	2,484
Streets And Sani Clothing	49	4,590	4,274	365
Sewage	263,396	996,089	1,257,739	1,746
Fire Donation	822	-	-	822
Fire Hazardous Non-Revert	15,398	1,760	7,000	10,158
Ambulance Non-Reverting	175,297	361,908	534,347	2,858
Police Insurance Repair	13,216	-	13,000	216
Rainy Day	(107,662)	107,662	-	-
Cops	-	17,926	17,926	-
Drug Seizure Monies	(942)	39,340	38,398	-
Drunk Driving /Blitz Fund	97	68,705	68,461	341
Major Moves Construction	148,889	-	20,000	128,889
Court Cost Due County	-	39,770	36,468	3,302
Police Dept Vests	2,030	10,545	12,545	30
Civic Center	79,469	-	23,553	55,916
Municipal Bond	-	176,829	176,050	779
Park Go	76,853	113,053	151,590	38,316
Park Security Dep	114	12,390	12,200	304
Street Lighting Fund	(45,904)	325,398	279,494	-
Cumulative Sewage Fund	150,099	55,523	-	205,622
Municipal Complex	7,140	2,600,100	233,615	2,373,625
Cumulative Capital Improv	226,363	40,839	47,527	219,675
Park Capital Improve.Fund	633	-	463	170
Grand Blvd Lake Enhan	6,796	4,800	10,000	1,596
Police Pension Fund	187,068	436,166	337,580	285,654
Pay-Dd-Net	31,597	3,928,941	3,916,313	44,225
Employees Health Ins.	(390,969)	437,172	45,461	742
Sanitary Dist Operating	33,209	2,240,659	2,237,681	36,187
Sanitary Dist - Bond	197,648	850,975	1,015,635	32,988
Water Utility Operating	62,352	1,029,769	1,089,391	2,730
City Court	266,314	621,347	598,639	289,022
Totals	<u>\$ 402,366</u>	<u>\$ 25,371,596</u>	<u>\$ 23,008,589</u>	<u>\$ 2,765,373</u>

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

CITY OF LAKE STATION  
NOTES TO FINANCIAL INFORMATION

Note 1. 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 some or all of 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, trash, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City (primary government), and does not include financial information for any of the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the City (primary government.)

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts may include, but are not limited to, the following sources:

Taxes, which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax county adjusted gross income tax, and other taxes that are set by the City.

Special assessments which include amounts levied against certain properties to defray all or part of the cost of a specific capital improvement or service deemed to benefit primarily those properties.

License and permits which includes amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the

CITY OF LAKE STATION  
NOTES TO FINANCIAL INFORMATION  
(Continued)

permit. Examples of license and permits include: peddler licenses; dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits; and gun permits.

Intergovernmental receipts which includes receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts includes, but is not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records; copy machine charges; accident report copies, gun permit applications, 911 telephone services; recycling fees, dog pound fees; emergency medical service fees, park rental fees; swimming pool receipts; cable tv receipts; ordinance violations; fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which includes receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Net proceeds from borrowings which includes receipts from general obligation bonds, notes and loans.

Intergovernmental loan activity which includes amounts received from other funds as loans on a temporary basis.

Transfers in which includes funds authorized by statute, ordinance, resolution or court order to be transferred in from another fund.

Utility receipts which are comprised mostly of charges for current services.

Internal service receipts which are comprised mostly of fees received for services performed for other funds.

Fiduciary receipts which are comprised mostly of contributions to the pensions funds from state and local sources.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services which includes outflows for salaries, wages and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

CITY OF LAKE STATION  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Supplies which includes articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which includes, but is not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance; and rental charges.

Debt service principle and interest which includes fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which includes all outflows for land, infrastructure, buildings, improvements, machinery and equipment having an appreciable and calculable period of usefulness.

Interfund loan payments and loans made which includes amounts that are owed to a particular fund by another fund.

Transfers out which includes funds authorized by statute, ordinance, resolution or court order to be transferred to another fund.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

CITY OF LAKE STATION  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be 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.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the City by recording as a disbursement and replacement items purchased.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to

CITY OF LAKE STATION  
NOTES TO FINANCIAL INFORMATION  
(Continued)

the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan 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.

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.

C. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is 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.

CITY OF LAKE STATION  
NOTES TO FINANCIAL INFORMATION  
(Continued)

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.

Note 7. Other Information

Contingent Liabilities

The City has been named as a defendant in several pending lawsuits of which the outcome and the amount of potential damages have 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 in the amount of \$960,000. The City is appealing.

Current and Future Financial Considerations

At December 31, 2010, the City's overall net cash and investment balance (without the City Court and the Municipal Complex Fund) was \$102,726 with the General Fund cash and investment balance at a negative \$1,850,962. The remaining balance of 2010 property tax collections received in 2011, less tax anticipation warrants outstanding at year end were not enough 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 2011. The estimated tax and miscellaneous revenue for 2011 totaled \$5,313,250. The Mayor, through

CITY OF LAKE STATION  
 NOTES TO FINANCIAL INFORMATION  
 (Continued)

his executive powers, reduced the 2011 City Council approved General Fund budget to \$4,680,655. Although the budget includes a significant increase in estimated revenue in 2011 as compared to 2010, which would cover current year appropriations, as of September 8, 2011, the City has only collected 50 percent of the estimated revenue to fund those appropriations. The IDLGF approved \$1,158,381 in appropriations for the General Fund in 2011.

The estimated cash balance of the General Fund, excluding vendor payments from September 9 to December 31, 2011, was determined to be approximately a \$2,400,000 deficit balance at December 31, 2011, as determined below:

	<u>General Fund</u>
Actual Cash Balance at September 8, 2011	\$ (1,030,383)
Remaining tax collections (90% tax collection rate)	1,643,021
Other taxes (FIT, Excise, etc.)	109,973
Estimated payroll and related benefits disbursements	(972,629)
Outstanding Tax Anticipation Warrant	(2,162,293)
Estimated Cash Balance at December 31, 2011	\$ (2,412,311)

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report can be found on the Indiana Transparency Portal website: [www.in.gov/itp/annual\\_reports/](http://www.in.gov/itp/annual_reports/).

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010

	General Fund	Motor Vehicle Highway	Local Road And Street	Park Non-Reverting Fund	Alcohol Program Monitor	Ambulance Donation Fund	Police K9 Donation
Cash and investments - beginning	\$ (1,995,148)	\$ 210,380	\$ 128,686	\$ 115,455	\$ -	\$ 125	\$ 116
Receipts:							
Taxes	2,871,218	222,629	-	-	-	-	-
Licenses and permits	120,362	-	-	-	-	-	-
Intergovernmental	49,113	28,783	13,795	-	-	-	-
Charges for services	295,733	353,324	298,083	-	-	-	-
Fines and forfeits	163,943	-	-	-	2,811	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	4,131,898	360,025	59	-	-	-	2,150
Total receipts	<u>7,632,267</u>	<u>964,761</u>	<u>311,937</u>	<u>-</u>	<u>2,811</u>	<u>-</u>	<u>2,150</u>
Disbursements:							
Personal services	2,855,392	517,324	-	-	2,750	-	-
Supplies	128,176	118,145	102,632	-	-	-	-
Other services and charges	2,858,534	301,243	-	115,422	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	114,215	29,188	9,474	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,531,764	87,000	-	-	-	-	-
Total disbursements	<u>7,488,081</u>	<u>1,052,900</u>	<u>112,106</u>	<u>115,422</u>	<u>2,750</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>144,186</u>	<u>(88,139)</u>	<u>199,831</u>	<u>(115,422)</u>	<u>61</u>	<u>-</u>	<u>2,150</u>
Cash and investments - ending	<u>\$ (1,850,962)</u>	<u>\$ 122,241</u>	<u>\$ 328,517</u>	<u>\$ 33</u>	<u>\$ 61</u>	<u>\$ 125</u>	<u>\$ 2,266</u>

