

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

CITY OF LAKE STATION

LAKE COUNTY, INDIANA

January 1, 2011 to December 31, 2011



FILED
02/01/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Accountant's Report.....	3
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	6
Notes to Financial Statement.....	7-13
Supplementary Information:	
Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	16-27
Schedule of Payables and Receivables	28
Schedule of Leases and Debt	29
Schedule of Capital Assets.....	30
Other Report	31
Examination Results and Comments:	
Overdrawn Cash and Investment Balances	32
Excluded Activity from the City's Financial Reports	32-33
Storm Water Fee	33-35
Funds Not Properly Established for Court Fees.....	35-36
Appropriations.....	36-37
Disbursements.....	37-43
Promotion of City Business	43-44
Credit Cards.....	44-46
Alcohol and Drug Monitoring Payroll	46-47
Fringe Benefits Not Reported on Federal Wage and Tax Statements (Form W-2)	47
Certified Report of Names, Addresses, Duties, and Compensation of Public Employees (Form 100-R).....	47
Temporary Loan	48
Penalties, Interest, and Other Charges – Water Utility.....	48
Internal Controls and Computer Generated Reports – Water and Sewage Utilities and Refuse Department	49-50
Consumer Meter Deposits – Water Utility	50-51
Utility Receipts Tax – Water Utility	51-52
Capital Asset Records	52
Deposits – Park	53
Public Records Retention – Park.....	53
Internal Controls – Emergency Medical Services (EMS)	53-54
Police Department Petty Cash	54
Exit Conference.....	55
Official Response	56-61

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Brenda Samuels	01-01-08 to 12-31-15
Mayor	Keith Soderquist	01-01-08 to 12-31-15
President of the Board of Public Works and Safety	Keith Soderquist	01-01-08 to 12-31-15
President of the Common Council	John McDaniel Garry Szostek	01-01-11 to 12-31-11 01-01-12 to 12-31-12
President of the Board of Sanitary District Commissioners	Bill Westmoreland	01-01-11 to 12-31-12
Superintendent of Utilities	Raymond Ostrander	01-01-11 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statement of the City of Lake Station (City), for the year ended December 31, 2011. The financial statement is the responsibility of the City's management. Our responsibility is to express an opinion on the financial statement 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 effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2011.

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, 2011, on the basis of accounting described in Note 1.

Our examination was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, 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.

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.

STATE BOARD OF ACCOUNTS

October 3, 2012

(This page intentionally left blank.)

