

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

NORTHEAST LAKE CONSERVANCY DISTRICT

JOHNSON COUNTY, INDIANA

January 1, 2008 to December 31, 2010



FILED
12/05/2011

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OFFICIALS

Office

Official

Term

Financial Clerk

Terry Hedrick
Deborah Shutta

01-01-08 to 09-30-10
10-01-10 to 12-31-11

President of the Board

Nick Simms

01-01-08 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE NORTHEAST LAKE CONSERVANCY
DISTRICT, JOHNSON COUNTY, INDIANA

We have examined the financial statements of the Northeast Lake Conservancy District (District), for the period of January 1, 2008 to December 31, 2010. The District's management is responsible for the financial statements. 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 statements 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 District prepares its financial statements 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.

The District did not present financial statements for the years ended December 31, 2008 and 2009. Presentation of such statements summarizing the District's financial position and the results of its operations is required by state statute (IC 5-11-1-6).

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position, and results of operations of the District for the years ended December 31, 2008 and 2009, on the basis of accounting described in Note 1.

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

INDEPENDENT ACCOUNTANT'S REPORT
(Continued)

The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis and 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 statements. They have not been subjected to the examination procedures applied to the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the District's management 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.

September 19, 2011

STATE BOARD OF ACCOUNTS

FINANCIAL STATEMENTS

The financial statements and accompanying notes were approved by management of the District. The financial statements and notes are presented as intended by the District.

NORTHEAST LAKE CONSERVANCY DISTRICT
 STATEMENTS OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS

For The Years Ended December 31, 2008, 2009, and 2010

| | Cash and Investments 12-31-08 |
|--------------|-------------------------------------|
| General | \$ 11,958 |
| Debt Service | 3,511 |
| Debt Escrow | <u>11,342</u> |
| Totals | <u>\$ 26,811</u> |

| | Cash and Investments 12-31-09 |
|--------------|-------------------------------------|
| General | \$ 9,726 |
| Debt Service | 7,097 |
| Debt Escrow | <u>10,708</u> |
| Totals | <u>\$ 27,531</u> |

| | Cash and Investments 01-01-10 | Receipts | Disbursements | Cash and Investments 12-31-10 |
|--------------|-------------------------------------|------------------|------------------|-------------------------------------|
| General | \$ 9,726 | \$ 11,949 | \$ 6,718 | \$ 14,957 |
| Debt Service | 7,097 | 10,228 | 14,323 | 3,002 |
| Debt Escrow | <u>10,708</u> | <u>12</u> | <u>650</u> | <u>10,070</u> |
| Totals | <u>\$ 27,531</u> | <u>\$ 22,189</u> | <u>\$ 21,691</u> | <u>\$ 28,029</u> |

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

NORTHEAST LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The District was established under the laws of the State of Indiana. The District operates under an appointed governing board.

The accompanying financial statements present the financial information for the District (primary government), and does not include financial information for any of the District'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 District (primary government).

B. Basis of Accounting

The financial statements are 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 statements. 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 District.

Licenses and permits which include 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 permit. Examples of licenses 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 include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax

NORTHEAST LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 include 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).

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

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

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 include 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.

Supplies which include 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 include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

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

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

NORTHEAST LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The District 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 District. 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 District. 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 District 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 District 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.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the District 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 percent 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.

NORTHEAST LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 should be 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 statutes authorize the District 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 District 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 District 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 District by recording as a disbursement and replacement items purchased.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the District's Annual Reports can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

Differences may be noted between the financial information presented in the financial statements contained in this report and the financial information presented in the Annual Reports of the District which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was prepared and/or approved by management of the District. It is presented as intended by the District.