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Economic Development	Police Donation Fund	Refuse Department	Compost	Local Law Enforcement Continuing Education	Clerk's Record Perpetuati	Deferral - Police
Cash and investments - beginning	\$ 13,183	\$ 422	\$ -	\$ (151,028)	\$ 5,395	\$ 13,412	\$ 15,936
Receipts:							
Taxes	4,725	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	645,778	-	14,918	-	-
Fines and forfeits	-	-	-	-	-	1,102	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	30,001	416,822	-	-	-
Total receipts	<u>4,725</u>	<u>-</u>	<u>675,779</u>	<u>416,822</u>	<u>14,918</u>	<u>1,102</u>	<u>-</u>
Disbursements:							
Personal services	-	-	222,385	-	-	-	-
Supplies	-	-	38,793	-	-	-	12,112
Other services and charges	681	277	7,188	257,401	5,855	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	401,456	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	5,000	-
Total disbursements	<u>681</u>	<u>277</u>	<u>669,822</u>	<u>257,401</u>	<u>5,855</u>	<u>5,000</u>	<u>12,112</u>
Excess (deficiency) of receipts over disbursements	<u>4,044</u>	<u>(277)</u>	<u>5,957</u>	<u>159,421</u>	<u>9,063</u>	<u>(3,898)</u>	<u>(12,112)</u>
Cash and investments - ending	<u>\$ 17,227</u>	<u>\$ 145</u>	<u>\$ 5,957</u>	<u>\$ 8,393</u>	<u>\$ 14,458</u>	<u>\$ 9,514</u>	<u>\$ 3,824</u>

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Unsafe Building Non-Rever	Riverboat Infrastructure	Park And Recreation Fund	Users Fee-L.S. Cont Ed	Firefighters Grant	Park Donation Fund	Streets And Sani Clothing
Cash and investments - beginning	\$ 10,001	\$ 609,210	\$ 22,381	\$ 683	\$ 31	\$ 3,754	\$ 49
Receipts:							
Taxes	-	203,459	150,237	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	4,079	-	-	-	-
Charges for services	-	-	33,798	-	-	-	-
Fines and forfeits	-	-	-	4,360	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	424,405	-	-	1,730	4,590
Total receipts	<u>-</u>	<u>203,459</u>	<u>612,519</u>	<u>4,360</u>	<u>-</u>	<u>1,730</u>	<u>4,590</u>
Disbursements:							
Personal services	-	-	177,787	-	-	-	-
Supplies	-	-	19,729	-	-	-	4,274
Other services and charges	6,712	384,654	286,619	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	13,954	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	200,000	3,630	4,747	-	3,000	-
Total disbursements	<u>6,712</u>	<u>584,654</u>	<u>501,719</u>	<u>4,747</u>	<u>-</u>	<u>3,000</u>	<u>4,274</u>
Excess (deficiency) of receipts over disbursements	<u>(6,712)</u>	<u>(381,195)</u>	<u>110,800</u>	<u>(387)</u>	<u>-</u>	<u>(1,270)</u>	<u>316</u>
Cash and investments - ending	<u>\$ 3,289</u>	<u>\$ 228,015</u>	<u>\$ 133,181</u>	<u>\$ 296</u>	<u>\$ 31</u>	<u>\$ 2,484</u>	<u>\$ 365</u>

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Sewage	Fire Donation	Fire Hazardous Non-Revert	Ambulance Non-Reverting	Police Insurance Repair	Rainy Day
Cash and investments - beginning	\$ 263,396	\$ 822	\$ 15,398	\$ 175,297	\$ 13,216	\$ (107,662)
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	80,199	-	1,760	361,908	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	915,890	-	-	-	-	107,662
Total receipts	<u>996,089</u>	<u>-</u>	<u>1,760</u>	<u>361,908</u>	<u>-</u>	<u>107,662</u>
Disbursements:						
Personal services	385,349	-	-	141,976	-	-
Supplies	286,695	-	-	26,047	-	-
Other services and charges	136,328	-	-	23,054	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	79,367	-	-	2,973	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	370,000	-	7,000	340,297	13,000	-
Total disbursements	<u>1,257,739</u>	<u>-</u>	<u>7,000</u>	<u>534,347</u>	<u>13,000</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(261,650)</u>	<u>-</u>	<u>(5,240)</u>	<u>(172,439)</u>	<u>(13,000)</u>	<u>107,662</u>
Cash and investments - ending	<u>\$ 1,746</u>	<u>\$ 822</u>	<u>\$ 10,158</u>	<u>\$ 2,858</u>	<u>\$ 216</u>	<u>\$ -</u>

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Cops	Drug Seizure Monies	Drunk Driving /Blitz Fund	Major Moves Construction	Court Cost Due County	Police Dept Vests
Cash and investments - beginning	\$ -	\$ (942)	\$ 97	\$ 148,889	\$ -	\$ 2,030
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	17,926	-	68,705	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	17,167	-	-	39,770	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	22,173	-	-	-	10,545
<b>Total receipts</b>	<b>17,926</b>	<b>39,340</b>	<b>68,705</b>	<b>-</b>	<b>39,770</b>	<b>10,545</b>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	38,398	-	-	-	12,545
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	20,000	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	17,926	-	68,461	-	36,468	-
<b>Total disbursements</b>	<b>17,926</b>	<b>38,398</b>	<b>68,461</b>	<b>20,000</b>	<b>36,468</b>	<b>12,545</b>
Excess (deficiency) of receipts over disbursements	-	942	244	(20,000)	3,302	(2,000)
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 341</u>	<u>\$ 128,889</u>	<u>\$ 3,302</u>	<u>\$ 30</u>

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Civic Center	Municipal Bond	Park Go	Park Security Dep	Street Lighting Fund	Cumulative Sewage Fund
Cash and investments - beginning	\$ 79,469	\$ -	\$ 76,853	\$ 114	\$ (45,904)	\$ 150,099
Receipts:						
Taxes	-	-	113,053	-	-	35,523
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	16,423	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	160,406	-	12,390	325,398	20,000
Total receipts	<u>-</u>	<u>176,829</u>	<u>113,053</u>	<u>12,390</u>	<u>325,398</u>	<u>55,523</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	7,415	121,050	29,042	-	78,435	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	122,548	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	16,138	55,000	-	12,200	201,059	-
Total disbursements	<u>23,553</u>	<u>176,050</u>	<u>151,590</u>	<u>12,200</u>	<u>279,494</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(23,553)</u>	<u>779</u>	<u>(38,537)</u>	<u>190</u>	<u>45,904</u>	<u>55,523</u>
Cash and investments - ending	<u>\$ 55,916</u>	<u>\$ 779</u>	<u>\$ 38,316</u>	<u>\$ 304</u>	<u>\$ -</u>	<u>\$ 205,622</u>

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Municipal Complex	Cumulative Capital Improv	Park Capital Improve.Fund	Grand Blvd Lake Enhan	Police Pension Fund	Pay-Dd-Net
Cash and investments - beginning	\$ 7,140	\$ 226,363	\$ 633	\$ 6,796	\$ 187,068	\$ 31,597
Receipts:						
Taxes	2,600,100	-	-	-	424,400	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	40,839	-	-	11,766	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	-	4,800	-	3,928,941
Total receipts	<u>2,600,100</u>	<u>40,839</u>	<u>-</u>	<u>4,800</u>	<u>436,166</u>	<u>3,928,941</u>
Disbursements:						
Personal services	-	-	-	-	600	-
Supplies	-	-	-	-	-	-
Other services and charges	-	18,797	-	-	336,980	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	133,615	28,730	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	100,000	-	463	10,000	-	3,916,313
Total disbursements	<u>233,615</u>	<u>47,527</u>	<u>463</u>	<u>10,000</u>	<u>337,580</u>	<u>3,916,313</u>
Excess (deficiency) of receipts over disbursements	<u>2,366,485</u>	<u>(6,688)</u>	<u>(463)</u>	<u>(5,200)</u>	<u>98,586</u>	<u>12,628</u>
Cash and investments - ending	<u>\$ 2,373,625</u>	<u>\$ 219,675</u>	<u>\$ 170</u>	<u>\$ 1,596</u>	<u>\$ 285,654</u>	<u>\$ 44,225</u>