FINANCIAL STATEMENT

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

CITY OF LAKE STATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2011

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11
GENERAL FUND	\$ (1,850,962)	\$ 9,522,611	\$ 9,355,552	\$ (1,683,903)
MOTOR VEHICLE HIGHWAY	122,241	834,527	1,093,619	(136,851)
LOCAL ROAD AND STREET	328,517	152,310	265,236	215,591
PARK NON-REVERTING FUND	33	24,000	13,419	10,614
EMPLOYEES HEALTH INS.	742	-	-	742
ALCOHOL PROGRAM MONITOR	61	3,021	3,000	82
AMBULANCE DONATION FUND	125	-	-	125
ECONOMIC DEVELOPMENT	17,227	-	701	16,526
DRUNK DRIVING /BLITZ	341	40,245	40,394	192
REFUSE DEPARTMENT	5,957	669,150	671,926	3,181
STREET LIGHTING FUND	-	68,750	68,750	-
LOCAL LAW ENFORCEMENT CONTINUING EDUCATION	14,458	13,558	12,600	15,416
CLERK'S RECORD PERPETUATION	9,514	1,936	10,798	652
DEFERRAL - OV	361	-	67	294
UNSAFE BUILDING NON-REVERTING	3,289	-	-	3,289
RIVERBOAT INFRASTRUCTURE	228,015	166,495	57,700	336,810
PARK AND RECREATION FUND	133,181	579,377	494,869	217,689
USERS FEE - L.S. CONTINUING EDUCATION	296	3,376	2,819	853
FIRE HAZARDOUS NON-REVERTING	10,158	1,227	-	11,385
POLICE K9 DONATION	2,266	-	-	2,266
DRUG SEIZURE MONIES	-	1,960	7,000	(5,040)
MAJOR MOVES CONSTRUCTION	128,889	-	17,000	111,889
FIREFIGHTERS GRANT	31	-	-	31
POLICE DEPT - VESTS	30	-	-	30
FIRE DONATION	822	-	-	822
CUMULATIVE SEWAGE FUND	205,622	56,014	20,613	241,023
AMBULANCE NON-REVERTING	2,858	322	-	3,180
MUNICIPAL COMPLEX	2,373,625	91,838	2,378,485	86,978
COMPOST	8,393	124,913	126,854	6,452
CUMULATIVE CAPITAL IMPROVEMENT	219,675	40,055	101,021	158,709
WATER DEPOSITS	-	22,450	20,000	2,450
POLICE PENSION FUND	285,654	367,440	325,870	327,224
COURT COST DUE COUNTY	3,302	28,560	30,387	1,475
CIVIC CENTER	55,916	-	28,245	27,671
GRAND BLVD LAKE ENHANCEMENT	1,596	4,800	1,788	4,608
PARK GENERAL OBLIGATION BOND	38,316	80,994	125,148	(5,838)
POLICE DONATION FUND	145	1,394	-	1,539
POLICE - INSURANCE REPAIR	216	-	-	216
STREETS AND SANITATION CLOTHING	365	9,649	7,121	2,893
PARK DONATION FUND	2,484	2,265	3,408	1,341
PARK SECURITY DEPOSIT	304	14,385	13,808	881
COPS	-	25,715	25,715	-
DEFERRAL - POLICE	512	-	449	63
DEFERRAL - IF	2,951	876	3,814	13
MUNICIPAL BOND	779	712,388	357,353	355,814
PARK CAPITAL IMPROVEMENT FUND	170	-	-	170
SEWAGE	1,746	901,710	938,581	(35,125)
SANITARY DISTRICT - BOND	32,988	1,264,520	1,147,780	149,728
PAY-DD-NET	-	2,787,987	2,787,987	-
PAY-FED W/H	-	399,173	399,173	-
PAY-FICA	-	222,861	222,861	-
PAY-MEDI	-	98,885	98,885	-
PAY-STATE	11,067	122,916	133,983	-
PAY-COUNTY	305	3,315	3,620	-
PAY-PERF	12,439	46,193	58,632	-
PAY-INPP	18,068	77,433	95,501	-
PAY-AFLAC	(782)	14,630	13,328	520
PAY-BONDS	-	56	56	-
PAY-CHILD SUPPORT	-	27,313	27,313	-
PAY-DENTAL	-	5,185	5,185	-
PAY-457 2%	-	48,608	48,608	-
PAY-457 VOL%	-	13,943	13,943	-
PAY-457 C/P	-	46,645	46,645	-
PAY-FOP DUES	-	2,800	2,800	-
PAY-GARNI-HP	-	3,879	3,879	-
PAY-GARNI-KG	-	16,492	16,492	-
PAY-GARNI-SV	-	5,274	5,274	-
PAY-GARNI-JG	-	650	650	-
PAY-GARNI-MB	-	420	420	-
GARNI - JT	-	1,020	1,020	-
PAY-GARNI-CH	-	2,755	2,755	-
PAY-GARNI-SV2	-	1,793	1,793	-
PAY-GARNI DP	-	750	750	-
PAY-GARNI CS	-	1,085	1,085	-
PAY GARNI - ES	-	65	65	-
PAY-HEALTH	214	100,277	100,491	-
PAY-PP LEGAL	-	383	383	-
PAY-SUPPORT FEES	-	280	280	-
PAY-UNION DUES	-	10,003	10,003	-
PAY-VISION	-	5,302	5,302	-
PAY-VOL CIVIL PERF	2,914	11,252	14,166	-
SANITARY DISTRICT OPERATING	36,187	2,239,018	2,264,796	10,409
WATER UTILITY OPERATING	2,730	1,008,838	1,011,015	553
CITY COURT	251,511	416,475	484,583	183,403
Totals	\$ 2,727,862	\$ 23,576,785	\$ 25,655,612	\$ 649,035

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

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENT

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, storm water, trash, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

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 include 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.

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 distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENT
(Continued)

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, 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 statement. The aggregate disbursements include 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 City. It includes all expenditures for the reduction of the principal and interest of the City'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.

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

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENT
(Continued)

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 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.

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 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.