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

| | <u>General</u> | <u>Debt Service</u> | <u>Debt Escrow</u> | <u>Totals</u> |
|---|------------------|-------------------------|------------------------|------------------|
| Cash and investments - beginning | \$ 9,726 | \$ 7,097 | \$ 10,708 | \$ 27,531 |
| Receipts: | | | | |
| Taxes | 11,944 | 10,226 | - | 22,170 |
| Other receipts | <u>5</u> | <u>2</u> | <u>12</u> | <u>19</u> |
| Total receipts | <u>11,949</u> | <u>10,228</u> | <u>12</u> | <u>22,189</u> |
| Disbursements: | | | | |
| Personal services | 200 | - | - | 200 |
| Supplies | 787 | - | - | 787 |
| Other services and charges | 5,731 | 139 | - | 5,870 |
| Capital outlay | - | 14,184 | - | 14,184 |
| Other disbursements | <u>-</u> | <u>-</u> | <u>650</u> | <u>650</u> |
| Total disbursements | <u>6,718</u> | <u>14,323</u> | <u>650</u> | <u>21,691</u> |
| Excess (deficiency) of receipts over disbursements | <u>5,231</u> | <u>(4,095)</u> | <u>(638)</u> | <u>498</u> |
| Cash and investments - ending | <u>\$ 14,957</u> | <u>\$ 3,002</u> | <u>\$ 10,070</u> | <u>\$ 28,029</u> |

NORTHEAST LAKE CONSERVANCY DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

The District has entered into the following debt:

| Description of Debt | Ending Principal Balance | Principal and Interest Due Within One Year |
|--------------------------|--------------------------------|---|
| Governmental activities: | | |
| Bonds payable: | | |
| Dam Repairs | \$ 201,899 | \$ 14,184 |

NORTHEAST LAKE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not presented for examination.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. 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 Special Districts, Chapter 10)

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."

PRESCRIBED FORMS

The following prescribed or approved forms were not always in use,

Receipt Form 352
Claim (General Expense) Form 354
Ledger of Receipts, Disbursements and Balances (Form 354)
Ledger of Appropriations, Encumbrances, Disbursements and Balances (Form 359)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ANNUAL REPORT

An annual report for 2008 and 2009 were not presented for examination.

Indiana Code 5-11-1-4 states in part:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year."

CONTRACTS

Payments totaling \$1,565.00 were made to B&W Lawn Care for dam mowing services from 2008-2010 without a contract.

NORTHEAST LAKE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 Special Districts, Chapter 10)

OPTICAL IMAGES OF WARRANTS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

Indiana Code 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . . "

Further, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise: and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

SUPPORTING DOCUMENTATION

Several payments were observed which did not contain adequate supporting documentation. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established. Three out of the ten disbursements tested did not have invoices provided as supporting documentation. Check 1035 to Nick Simms in the amount of \$248.13 for lake weed chemicals, 1041 to Roger Young in the amount of \$1,645.00 for legal fees, and 1064 to Auto Owners Insurance in the amount of \$578 for insurance fees.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

NORTHEAST LAKE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

APPROVAL OF CLAIMS

For the years 2008-2010, the minutes did not indicate approval of most of the Northeast Lake Conservancy District's disbursements by the Board of Directors.

Indiana Code 5-11-10-2(a) states:

"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."

OFFICIAL BOND

Financial Clerk Terry Hedrick was not bonded. Therefore no official bond was filed in the Office of the County Recorder.

Indiana Code 5-4-1-5.1(b) states, in part:

"Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

DEPOSITS

No receipts were issued so a receipt date could not be determined for receipts tested. Local tax distributions dated December 30, 2008, totaling \$4,577.25 were deposited on January 28, 2009, October 30, 2009 distributions totaling \$6,551.81 were deposited on November 13, 2009, and December 30, 2009, distributions totaling 1,564.27 were deposited on January 29, 2010. Receipts were not deposited timely.

Indiana Code 5-13-6-1(a) states:

"All public funds paid into the treasury of the state or the treasuries of the respective political subdivisions shall be deposited not later than the business day following the receipt of funds on business days of the depository . . ."

PAYROLL DEDUCTIONS

The following payments were made to Board members without payroll deductions for taxes.

2008

Lynn Simms \$50.00
Nick Simms \$100.00

NORTHEAST LAKE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

2009

Nick Sims \$100.00

2010

Nick Sims \$100.00

Terry Hedrick \$100.00

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 14)

CERTIFIED REPORT NOT FILED

The District did not file a certified report of compensation of officers and employees (Form 100-R or its equivalent) with the State Board of Accounts for the years 2008, 2009, and 2010.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

NORTHEAST LAKE CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 26, 2011, with Deborah Shutta, Financial Clerk.