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Employees Health Ins.	Sanitary Dist Operating	Sanitary Dist - Bond	Water Utility Operating	City Court	Totals
Cash and investments - beginning	\$ (390,969)	\$ 33,209	\$ 197,648	\$ 62,352	\$ 266,314	\$ 402,366
Receipts:						
Taxes	-	-	-	-	-	6,625,344
Licenses and permits	-	-	-	-	-	120,362
Intergovernmental	-	-	-	-	-	251,429
Charges for services	-	-	-	-	-	2,085,501
Fines and forfeits	-	-	-	-	-	229,153
Utility fees	-	2,156,551	-	882,038	-	3,038,589
Penalties	-	79,418	-	32,234	-	111,652
Other receipts	437,172	4,690	850,975	115,497	621,347	12,909,566
Total receipts	<u>437,172</u>	<u>2,240,659</u>	<u>850,975</u>	<u>1,029,769</u>	<u>621,347</u>	<u>25,371,596</u>
Disbursements:						
Personal services	45,461	-	-	-	-	4,349,024
Supplies	-	-	-	-	-	736,603
Other services and charges	-	-	-	-	-	5,026,630
Debt service - principal and interest	-	-	716,006	-	-	716,006
Capital outlay	-	-	-	20,193	-	975,713
Utility operating expenses	-	2,237,681	299,629	1,069,198	-	3,606,508
Other disbursements	-	-	-	-	598,639	7,598,105
Total disbursements	<u>45,461</u>	<u>2,237,681</u>	<u>1,015,635</u>	<u>1,089,391</u>	<u>598,639</u>	<u>23,008,589</u>
Excess (deficiency) of receipts over disbursements	<u>391,711</u>	<u>2,978</u>	<u>(164,660)</u>	<u>(59,622)</u>	<u>22,708</u>	<u>2,363,007</u>
Cash and investments - ending	<u>\$ 742</u>	<u>\$ 36,187</u>	<u>\$ 32,988</u>	<u>\$ 2,730</u>	<u>\$ 289,022</u>	<u>\$ 2,765,373</u>

CITY OF LAKE STATION  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2010

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	\$ 30,070	\$ 31,616
Fire department pumper	207,056	47,021
Mayor vehicle	15,543	5,610
Police 911 equipment	39,539	41,615
Garbage trucks and toters/containers	1,073,971	293,491
Code enforcement vehicle	7,532	4,033
Sanitary camera truck	96,858	51,142
Sanitary boom truck	107,352	38,412
Sanitary excavator	69,000	25,459
Building Corp. - municipal complex	11,350,000	481,500
Bonds payable:		
General obligation bonds:		
2005 \$1,500,000 park improvements	<u>1,245,000</u>	<u>124,548</u>
Total governmental activities debt	<u>\$ 14,241,921</u>	<u>\$ 1,144,447</u>
Business-type activities:		
Sanitary District:		
Bonds payable:		
General obligation bonds:		
2005 \$5,500,000 judgment bond	<u>\$ 2,895,000</u>	<u>\$ 716,769</u>

CITY OF LAKE STATION  
EXAMINATION 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 limits allowed regarding the tax levies and appropriations, the City's options will be limited as to resolving the financial situation. Any costs saving initiatives are discussed in the City's official response included in this report.

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)

**OVERDRAWN CASH BALANCES**

The cash balance of the General Fund was overdrawn by \$1,850,962 at December 31, 2010. It should also be noted that the City's General Fund cash balance has been consistently overdrawn at December 31 of each year since 2007 as follows:

<u>Year</u>	<u>General Fund Negative Cash Balance</u>
2007	\$ (548,698)
2008	(1,149,332)
2009	(1,995,148)
2010	(1,850,962)

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)

**UNALLOWABLE FUND DISBURSEMENTS**

1. A payment was made from the Cumulative Capital Improvement Fund to Chase Credit Card Services in the amount of \$10,054.02. The payment was to pay off the cumulative balance of the credit card. Documentation was not presented supporting the individual charges. Therefore, we were unable to determine if the charges were related to City business. Also, the charges reflected on the credit card statement do not appear to be allowable from the Cumulative Capital Improvement Fund.
2. Disbursements from the Major Moves Fund are restricted to construction of highways, economic development, interlocal agreements, and a cities contribution to the Regional Development Authority. In 2010, the City purchased a \$6,595 park shelter from the Major Moves Fund. In March 2011, a concession trailer was purchased and \$7,000 was paid from the Major Moves Fund. The park shelter and concession trailer are not allowable disbursements from the Major Moves Fund.

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

3. A payment was made from the City Sewage Department for police department employees to attend training totaling \$1,200. Disbursements from the City Sewage Department are required to be used for the expenses relating to the operation of the Lake Station Sanitary District's system.

Indiana Code 6-7-1-31.1 (a) states in part:

"(a) . . . the fiscal body of each city and the fiscal body of each town shall, by ordinance or resolution, establish a cumulative capital improvement fund for the city or town. Except as otherwise provided in subsection (c), the city or town may only use money in its cumulative capital improvement fund:

- (1) to purchase land, easements, or rights-of-way;
  - (2) to purchase buildings;
  - (3) to construct or improve city owned property;
  - (4) to design, develop, purchase, lease, upgrade, maintain, or repair:
    - (A) computer hardware;
    - (B) computer software;
    - (C) wiring and computer networks; and
    - (D) communications access systems used to connect with computer networks or electronic gateways;
  - (5) to pay for the services of full-time or part-time computer maintenance employees;
  - (6) to conduct nonrecurring in-service technology training of unit employees;
  - (7) to undertake Internet application development;
  - (8) to retire general obligation bonds issued by the city or town for one (1) of the purposes state in subdivision (1), (2), (3), (4), (5), or (6); or
  - (9) for any other governmental purpose for which money is appropriated by the fiscal body of the city or town.
- (b) The money in the city's or town's cumulative capital improvement fund does not revert to its general fund.
- (c) A city or town may at any time, by ordinance or resolution, transfer to:
- (1) its general fund; or
  - (2) an authority established under IC 36-7-23; money derived under this chapter that has been deposited in the city's or town's cumulative capital improvement fund."