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENT
(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 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 statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

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 Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

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

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 Indiana Public Retirement System as provided under Indiana Code 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 Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

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

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Restatement

For the year ended December 31, 2011, certain changes have been made to the financial statement to more appropriately reflect the financial activity of the City as follows:

<u>Fund</u>	<u>Cash and Investments January 1, 2011</u>	<u>Restatement</u>	<u>Cash and Investments January 1, 2011 As Restated</u>
City Court	\$ <u>289,022</u>	\$ <u>(37,511)</u>	\$ <u>251,511</u>

The City Court Fund's beginning cash and investment balances for 2011 was the cash and investment balance per the bank account and not the cash book.

Note 8. Other Information

A. 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.

B. Current and Future Financial Considerations

At December 31, 2011, the City's overall net cash and investment balance (without the City Court) was \$465,632 with the General Fund cash and investment balance at a negative \$1,683,903. This is an improvement over the December 31, 2010 reported cash and investment balances for the City.

CITY OF LAKE STATION
NOTES TO FINANCIAL STATEMENT
(Continued)

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 reduced the tax rate and levy to remain within statutory limit for the General Fund for 2012, and IDLGF has significantly reduced the City's General Fund budget to \$2,519,337 for 2012 indicating revenues are not sufficient to support the budget submitted by the City. The City's General Fund budget was submitted as \$5,200,754.

The City's General Fund Cash Balance has been projected to be a negative \$1,392,288 as of December 31, 2012 based upon a tax collection rate similar to that of 2011, and spending meeting the City's proposed budget of \$5,200,754.

The budgets for the Local Road and Street and Motor Vehicle Highway funds were also reduced for the same reason.

The City has increased water and sewage rates in 2012, which has provided funding so that payments in lieu of taxes due to the General Fund can remain current.

C. Grant Award for Water Filtration Plant

On September 22, 2012, the City received notice that they have been awarded \$11 million from the Indiana Drinking Water State Revolving Loan Fund. This is a low interest loan of which the proceeds will be used to construct a water filtration plant.

The City expects to have bids completed by Thanksgiving, with contracts awarded in December. The City expects to have the project completed by 2014.

(This page intentionally left blank.)

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's 2011 Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is 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 approved by management of the City. It is presented as intended by the City.

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011

	GENERAL FUND	MOTOR VEHICLE HIGHWAY	LOCAL ROAD AND STREET	PARK NON-REVERTING FUND	EMPLOYEES HEALTH INS.	ALCOHOL PROGRAM MONITOR	AMBULANCE DONATION FUND	ECONOMIC DEVELOPMENT
Cash and investments - beginning	\$ (1,850,962)	\$ 122,241	\$ 328,517	\$ 33	\$ 742	\$ 61	\$ 125	\$ 17,227
Receipts:								
Taxes	4,394,468	-	-	-	-	-	-	-
Licenses and permits	106,466	-	-	-	-	-	-	-
Intergovernmental	588,424	643,318	150,687	-	-	-	-	-
Charges for services	327,200	-	-	24,000	-	-	-	-
Fines and forfeits	600	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	4,105,453	191,209	1,623	-	-	3,021	-	-
Total receipts	9,522,611	834,527	152,310	24,000	-	3,021	-	-
Disbursements:								
Personal services	3,294,144	621,202	-	-	-	3,000	-	-
Supplies	161,753	52,021	119,681	-	-	-	-	-
Other services and charges	1,208,903	63,660	8,093	13,419	-	-	-	701
Debt service - principal and interest	4,065,765	330,105	-	-	-	-	-	-
Capital outlay	297,009	26,631	137,462	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	327,978	-	-	-	-	-	-	-
Total disbursements	9,355,552	1,093,619	265,236	13,419	-	3,000	-	701
Excess (deficiency) of receipts over disbursements	167,059	(259,092)	(112,926)	10,581	-	21	-	(701)
Cash and investments - ending	\$ (1,683,903)	\$ (136,851)	\$ 215,591	\$ 10,614	\$ 742	\$ 82	\$ 125	\$ 16,526

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

	DRUNK DRIVING /BLITZ	REFUSE DEPARTMENT	STREET LIGHTING FUND	LOCAL LAW ENFORCEMENT CONTINUING EDUCATION	CLERK'S RECORD PERPETUATION	DEFERRAL - OV	UNSAFE BUILDING NON-REVERTING
Cash and investments - beginning	\$ 341	\$ 5,957	\$ -	\$ 14,458	\$ 9,514	\$ 361	\$ 3,289
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	602,558	-	13,558	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	40,245	66,592	68,750	-	1,936	-	-
Total receipts	40,245	669,150	68,750	13,558	1,936	-	-
Disbursements:							
Personal services	40,394	249,716	-	-	-	-	-
Supplies	-	60,839	-	-	10,798	67	-
Other services and charges	-	10,501	68,750	12,600	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	350,870	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	40,394	671,926	68,750	12,600	10,798	67	-
Excess (deficiency) of receipts over disbursements	(149)	(2,776)	-	958	(8,862)	(67)	-
Cash and investments - ending	\$ 192	\$ 3,181	\$ -	\$ 15,416	\$ 652	\$ 294	\$ 3,289