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

IC 8-14-16 requires cities and towns in counties traversed by the Indiana Toll Road to set up a local major moves construction fund for deposit of a special distribution from the County Auditor on or before September 15, 2006. Money in the fund may be expended only for the following purposes: (1) Construction of highways, roads and bridges. (2) In a county that is a member of the northwest Indiana regional development authority, or in a city or town located in such a county, any purpose for which the regional development authority may make expenditures under IC 36-7.5. (3) Providing funding for economic development projects (as defined in IC 6-3.5-7-13.1(c)(1) or IC 6-3.5-7-13.1(c)(2)(A) through IC 6-3.5-7-13.1(c)(2)(K). (4) Matching federal grants for a purpose described in IC 8-14-16-5. (5) Providing funding for interlocal agreements under IC 36-1-7 for a purpose described in IC 8-14-16-5. (6) Providing the city's contribution to the northwest Indiana regional development authority, in the case of a city described in IC 36-7.5-2-3(e). Such fund must be appropriated as part of the annual budget for the calendar year in accordance with IC 6-1.1-17. (Accounting and Uniform Compliance Guidelines, September 2006)

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**UNALLOWABLE TRANSFERS**

On December 16, 2010, officials made transfers between funds per Resolution 2010-21 as follows:

<u>Transferred From</u>	<u>Transferred To</u>	<u>Amount</u>
General Fund	Drug Seizure	\$ 22,173
	Street Lighting	125,398
	Employee Health Insurance	389,309
	Compost	295,981
	Rainy Day	<u>107,662</u>
Total		<u>\$ 940,523</u>
Lake Enhancement	General Fund	\$ 10,000
Riverboats		200,000
Motor Vehicle		87,000
Police Repairs		13,000
Park Donations		3,000
Cumulative Ambulance		55,000
Users Fees		1,972
Fire Hazmat		7,000
Clerks Perpetual Fund		5,000
Sewer		<u>370,000</u>
Total		<u>\$ 751,972</u>

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

The transfers from the General Fund were made in order to eliminate negative cash balances in the funds listed above.

The transfer to the Rainy Day Fund was for reimbursement of federal expenditures paid previously from the Rainy Day Fund. The funds that should have been used for that transfer were the General (\$58,376), Motor Vehicle Highway (\$15,419), Park (\$607), Water (\$2,510), Sewer (\$28,290) totaling \$105,202. The remaining balance of \$2,406 was a transfer to eliminate the negative balance.

The Employee Health Insurance Fund is to be reimbursed by funds that had not used their insurance budgeted line items. A determination of which funds owed the Employee Health Insurance Fund was to be calculated by officials. It is unclear why the transfer was made totally from the General Fund.

The transfers to the General Fund listed above were either unallowable through Indiana Statute or per the local ordinance that established the fund. Although the statute governing the uses of Motor Vehicle Fund provides 10 percent of the budgeted funds may be used for law enforcement purposes, officials did not provide documentation to support the law enforcement expenditures to be reimbursed.

The other transfers to the General Fund were not permitted by Indiana Statute or local ordinance.

If the transfers would not have been made, the cash balances of the following funds would have the following negative balances:

Fund	Negative Cash Balance
Drug Seizure	\$ 22,173
Street Lighting	125,398
Employee Health Insurance	388,567
Compost	287,588
Rainy Day	107,662

Payments or transfers which are not authorized by statute, ordinance, resolution or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

Indiana Code 6 5-11-10-1.6(d) states:

"The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the requirements of this section. The fiscal officer does not incur personal liability for disbursements: (1) Processed in accordance with this section; and (2) for which funds are appropriated and available."

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

**UNDOCUMENTED CREDIT CARD PAYMENTS**

The City of Lake Station Credit Card 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."

Four payments were made to the credit card company totaling \$14,232.44 (adjusted for late fees and overpayments in the amount of \$139.05). These payments were made based solely on the credit card statement. Detailed invoices were not provided for audit to determine if the charges were for City related business. The credit card purchases were made by various City employees even though the City policy states the credit card is to be used only by the Mayor. A portion of the breakdown of the types of purchases is as follows:

Type of Purchase	Mayor	Police Chief	Clerk Treasurer	Street Superintendent	Park Director
Restaurants	\$ 339.95	\$ 23.84	\$ 56.50	\$ 12.94	\$ -
Office Supplies	989.60	194.22	229.94	84.57	-
Promotional Items	47.92	2,012.15	-	-	-
Fuel/Vehicle	337.60	50.58	-	414.24	-
Grocery	307.27	-	-	-	-
Office Equipment	510.78	-	-	-	-
Hotel	-	1,659.93	289.19	464.01	-
Travel/Airline	166.45	1,187.10	813.40	-	-
Registrations	-	195.00	-	-	-
Towing	-	-	-	228.00	-
Outdoor Work Supplies	347.08	-	-	-	293.84
Concrete	-	-	-	635.00	1,503.45
Police Supplies	-	400.00	-	-	-
Industrial/Maintenance	576.94	-	-	-	-
<b>Totals</b>	<b><u>\$ 3,623.59</u></b>	<b><u>\$ 5,722.82</u></b>	<b><u>\$ 1,389.03</u></b>	<b><u>\$ 1,838.76</u></b>	<b><u>\$ 1,797.29</u></b>

Employees and officials have a responsibility to remit their itemized receipts to the Clerk-Treasurer in order for the Clerk-Treasurer to remit timely payment to the credit card company.

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

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

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

***PENALTIES AND INTEREST PAID ON CREDIT CARDS***

From August 1, 2010 to July 26, 2011, the City has been assessed and paid late fees, finance/interest charges, and over the limit fees totaling \$241.86 to the credit card company because of insufficient controls over their credit card usage.

The Clerk-Treasurer reimbursed the City of Lake Station \$241.86 on September 21, 2011, City of Lake Station Receipt 61690 for penalties and interest.

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.

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)

***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. Contrary to the City Resolution, the Mayor, Clerk-Treasurer, Police Chief, Fire Chief, Public Works Director, and Park Director all have credit cards under the same line of credit. The Clerk-Treasurer remits payments to Chase Card Services based on individual invoices at the time they are submitted by the cardholders.

We reviewed the credit card activity from January 1, 2010 to July 26, 2011, and noted the following:

1. Check 10861 dated June 1, 2010, for \$95.19 was paid to Chase Cardmember Services and cleared the bank, but the credit was not reflected on the credit card statement.
2. Payments totaling \$95.03 were made from invoices submitted; however, the charges for that amount were not reflected on the credit card statement.
3. Check 11595 dated August 17, 2010, for \$470.50 was paid to Chase Cardmember Services and credited to the credit card statement on August 21, 2010. On July 23, 2010, there was a credit adjustment made to the credit card statement from the vendor (Summerstone Nursery) for \$470.50.

CITY OF LAKE STATION  
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4. Checks 10207, 12300, 89 and 12363, dated March 4, 2010, November 14, 2010, October 15, 2010, and December 9, 2010, for \$3,971.69, \$6,501.38, \$3,552.64 and \$206.73, respectively, were payments to Chase Cardmember Services. These payments were made based solely on the credit card statement. Detailed invoices were not provided for examination to determine if the charges were for City related business. (See previous Examination Result and Comment – Undocumented Credit Card Payments)
5. Purchases were made on the City's Lowes credit card in the amount of \$1,308.72. Payments were made to both Chase Cardmember Services and to Lowes.
6. A purchase in the amount of \$240.72 was made at Radio Shack. Payments were made to both Chase Cardmember Services and Radio Shack.
7. A purchase in the amount of \$262.35 was made at Super Kmart. Payments were made to both Chase Cardmember Services and Super Kmart.
8. From August 1, 2010 to July 26, 2011, the City has been accessed and paid late fees, finance/interest charges, and over the limit fees totaling \$241.86. (See previous Examination Result and Comment – Penalties and Interest Paid on Credit Cards)
9. Duplicate payment of the same invoice for \$217.20 was made.
10. Several charges were made for purchases of car parts, IT software and hardware, supplies, gas, trimmers, mowers, a coffee pot, concrete, sprinklers, movies, trees, a freezer, park supplies, Christmas lights, gift cards, and gifts for employees. These disbursements should have been made through the purchase order and claim process.
11. The balance due as of July 26, 2011, was \$389.11. A payment of \$323.77 was made on August 2, 2011, leaving a balance of \$65.34.

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.

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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)

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)

**REIMBURSEMENTS - MAYOR**

The Mayor received an advance of \$1,200.00 for miscellaneous expenses. The invoices initially attached to the claim were dated June 24, 2010 through June 30, 2010, and totaled \$589.81. Subsequently, the Mayor provided receipts to make up the difference. It is unclear why all the receipts were not attached.

The Mayor was reimbursed for ladders and other public safety equipment, which were purchased at a local store, in the amount of \$1,386.68. The purchase was made with a debit card. These types of transactions bypass the City's purchase order/claim process.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

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Indiana Code 5-11-10-2 states in part:

"(a) Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against, a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer.

(b) The state board of accounts shall prescribe a form which will permit claims from two (2) or more claimants to be listed on a single document and, when such list is signed by members of the governing body showing the claims and amounts allowed each claimant and the total claimed and allowed as listed on such document, it shall not be necessary for the members to sign each claim. . . .

(d) The form prescribed under this section shall be prepared by or filed with the disbursing officer of the political subdivision, together with: (1) the supporting claims if payment is made under section 1 of this chapter; or (2) the supporting invoices or bills if payment is made under section 1.6 of this chapter. All such documents shall be carefully preserved by the disbursing officer as a part of the official records of the office.

(e) Where under any law it is provided that each claim be allowed over the signatures of members of a governing body, or a claim docket or accounts payable voucher register be prepared listing claims to be considered for allowance, the form and procedure prescribed in this section shall be in lieu of the provisions of the other law. . . ."

**REVENUE CLASSIFICATION**

The City's annual report and Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances were 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 recorded to the incorrect classification on the unit's ledger, thereby causing revenues to be misclassified on the City's annual report and combining schedule. The following details the funds and classifications affected:

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Fund	City Classification	Proper Classification	Amount
General	Tax Fr Auditor & CR	FIT Tax	\$ 19,345.00
	Tax Fr Auditor & CR	License Excise	205,648.09
	Tax Fr Auditor & CR	CVET	12,886.62
	Reimbursements	Grant	262,000.00
	Reimbursements	Grant	41,169.60
	Reimbursements	Grant	41,614.79
MVH	Property, Advance Tax	FIT Tax	1,203.00
	Property, Advance Tax	License Excise	12,786.17
	Property, Advance Tax	CVET	801.23
	State Reimbursements	Distributions	352,728.40
LRS	State	Distributions	255,838.59
Park & Recreation	Genl Property, Advance	FIT Tax	1,993.00
		License Excise	21,186.29
		CVET	1,327.61
Park GO	Property Tax	FIT Tax	386.00
		License Excise	4,107.07
		CVET	257.36
Cumulative Sewage	Tax From Auditor	FIT Tax	243.00
		License Excise	2,588.23
		CVET	162.19
Municipal Bond	Bond	Other	2,600,100.00
Sanitary District Bond	Bond	Property Tax	542,483.86
		FIT Tax	4,128.00
		License Excise	43,891.43
		CVET	2,750.39
		Tax Anticipation Warrant	257,722.00
Police Pension	Genl, Property, Adv	State Contribution	315,903.49

Incorrect revenue classification increases the risk of not detecting invalid transactions and makes decision making based on the City's records more difficult.

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)

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(Continued)

***REGISTER OF PROPOSAL - CONGESTION MITIGATION AND AIR QUALITY (CMAQ GRANT)***

Requests for proposals for the sale of E-85 compatible vehicles were submitted and received from different vendors for the CMAQ grant. According to Indiana statute, a register of proposals must be prepared and be open for public inspection after contract award. There are a variety of requirements to be included in the register of proposals. Two of the requirements include the dollar amount of each offer and the basis on which the award was made. This register is to be available for public review and accountability.

A register of proposals was not available for examination concerning the E-85 compatible vehicles for the CMAQ grant. Three of the four proposals were not awarded to the lowest bidder. The register of proposals would have documented the basis on which the award was made.

Indiana Code 5-22-9-5 states:

"(a) A register of proposals must be:

- (1) prepared; and
- (2) open for public inspection after contract award.

(b) The register of proposals must contain the following:

- (1) A copy of the request for proposals.
- (2) A list of all persons to whom copies of the request for proposals were given.
- (3) A list of all proposals received, which must include all the following:
  - (a) The names and addresses of all offerors.
  - (b) The dollar amount of each offer.
  - (c) The name of the successful offeror and the dollar amount of that offeror's offer.
- (4) The basis on which the award was made.
- (5) The entire contents of the contract file except for proprietary information included with an offer, such as trade secrets, manufacturing processes, and financial information that was not required to be made available for public inspection by the terms of the request for proposals."

***DISBURSEMENTS EXCEED APPROPRIATIONS***

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

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(Continued)

Fund	Excess Amount Disbursed
General Fund	\$ 3,658,058
Park and Recreation	23,865
Park GO Bond	300
Street Lighting Fund	79,494
Sanitary District Bond	11,366

In order to have the capacity to initiate the additional appropriation process, the fund's cash balance plus the expected revenues less the expected spending has to be greater than zero dollars. According to the City's financial consultant, the general fund did not have the capacity to initiate the additional appropriations process.

Indiana Code 6-1.1-18-4 states in part:

". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Indiana Code 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."

Indiana Code 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 cost."

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(Continued)

Indiana Code 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 . . ."

**BANK RECONCILEMENT**

Since December 31, 2009, the City's general bank account reconciled balance was less than the record balance by an unidentified amount totaling \$3,809.07. Efforts are being made by the Clerk-Treasurer to identify the difference.

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)

**PAYROLL**

1. A salary ordinance is required to be adopted by the governing board listing all compensation and benefits paid to officials and employees. The Mayor did not submit a proposed salary ordinance to the governing board for approval. Compensation paid to officials and employees was based on the salary ordinance adopted for 2009.
2. A court employee was paid an annual amount for the position of Alcohol Program Monitor. The employee was paid through the vendor system and not through the payroll system. This amount was not included in a salary ordinance or contract. We were unable to determine if the amount paid was correct.
3. 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.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

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**SEPTEMBERFEST RECEIPTS**

The City sponsors an annual festival in September referred to as Septemberfest. Payments for booth rentals by vendors are collected at the Mayor's office on the day of the festival. In 2010, receipts were not issued for the booth rentals. We were unable to verify the accountability of booth rental collections remitted to the Clerk-Treasurer's office on December 29, 2010. The cause for the unreasonable delay of the remittance to the Clerk-Treasurer's office could not be determined.

Indiana Code 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. . ."

**CAPITAL ASSET RECORDS**

As stated in prior reports, 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.

Each 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)

**CONSUMER METER DEPOSITS - WATER UTILITY**

The Water Utility requires a consumer meter deposit on all accounts. The meter deposits are to be recorded in the Water Meter Deposit Fund. A Guarantee Deposit Register is to be maintained by individual 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 maintain a Meter Deposit Fund as part of the records. All meter deposit activity is recorded in 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.

A detailed deposit register as of December 31, 2010, had a balance of \$126,792. The Water Utility Operating Fund's cash balance at December 31, 2010, was only \$2,730. The Water Utility Operating Fund's cash balance was significantly less than the deposit register balance. The Water Utility has continued to use customer deposits to fund daily operations.