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

	RIVERBOAT INFRASTRUCTURE	PARK AND RECREATION FUND	USERS FEE - L.S. CONTINUING EDUCATION	FIRE HAZARDOUS NON-REVERTING	POLICE K9 DONATION	DRUG SEIZURE MONIES	MAJOR MOVES CONSTRUCTION
Cash and investments - beginning	\$ 228,015	\$ 133,181	\$ 296	\$ 10,158	\$ 2,266	\$ -	\$ 128,889
Receipts:							
Taxes	-	502,367	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	166,495	885	-	-	-	-	-
Charges for services	-	32,770	-	1,227	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	43,355	3,376	-	-	1,960	-
Total receipts	166,495	579,377	3,376	1,227	-	1,960	-
Disbursements:							
Personal services	-	177,638	-	-	-	-	-
Supplies	-	17,046	-	-	-	-	-
Other services and charges	57,700	69,474	-	-	-	7,000	-
Debt service - principal and interest	-	216,289	-	-	-	-	-
Capital outlay	-	12,399	-	-	-	-	17,000
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	2,023	2,819	-	-	-	-
Total disbursements	57,700	494,869	2,819	-	-	7,000	17,000
Excess (deficiency) of receipts over disbursements	108,795	84,508	557	1,227	-	(5,040)	(17,000)
Cash and investments - ending	\$ 336,810	\$ 217,689	\$ 853	\$ 11,385	\$ 2,266	\$ (5,040)	\$ 111,889

CITY OF LAKE STATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	FIREFIGHTERS GRANT	POLICE DEPT - VESTS	FIRE DONATION	CUMULATIVE SEWAGE FUND	AMBULANCE NON-REVERTING	MUNICIPAL COMPLEX	COMPOST
Cash and investments - beginning	\$ 31	\$ 30	\$ 822	\$ 205,622	\$ 2,858	\$ 2,373,625	\$ 8,393
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	116	-	-	-
Charges for services	-	-	-	55,898	322	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	91,838	124,913
Total receipts	-	-	-	56,014	322	91,838	124,913
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	1,200,000	126,825
Debt service - principal and interest	-	-	-	20,613	-	-	-
Capital outlay	-	-	-	-	-	1,178,485	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	29
Total disbursements	-	-	-	20,613	-	2,378,485	126,854
Excess (deficiency) of receipts over disbursements	-	-	-	35,401	322	(2,286,647)	(1,941)
Cash and investments - ending	\$ 31	\$ 30	\$ 822	\$ 241,023	\$ 3,180	\$ 86,978	\$ 6,452

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

	CUMULATIVE CAPITAL IMPROVEMENT	WATER DEPOSITS	POLICE PENSION FUND	COURT COST DUE COUNTY	CIVIC CENTER	GRAND BLVD LAKE ENHANCEMENT	PARK GENERAL OBLIGATION BOND
Cash and investments - beginning	\$ 219,675	\$ -	\$ 285,654	\$ 3,302	\$ 55,916	\$ 1,596	\$ 38,316
Receipts:							
Taxes	-	-	183,720	-	-	-	80,861
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	40,055	-	183,720	-	-	-	133
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	22,450	-	28,560	-	4,800	-
Total receipts	40,055	22,450	367,440	28,560	-	4,800	80,994
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	26,203	20,000	325,870	-	1,826	1,788	300
Debt service - principal and interest	-	-	-	-	-	-	124,848
Capital outlay	74,818	-	-	-	26,419	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	30,387	-	-	-
Total disbursements	101,021	20,000	325,870	30,387	28,245	1,788	125,148
Excess (deficiency) of receipts over disbursements	(60,966)	2,450	41,570	(1,827)	(28,245)	3,012	(44,154)
Cash and investments - ending	\$ 158,709	\$ 2,450	\$ 327,224	\$ 1,475	\$ 27,671	\$ 4,608	\$ (5,838)

CITY OF LAKE STATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	POLICE DONATION FUND	POLICE - INSURANCE REPAIR	STREETS AND SANITATION CLOTHING	PARK DONATION FUND	PARK SECURITY DEPOSIT	COPS	DEFERRAL - POLICE
Cash and investments - beginning	\$ 145	\$ 216	\$ 365	\$ 2,484	\$ 304	\$ -	\$ 512
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	25,715	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	1,394	-	9,649	2,265	14,385	-	-
Total receipts	1,394	-	9,649	2,265	14,385	25,715	-
Disbursements:							
Personal services	-	-	-	-	-	25,715	-
Supplies	-	-	7,121	3,408	13,808	-	449
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	-	-	7,121	3,408	13,808	25,715	449
Excess (deficiency) of receipts over disbursements	1,394	-	2,528	(1,143)	577	-	(449)
Cash and investments - ending	\$ 1,539	\$ 216	\$ 2,893	\$ 1,341	\$ 881	\$ -	\$ 63

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

	DEFERRAL - IF	MUNICIPAL BOND	PARK CAPITAL IMPROVEMENT FUND	SEWAGE	SANITARY DISTRICT - BOND	PAY-DD-NET	PAY-FED W/H
Cash and investments - beginning	\$ 2,951	\$ 779	\$ 170	\$ 1,746	\$ 32,988	\$ -	\$ -
Receipts:							
Taxes	-	583,599	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	797,395	1,095,149	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	876	128,789	-	104,315	169,371	2,787,987	399,173
Total receipts	876	712,388	-	901,710	1,264,520	2,787,987	399,173
Disbursements:							
Personal services	-	-	-	465,198	-	-	-
Supplies	3,814	-	-	327,537	-	-	-
Other services and charges	-	-	-	135,968	-	-	-
Debt service - principal and interest	-	235,323	-	-	1,147,780	-	-
Capital outlay	-	-	-	9,878	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	122,030	-	-	-	2,787,987	399,173
Total disbursements	3,814	357,353	-	938,581	1,147,780	2,787,987	399,173
Excess (deficiency) of receipts over disbursements	(2,938)	355,035	-	(36,871)	116,740	-	-
Cash and investments - ending	\$ 13	\$ 355,814	\$ 170	\$ (35,125)	\$ 149,728	\$ -	\$ -

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

	PAY-FICA	PAY-MEDI	PAY-STATE	PAY-COUNTY	PAY-PERF	PAY-INPP	PAY-AFLAC
Cash and investments - beginning	\$ -	\$ -	\$ 11,067	\$ 305	\$ 12,439	\$ 18,068	\$ (782)
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	222,861	98,885	122,916	3,315	46,193	77,433	14,630
Total receipts	222,861	98,885	122,916	3,315	46,193	77,433	14,630
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	222,861	98,885	133,983	3,620	58,632	95,501	13,328
Total disbursements	222,861	98,885	133,983	3,620	58,632	95,501	13,328
Excess (deficiency) of receipts over disbursements	-	-	(11,067)	(305)	(12,439)	(18,068)	1,302
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 520

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

	PAY-BONDS	PAY-CHILD SUPPORT	PAY-DENTAL	PAY-457 2%	PAY-457 VOL%	PAY-457 C/P	PAY-FOP DUES
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	56	27,313	5,185	48,608	13,943	46,645	2,800
Total receipts	56	27,313	5,185	48,608	13,943	46,645	2,800
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	56	27,313	5,185	48,608	13,943	46,645	2,800
Total disbursements	56	27,313	5,185	48,608	13,943	46,645	2,800
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

	PAY-GARNI-HP	PAY-GARNI-KG	PAY-GARNI-SV	PAY-GARNI-JG	PAY-GARNI-MB	GARNI - JT	PAY-GARNI-CH
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	3,879	16,492	5,274	650	420	1,020	2,755
Total receipts	3,879	16,492	5,274	650	420	1,020	2,755
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	3,879	16,492	5,274	650	420	1,020	2,755
Total disbursements	3,879	16,492	5,274	650	420	1,020	2,755
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

	PAY-GARNI-SV2	PAY-GARNI DP	PAY-GARNI CS	PAY GARNI - ES	PAY-HEALTH	PAY-PP LEGAL	PAY-SUPPORT FEES
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ 214	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	1,793	750	1,085	65	100,277	383	280
Total receipts	1,793	750	1,085	65	100,277	383	280
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,793	750	1,085	65	100,491	383	280
Total disbursements	1,793	750	1,085	65	100,491	383	280
Excess (deficiency) of receipts over disbursements	-	-	-	-	(214)	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF LAKE STATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