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 7)

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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)

**UTILITY RECEIPTS TAX**

The Indiana Department of Revenue performed an audit of the utility receipts tax for the Lake Station Water Utility for the years 2008, 2009, and 2010. It was found that penalties and reconnect fees were not included in the monthly total water sales when calculating the amount of utility receipts tax to remit. This omission resulted in penalties and interest being assessed by the Indiana Department of Revenue as follows:

<u>Years</u>	<u>Penalties</u>	<u>Interest</u>
2008	\$ -	\$ 19.93
2009	66.00	26.20
2010	-	30.57

The following have been determined to be taxable receipts for the purpose of calculating the utility receipt tax by the Indiana Department of Revenue:

1. Penalties,
2. Shut off fees,
3. Reconnect fees, and
4. Hydrant rental fees paid by water utility customers, and

Furthermore, IC 6-2.3-5-2 does not allow for bad debts to be deducted from revenue in figuring the tax unless you are an accrual basis taxpayer. (Cities and Towns Bulletin and Uniform Compliance Guidelines, December 2005)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. 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)

**STATE WITHHOLDING TAX**

The Indiana Department of Revenue performed an audit of the state withholding taxes for the City for the year 2008. The audit revealed that there was an excess reported on the total of W-2's submitted at year end than what was reported monthly per the WH-1 coupons. A computer software glitch caused some pension checks not to have Indiana adjusted gross income tax included in the monthly totals. This underreporting resulted in the City owing the Indiana Department of Revenue \$2,536.00, of which, \$381.25 was interest.

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(Continued)

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)

***DELINQUENT SANITARY DISTRICT INVOICES***

As of September 1, 2011, the City owed Gary Sanitary District \$372,014 of which \$304,076 is for services in arrears. The City is disputing the amounts owed and has been advised by legal counsel to pay a portion of the invoices submitted for payment.

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

***FINES AND FEES NOT CHARGED IN ACCORDANCE WITH STATUTES – CITY COURT***

***Criminal Misdemeanors:***

Some defendants were assessed court costs of \$70.00 for a criminal misdemeanor charge. In accordance with statutes, the court costs for criminal misdemeanors should be \$120.00.

Additionally, per state statute the following additional fees should have been assessed on criminal misdemeanor cases, but were not:

DNA sample processing fee	\$ 2.00
Highway work zone fee (min. for moving violation)	.50
Court administration fee	5.00
Public defense administration fee	3.00
Judicial insurance adjustment fee	1.00
Judicial salaries fee	18.00
Automated record keeping fee	7.00
Document storage fee	2.00

In one case reviewed in which the Prosecutor withheld prosecution under Indiana Code 33-39-1-8, the Judge waived all fees except for \$110.00 pretrial diversion program fees (\$60.00 monthly and \$50.00 initial fee). For two additional cases reviewed, the Judge ordered a fine of \$100.00 which was subsequently distributed to the State of Indiana as "State Fines and Forfeitures"; no additional court costs or fees were charged.

Indiana Code 33-39-1-8 states in part:

"(d) A prosecuting attorney may withhold prosecution against an accused person if:

- (1) the person is charged with a misdemeanor;

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(Continued)

- (2) the person agrees to conditions of a pretrial diversion program offered by the prosecuting attorney;
  - (3) the terms of the agreement are recorded in an instrument signed by the person and the prosecuting attorney and filed in the court in which the charge is pending; and
  - (4) the prosecuting attorney electronically transmits information required by the prosecuting attorneys council concerning the withheld prosecution to the prosecuting attorneys council, in a manner and format designated by the prosecuting attorneys council.
- (e) An agreement under subsection (d) may include conditions that the person:
- (1) pay to the clerk of the court an initial user's fee and monthly user's fee in the amounts specified in IC 33-37-4-1; . . .
- (h) All money collected by the clerk as user's fees under this section shall be deposited in the appropriate user fee fund under IC 33-37-8."

Indiana Code 33-37-4-1 states:

"(a) For each action that results in a felony conviction under IC 35-50-2 or a misdemeanor conviction under IC 35-50-3, the clerk shall collect from the defendant a criminal costs fee of one hundred twenty dollars (\$120).

(b) In addition to the criminal costs fee collected under this section, the clerk shall collect from the defendant the following fees if they are required under IC 33-37-5:

- (1) A document fee (IC 33-37-5-1, IC 33-37-5-3, or IC 33-37-5-4).
- (2) A marijuana eradication program fee (IC 33-37-5-7).
- (3) An alcohol and drug services program user fee (IC 33-37-5-8(b)).
- (4) A law enforcement continuing education program fee (IC 33-37-5-8(c)).
- (5) A drug abuse, prosecution, interdiction, and correction fee (IC 33-37-5-9).
- (6) An alcohol and drug countermeasures fee (IC 33-37-5-10).
- (7) A child abuse prevention fee (IC 33-37-5-12).
- (8) A domestic violence prevention and treatment fee (IC 33-37-5-13).
- (9) A highway work zone fee (IC 33-37-5-14).
- (10) A deferred prosecution fee (IC 33-37-5-17).
- (11) A document storage fee (IC 33-37-5-20).
- (12) An automated record keeping fee (IC 33-37-5-21).

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- (13) A late payment fee (IC 33-37-5-22).
- (14) A sexual assault victims assistance fee (IC 33-37-5-23).
- (15) A public defense administration fee (IC 33-37-5-21.2).
- (16) A judicial insurance adjustment fee (IC 33-37-5-25).
- (17) a judicial salaries fee (IC 33-37-5-26).
- (18) A court administration fee (IC 33-37-5-27).
- (19) A DNA sample processing fee (IC 33-37-5-26.2).

(c) Instead of the criminal costs fee prescribed by this section, except for the automated record keeping fee (IC 33-37-5-21), the clerk shall collect a pretrial diversion program fee if an agreement between the prosecuting attorney and the accused person entered into under IC 33-39-1-8 requires payment of those fees by the accused person. The pretrial diversion program fee is:

- (1) an initial user's fee of fifty dollars (\$50); and
- (2) a monthly user's fee of ten dollars (\$10) for each month that the person remains in the pretrial diversion program."

Indiana Code 33-37-5-17 states:

"(a) This section applies to actions in which the court defers prosecution under IC 33-39-1-8.

(b) In each action in which prosecution is deferred, the clerk shall collect from the defendant a deferred prosecution fee of one hundred twenty dollars (\$120) for court costs."

***Infractions and Ordinance Violations:***

On December 17, 2008, an agreement between the Lake County Prosecutor's office and the Lake Station City Court was entered into for an "Infractional Deferral Program." Per the agreement, the initial deferral fee is \$53.00 and the monitoring fee is \$47.00, but there was nothing written as to how long a defendant was to be monitored under the agreement. Per state statute the maximum amount that can be assessed for the initial deferral fee is \$52.00 and the maximum amount that can be assessed for the monitoring fee is \$10.00 per month. Court dockets were reviewed to determine the number of months the individual was sentenced to for monitoring; however, nothing was recorded in the dockets to denote the number of months the defendant was to be monitored. Thus, we could not determine the per month monitoring fee being charged.

Also, per state statute cases involving infraction violations the Clerk should have been collecting the following fees but was not:

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DNA sample processing fee	\$ 2.00
Court administration fee	5.00
Law enforcement continuing education program fee	5.00
Public defense administration fee	3.00
Judicial insurance adjustment fee	1.00
Judicial salaries fee	18.00
Document storage fee	2.00

On April 3, 2008, Ordinance 2008-08 was approved by the Common Council creating a "Deferral Program Fund" for Lake Station City Court and Lake Station Police Department. The \$100.00 fee is charged (\$50 is recorded by the Court as "Lake Station City Court" and \$50 is recorded by the Court as "Lake Station Police Department") in addition to court costs and some of the other fees as addressed in statutes governing ordinance violations. The \$100.00 fee charged for the ordinance violation "Deferral Program Fund" is subsequently remitted to the Clerk Treasurer who receipted all of the money into the General Fund. We are unaware of any circumstances under the statutes in which a City Court can create such an ordinance. Furthermore, it is unclear as to why the collections would be deposited to the General Fund instead of the "Deferral Program Fund," which was created by the Ordinance.