	PAY-UNION DUES	PAY-VISION	PAY-VOL CIVIL PERF	SANITARY DISTRICT OPERATING	WATER UTILITY OPERATING	CITY COURT	TOTALS
Cash and investments - beginning	\$ -	\$ -	\$ 2,914	\$ 36,187	\$ 2,730	\$ 251,511	\$ 2,727,862
Receipts:							
Taxes	-	-	-	-	-	-	5,745,015
Licenses and permits	-	-	-	-	-	-	106,466
Intergovernmental	-	-	-	-	-	-	1,799,548
Charges for services	-	-	-	-	-	-	2,950,077
Fines and forfeits	-	-	-	-	-	-	600
Utility fees	-	-	-	2,198,968	953,750	-	3,152,718
Other receipts	10,003	5,302	11,252	40,050	55,088	416,475	9,822,361
Total receipts	10,003	5,302	11,252	2,239,018	1,008,838	416,475	23,576,785
Disbursements:							
Personal services	-	-	-	-	-	-	4,877,007
Supplies	-	-	-	-	-	-	778,342
Other services and charges	-	-	-	-	-	-	3,359,581
Debt service - principal and interest	-	-	-	-	-	-	6,140,723
Capital outlay	-	-	-	194,982	-	-	2,325,953
Utility operating expenses	-	-	-	2,053,225	718,598	-	2,771,823
Other disbursements	10,003	5,302	14,166	16,589	292,417	484,583	5,402,183
Total disbursements	10,003	5,302	14,166	2,264,796	1,011,015	484,583	25,655,612
Excess (deficiency) of receipts over disbursements	-	-	(2,914)	(25,778)	(2,177)	(68,108)	(2,078,827)
Cash and investments - ending	\$ -	\$ -	\$ -	\$ 10,409	\$ 553	\$ 183,403	\$ 649,035

CITY OF LAKE STATION
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2011

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 481,500	\$ 226,632
Wastewater	199,132	-
Water	<u>27,500</u>	<u>-</u>
Totals	<u>\$ 708,132</u>	<u>\$ 226,632</u>

CITY OF LAKE STATION
SCHEDULE OF LEASES AND DEBT
December 31, 2011

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
City of Lake Station Building Corp	City Hall Building	\$ 961,500	01-15-11	07-15-30
PNC Equipment Finance	Fire Dept Pumper Truck	47,021	06-01-09	06-01-15
Ford Credit	Mayor's Vehicle	3,125	01-04-08	01-04-14
Regions Bank	Garbage Trucks/Totes/Containers	146,746	01-15-10	07-15-14
U.S. Bank	Code Enforcement Vehicle	4,033	11-24-09	11-24-12
Sanitary District:				
TCF Equipment Finance	Sanitary Camera Truck	51,142	02-11-10	02-11-12
TCF Equipment Finance	Sanitary Camera Truck	38,412	08-02-11	08-02-13
TCF Equipment Finance	John Deere Excavator	<u>24,748</u>	07-01-11	07-01-13
Total of annual lease payments		<u>\$ 1,276,727</u>		

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
General obligation bonds	Municipal - Buildig Corp Bond	<u>\$ 1,175,000</u>	<u>\$ 121,748</u>
Wastewater:			
General obligation bonds	Sanitary District Bond	<u>2,295,000</u>	<u>715,950</u>
Totals		<u>\$ 3,470,000</u>	<u>\$ 837,698</u>

CITY OF LAKE STATION
SCHEDULE OF CAPITAL ASSETS
December 31, 2011

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	<u>Ending Balance</u>
Governmental activities:	
Land	\$ 1,153,751
Buildings	7,220,819
Improvements other than buildings	1,575,364
Machinery, equipment and vehicles	<u>5,402,645</u>
Total governmental activities	<u>15,352,579</u>
Wastewater:	
Machinery, equipment and vehicles	<u>331,798</u>
Water:	
Machinery, equipment and vehicles	<u>60,189</u>
Total capital assets	<u><u>\$ 15,744,566</u></u>

CITY OF LAKE STATION
OTHER REPORT

The report presented herein was prepared in addition to another official report prepared for the individual City office listed below:

City Court

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN CASH AND INVESTMENT BALANCES

At December 31, 2011, the City reported the following funds with overdrawn cash and investment balances:

Fund	Cash and Investment Balance December 31, 2011
General	\$ 1,683,903
Motor Vehicle Highway	136,851
Drug Seizure Monies	5,040
Park General Obligation Bond	5,838
Sewage	35,125

Since 2007, the City has reported an overdrawn cash and investment balance in its General Fund at December 31st of each year.

The City also took measures to increase utility revenues by increasing the Water and Sewage rates.

Because of the improvements made in increasing the General Fund, and Utility's cash and investment balances, the financial report opinion modification was removed; however, the officials should continue efforts to decrease spending as tax caps could severely limit the projected anticipated revenues of the City. Cash and investment balances should continue to be regularly monitored.

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)

EXCLUDED ACTIVITY FROM THE CITY'S FINANCIAL REPORTS

Financial Statement

The Financial Statement initially prepared by the Clerk-Treasurer, through the State's "Gateway" system, excluded the cash and investment activity of the City Court. The receipts and disbursements totaled \$416,475 and \$484,583, respectively. The cash and investment balance as of December 31, 2011, was \$183,403. The Clerk-Treasurer agreed to include the financial activity of the City Court in the Financial Statement presented in this report.

Schedule of Federal Expenditures

The Clerk-Treasurer is required to prepare a Schedule of Federal Expenditures (Schedule). The Schedule is prepared electronically through the State's "Gateway" system. Although the City did not expend more than \$500,000 in federal financial assistance, they did spend at least \$49,704.92, through grants from the U.S. Department of Justice, some of which was passed through the Indiana Criminal Justice Institute. None of this information was included in the Schedule of Federal Expenditures.

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

In 2012, the City received reimbursement of federal emergency management grant funds, and may begin receiving federal funds through the State Revolving Loan Fund, which will need to be included in the Schedule of Federal Expenditures for 2012.

Schedule of Financial Assistance to Non-Governmental Entities

In 2011, the City also made a donation to a non-governmental entity of at least \$500, which was not reported on the Financial Assistance to Non-Governmental Entities. This schedule is also prepared electronically through the State's "Gateway" system.

Indiana Code 5-11-1-4 (a) states:

"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. The reports must be filed electronically, in a manner prescribed by the state examiner that is compatible with the technology employed by the political subdivision."

(Auditee) Responsibilities placed on the recipient of federal awards. The City is required to do the following:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. . . .

(d) Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards. (Cities and Towns Bulletin and Uniform Compliance Guidelines, March, 2005)

STORM WATER FEE

The City Common Council, per Ordinance 2012-2 "An Ordinance Establishing an Interim Rate for City Sewer Services for the Purpose of Meeting State Mandates regarding the Management of Stormwater", established an annual storm water fee. The user fees addressed in the Ordinance "shall be collected through a charge appearing on the semiannual property tax statement of each affected property owner of the District."

The fee, per the Ordinance, is necessary to finance, control and operate its storm water management system.

Per Indiana Code 36-9-23, which has been referenced in the Ordinance, the following is stated regarding fees, "the municipal legislative body shall, by ordinance, establish just and equitable fees for the services rendered by the sewage works, and provide the dates on which the fees are due. (b) Just and equitable fees are the fees required to maintain the sewage works in the sound physical and financial condition necessary to render adequate and efficient service."

Storm Water rates are addressed by the following statutes:

Indiana Code 8-1.5-5-7(a) states: "The acquisition, construction, installation, operation, and maintenance of facilities and land for storm water systems may be financed through:

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (1) proceeds of special taxing district bonds of the storm water district;
- (2) the assumption of liability incurred to construct the storm water system being acquired;
- (3) service rates;
- (4) revenue bonds; or
- (5) any other available funds."

Indiana Code 8-1.5-5-7(c) states:

"The collection of the fees authorized by this section may be effectuated through a periodic billing system or through a charge appearing on the semiannual property tax statement of the affected property owner."

The City has not established a storm water management department or board to provide the authority for enacting the storm water fee.

Indiana Code 8-1.5-5-1 states:

"This chapter applies to each:

- (1) municipality; and
- (2) county that:
 - (A) does not have a consolidated city; and
 - (B) receives notification from the department of environmental management that the county will be subject to storm water regulation under 327 IAC 15-13; that adopts the provisions of this chapter by ordinance."

Indiana Code 8-1.5-5-2 states in part: "As used in this chapter, "board" means the following: . . .