Indiana Code 33-37-4-2(b) states:

"In addition to the infraction or ordinance violation costs fee collected under this section, the clerk shall collect from the defendant the following fees, if they are required under IC 33-37-5:

- (1) A document fee (IC 33-37-5-1, IC 33-37-5-3, or IC 33-37-5-4).
- (2) An alcohol and drug services program user fee (IC 33-37-5-8(b)).
- (3) A law enforcement continuing education program fee (IC 33-37-5-8(c)).
- (4) An alcohol and drug countermeasures fee (IC 33-37-5-10).
- (5) A highway work zone fee (IC 33-37-5-14).
- (6) A deferred prosecution fee (IC 33-37-5-17).
- (7) A jury fee (IC 33-37-5-19).
- (8) A document storage fee (IC 33-37-5-20).
- (9) An automated record keeping fee (IC 33-37-5-21).
- (10) A late payment fee (IC 33-37-5-22).
- (11) A public defense administration fee (IC 33-37-5-21.2).
- (12) A judicial insurance adjustment fee (IC 33-37-5-25).
- (13) A judicial salaries fee (IC 33-37-5-26).
- (14) A court administration fee (IC 33-37-5-27).
- (15) A DNA sample processing fee (IC 33-37-5-26.2).

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Indiana Code 36-1-3-6 states in part:

"(a) If there is a constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must do so in that manner.

(b) If there is no constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must either:

- (1) if the unit is a county or municipality, adopt an ordinance prescribing a specific manner for exercising the power; . . . or
- (3) comply with a statutory provision permitting a specific manner for exercising the power.

(c) An ordinance under subsection (b)(1) must be adopted as follows:

- (1) In a municipality, by the legislative body of the municipality. . . ."

***CASH BONDS - CITY COURT***

1. Cash bonds are collected at the Police Department and remitted to the court by the next business day. Court personnel are to record the cash bonds and deposit the collections by the next business day. Bonds were recorded to the court records and deposited up to 28 days after being collected at the Police Department.
2. Court employees maintain a manual register of trust funds in addition to entering the information in the computerized records. The manual register of trust funds details all cash bonds collected and remitted through the court. The manual register of trust funds should be in agreement with the computerized trust fund balance. These amounts are not being reconciled by court personnel and are not in agreement. Court personnel are currently in the process of determining the differences.

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)

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)

***BANK ACCOUNT RECONCILEMENT - CITY COURT***

As stated in the prior report, court personnel have not reconciled the court cash book to the depository balance since September 2007. Based on our calculation at December 31, 2010, the bank balance appears to exceed the ledger balance by \$37,511.46. Efforts are being made by the court personnel to identify the difference.

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Indiana Code 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)

***DEPOSITS - PARK***

Park receipts were deposited up to 32 days after the receipt was written.

Indiana Code 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 . . ."

CITY OF LAKE STATION  
EXIT CONFERENCE

The contents of this report were discussed on September 20, 2011, with Keith Soderquist, Mayor; Brenda Samuels, Clerk-Treasurer; Ray L. Szarmach, City Attorney; and James Meyer, Sanitary District Attorney. The official response has been made a part of this report and may be found on pages 47 through 53.

The contents of this report were discussed on September 15, 2011, with Judge Christopher Anderson.



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

## **“OFFICIAL RESPONSE”**

September 30, 2011

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

Mary Jo Small  
[msmall@sboafe.in.gov](mailto:msmall@sboafe.in.gov)

RE: SBOA exit conference of 09/20/10 For 2010

### **Responses**

#### **1) FINANCIAL REPORT OPINION MODIFICATIONS**

The City acknowledges that there are significant challenges facing all local governments, not just Lake Station. For the City's part, we have accepted that the financial practices from several years past have forced this administration to reconstruct virtually all processes in order to arrive at an overall policy that matches available revenues and planned spending. Due to the magnitude of the problems (as documented later in this response and elsewhere in multiple City correspondences to the State Board of Accounts and outside parties), we have determined that our problem will need to be solved through multi-year management. There simply are no tools to correct the issues in the General Fund and other funds that would not result in a disruption of essential services. We understand that the State Board of Accounts cannot evaluate our corrective action plans and that you must, based on your work, include this comment. As such we accept this comment although we feel that our actions taken and our long-term plan will result in the City being fiscally and operationally accountable to its citizens.

#### **2) OVERDRAWN CASH BALANCES**

When I took office as Clerk Treasurer in January 2008, I found overdue bills totaling over \$1 Million Dollars for 2007 that had not been paid. I paid what I could and if the funds had been

available to pay all the invoices due in 2007, the true general fund balance for 2007 would have been well over \$1,000,000.00 in the red. In 2008, for taxes payable in 2009 the City intended to issue a debt service levy to make debt service payments related to sewer bonds. For a variety of reasons, the \$750,000 levy was denied by the Department of Local Government Finance (DLGF) and as a result the City was forced to use dollars that otherwise would have been deposited into the General Fund. This one time shift of levy caused the shortfall as described in the auditor's note.

### **3) UNALLOWABLE FUND DISBURSEMENTS**

- 1) A duplicate copy of the supporting documentation has been requested from the credit card company.
- 2) Mistakenly charged to the wrong fund.
- 3) Mistakenly charged to the wrong fund.

### **4) UNALLOWABLE TRANSFERS**

Based on conversations with SBOA, we felt the Ordinance was the only way to rectify the problem carried over from previous years. This issue is more fully described in our response to comment #1.

### **5) UNDOCUMENTED CREDIT CARD PAYMENTS**

Duplicate copies of the documents have been requested from the credit card company.

### **6) PENALTIES AND INTEREST PAID ON CREDIT CARDS**

### **7) CREDIT CARDS**

On 12-28-04 the Lake Station Board of Works (BOW) adopted Resolution #2004-08 establishing the rules and regulations for use of the City's credit card. On 9-20-11, the Lake Station BOW adopted Resolution #2011-13 (copy attached) amending Resolution #2004-08. Resolution #2011-13 complies with the requirements of the State Board's Accounting and Uniform Compliance Guideline Manual for Cities and Towns, Chapter 7 and the Resolution approved and ratified all City credit cards expenditures since the adoption of Resolution No. 2004-08.

### **8) REIMBURSEMENTS MAYOR**

## **9) REVENUE CLASSIFICATION**

This is a problem resulting from deficiencies in our software. We have already contacted technical support at our software company, to help correct the classification within the software.

## **10) REGISTER OF PROPOSAL – CONGESTION MITIGATION AND AIR QUALITY (CMAQ GRANT)**

Pursuant to I.C. 5-22-9-5, upon completion of the process of the RFP, a "register" shall be filed with the Clerk containing the following information:

1. Request for Proposals; 2. List of companies requesting RFP's; 3. Proposal received from each offer or/vendor; 4. Final dollar amount of each offer or/vendor; 5. Basis on which award was made/factors and criteria/point system; 6. Contents of "contract file".

The file for the congestion, mitigation and air quality RFP contains all documents required by I.C. 5-22-9-5. A register of the process will be placed in the file at the Clerk's Office.

## **11) DISBURSEMENTS EXCEED APPROPRIATIONS**

This problem is based on DLGF approved appropriations which were \$1.7 Million lower than the budget the Common Council. The DLGF had to lower the requested appropriations due to the carryover of the negative balances in the General Fund due in substantial part to City's the payment of past due bills from 2007. Everyone acknowledges that under the current laws and regulations, and due to the severe reduction in tax revenues resulting from the application of the tax caps, the loss carry over can only be cured over several years since it would be disastrous for the City to try to cut its expenditures enough in one year to make up the deficit. DLGF denied the City's request to recuperate the tax levy for the Sewer Bond. The City will continue to work each year to execute a spending plan based upon available resources in the City to result in actual spending equal to or less than revenues each year. Over time, the issues in individual funds will be addressed to result in positive ending cash balances in each fund. We accept this comment as factual, the City is aware of the concerns stated by the State Board of Accounts and we will continue to work to solve this problem.

## **12) 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 most of the issues. 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.

**13) PAYROLL**

- 1) All salaries stayed the same in 2010 as they were in 2009, and we were unaware we had to adopt a new salary ordinance when nothing changed.
- 2) We have now added the alcohol Program Monitor position to the proposed salary ordinance and payments will be in the form of wages.
- 3) The mayor is on call 24/7, the same as all emergency services.

**14) SEPTEMBERFEST RECEIPTS**

The staff merely failed to deliver the receipts to the Clerk Treasurer when they delivered the money. The receipts have been filed in the Clerk Treasurer's office.

**15) CAPITAL ASSTS RECORDS**

The City has been working on the proper steps to establish the Capital Asset records for Infrastructure, which will take some time as there has never been a listing of all of the City's assets completed. A very large cost not covered in the current budget.

**16) CONSUMER METER DEPOSITS – WATER UTILITY**

We have taken the necessary steps to create a Water Meter Deposit fund and a Guarantee Deposit Register, and will assign a responsible person to reconcile them on a monthly basis via Form 314. We have also posted all deposit funds into this newly created Fund for 2011, and will continue to do so until the balance in the Water Meter Deposit Fund is up to the "calculated" balance.

**17) UTILITY RECEIPTS TAX**

**18) STATE WITHHOLDING TAX**

**19) DELINQUENT SANITARY DISTRICT INVOICE**

During the Gary Sanitary District 2010 Rate Recalculation process it was determined that during 2010 there were several test results for the concentration of suspended solids which were much higher than for normal residential sewage and the average Lake Station concentration. The tests are made once per week and are supposed to be representative of that weeks' concentration. These outliers caused Lake Station's recalculated GSD bill to Lake Station for 2010 to increase by more than \$170,000 (~20%). GSD and Lake Station have agreed to investigate the cause of the outliers and to negotiate a procedure, common in the waste water

industry, to replace the outliers with reasonable concentration amounts based on historical averages for Lake Station. The results of this process should be that there will be a very substantial reduction in the amount Lake Station owes GSD for 2010. The investigation and negotiation process is continuing.

**20) FINES AND FEES NOT CHARGED IN ACCORDANCE WITH STATUTES – CITY COURT**

**Fines and Fees.**

Only the City Court Judge has the jurisdiction authority to impose fines, fees and court costs. The City/Clerk-Treasurer can only collect what fines, fees and court costs the Judge imposes in each case.

**Deferral Program Fund.**

I.C. 33-37-8-3 and I.C. 33-37-8-4 provide for the establishment of a Deferral Program Fund. I.C. 33-37-8-4 provides that the Lake Station Common Council shall by ordinance establish funds for the deposit of the fees and uses for the proceeds. On 4-3-08, the Lake Station Common Council adopted Ordinance No. 2008-08, an Ordinance Creating the Deferral Program Fund for the Lake Station City Court and the Lake Station Police Dept. Collections were deposited into the fund. For tracking purposes, the deposits were placed in three deferral program funds depending on the source: the Deferral Program-Police (Fund 304), the Deferral Program-OV (Fund 306) and the Deferral Program-Infraction (Fund 308). The State Board of Accounts approved placing the fees in the General Fund, using Fund 304, Fund 306 and Fund 308 as a tracking mechanism. The City will continue this procedure.

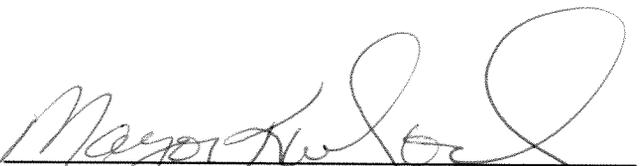
**21) CASH BONDS – CITY COURT**

These matters are the responsibility of the City Judge.

**22) BANK ACCOUNT RECONCILIATIONS – CITY COURT**

These matters are the responsibility of the City Judge.

**23) DEPOSITS – PARK**

  
\_\_\_\_\_  
Keith Soderquist, Mayor

09-30-11  
Date

  
\_\_\_\_\_  
Brenda Samuels, Clerk Treasurer

09-30-11  
Date

**RESOLUTION NO. 2011- 13**

**RESOLUTION OF THE BOARD OF WORKS OF THE CITY  
OF LAKE STATION, INDIANA AMENDING THE RESOLUTION  
AUTHORIZING THE USE OF CITY CREDIT CARDS, RESOLUTION NO. 2004-08**

**WHEREAS**, on December 28, 2004, the Board of Works of the City of Lake Station adopted Resolution No. 2004-08, Authorizing Use of a City Credit Card; and

**WHEREAS**, the Board of Works of the City of Lake Station now desires to amend Resolution No. 2004-08.

NOW, THEREFORE, LET IT BE RESOLVED AS FOLLOWS:

That Resolution No. 2004-08 be amended as follows:

**DELETE:**

**WHEREAS**, the credit card will be used solely by the Mayor of The City of Lake Station and,

**WHEREAS**, the credit card shall be used for schools, seminars, Lodging and city emergencies only.

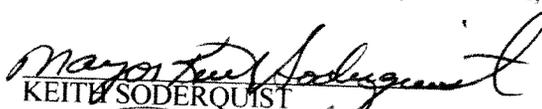
**NOW, THEREFORE BE IT RESOLVED**, by the Board of Works and Safety of the City of Lake Station that the Mayor of the City of Lake Station shall have sole use of a city credit card.

**INSERT:**

1. That the Mayor of the City of Lake Station may authorize City Departments to use the Lake Station city credit card on behalf of the City of Lake Station pursuant to the procedures contained herein.
2. That the issuance and use of the credit card shall be controlled by the Lake Station Clerk-Treasurer, and the credit card shall be kept in the Office of the Lake Station Clerk-Treasurer.
3. That the city credit card shall only be used for City expenditures, including seminars, food and lodging, City emergencies allowed by State Statute or City Ordinance, and expenditures of the City promotional funds pursuant to City Ordinance.
4. That the Clerk-Treasurer shall issue the card to persons authorized to use the card and upon completion of the purpose for which the card was used, take possession and custody of the card which will be kept at the Office of the Clerk-Treasurer.

5. That each expenditure paid by the credit card must reflect a credit line for the purchase, and a receipt for the expenditure shall be delivered by the purchaser to the Clerk-Treasurer.
6. That the expenditure reflected on the credit card statement shall not be paid by the Clerk-Treasurer unless the receipt for the purchase is delivered to the Clerk by the purchaser. In the event the purchaser does not deliver the receipt for the purchase, the purchaser shall be personally liable for any late payment fees.
7. The Clerk-Treasurer shall maintain an accounting system in the form of a log which will include the following:
  - a. The name of the authorized individual requesting the usage of the card;
  - b. The position of the individual requesting usage of the card;
  - c. Estimated amounts to be charged and the actual amounts charged;
  - d. The fund and account number to be charged with the expenditure;
  - e. The date the card is issued and the date the card is returned;
  - f. The credit card expenditure shall not by-pass the Clerk's accounting system.
8. That an annual fee may be paid by the City to the bank or other institution issuing the card to the City.
9. That all expenditures paid by the City credit card subsequent to the adoption of Resolution No. 2004-08 are hereby ratified and approved.

SO RESOLVED BY THE BOARD OF WORKS OF THE CITY OF LAKE STATION, INDIANA,  
THIS 20<sup>th</sup> DAY OF SEPTEMBER, 2011.

  
KEITH SODERQUIST

  
MICHAEL SOTO

  
ROGER SZOSTEK

ATTEST:

  
~~BRENDA SAMUELS~~  
Clerk-Treasurer

Bonnie Adams,  
Deputy Clerk