- (2) For all other municipalities, the:
 - (A) board of directors described in section 4 of this chapter; or
 - (B) board that controls the third class city's municipally owned utilities under IC 8-1.5-3-3(a) if the city has adopted an ordinance under IC 8-1.5-3-3(a) that provides for the control of any or all of the city's storm water facilities by the board that controls the city's municipally owned utilities."

Indiana Code 8-1.5-5-3 states in part: "As used in this chapter, "department" means the following:
... (2) For all other municipalities, the department of storm water management established under section 4 of this chapter."

Furthermore, Ordinance 2012-2 "An Ordinance Establishing an Interim Rate for City Sewer Services for the Purpose of Meeting State Mandates regarding the Management of Stormwater" was approved on March 15, 2012, and stated the following "the fees shall be imposed and first collected through the semi-annual property tax statement tax year 2011 payable in 2012, first installment, and continue semiannually thereafter."

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Based upon the following statutes, it is unclear as to how the storm water fees could be imposed and collected in the same year. Per the statutes, assessments are made in one year and billed the following year to allow time for appeals and corrections of errors.

Indiana Code 6-1.1-2-1 states: "Except as otherwise provided by law, all tangible property which is within the jurisdiction of this state on the assessment date of a year is subject to assessment and taxation for that year.

Indiana Code 6-1.1-1-2 states: "'Assessment date' means:

- (1) March 1 for all tangible property, except mobile homes as defined in IC 6-1.1-7-1.
- (2) January 15 for mobile homes as defined in IC 6-1.1-7-1."

Indiana Code 6-1.1-1-17 states: "'Special assessment' means a ditch or drainage assessment, barrett law assessment, improvement assessment, sewer assessment, sewage assessment, or any other assessment which by law is placed on the records of the county treasurer for collection."

Indiana Code 6-1.1-22-9 states in part: "(a) Except as provided in subsection (b), the property taxes assessed for a year under this article are due in two (2) equal installments on May 10 and November 10 of the following year."

FUNDS NOT PROPERLY ESTABLISHED FOR COURT FEES

The City established the following funds, which are not in compliance with Indiana Code 33-37-8-3, which indicates only one city user fee fund should be established:

Alcohol Program Monitor (219)
Deferral Police (304)
Deferral (OV) (306)
User Fee LS Continuing Education (307)
Deferral (IF) (308)

In 2011, the City receipted money collected by the City Court for the alcohol and drug services fees into the Alcohol Program Monitor Fund (219), and fees collected for the law enforcement continuing education program into the User Fee LS Continuing Education Fund (307). The City discontinued receipting funds collected by the City Court for the pretrial diversion program, and the deferral program fees into the other three funds, based upon the prior audit report. There was one exception, the fees collected in June 2011 for the Infraction Deferral Program, which were receipted to Deferral IF (308) Fund. Otherwise, all of the deferral program fees and pretrial diversion fees were receipted to the General Fund.

Indiana Code 33-37-8-3 states in part:

"(a) A city or town user fee fund is established in each city or town having a city or town court for the purpose of supplementing the cost of various program services. The city or town fund is administered by the fiscal officer of the city or town.

(b) The city or town fund consists of the following fees collected by a clerk under this article:

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (1) The pretrial diversion program fee.
- (2) The alcohol and drug services fee.
- (3) The law enforcement continuing education program fee.
- (4) The deferral program fee.
- (5) The problem solving court fee."

Indiana Code 33-37-8-4 states, in part,

"(a) Except as provided in subsection (b), upon receipt of monthly claims submitted on oath to the fiscal body by a program listed in section 3(b) of this chapter, the fiscal body of the city or town shall appropriate from the city or town fund to the program the amount collected for the program fee under IC 33-37-5.

(b) Funds derived from a deferral program or a pretrial diversion program may be disbursed only by the adoption of an ordinance appropriating the funds for one (1) or more of the following purposes:

- (1) Personnel expenses related to the operation of the program.
- (2) Special training for: . . .
 - (D) a law enforcement officer.
- (3) Employment of a deputy prosecutor or prosecutorial support staff.
- (4) Victim assistance.
- (5) Electronic legal research.
- (6) Office equipment, including computers, computer software, communication devices, office machinery, furnishings, and office supplies.
- (7) Expenses of a criminal investigation and prosecution. . . ."

APPROPRIATIONS

The 2011 budget, including the appropriations by major budget classifications for tax supported funds for the City as ordered by the Department of Local Government Finance (DLGF), was significantly less than the budget approved by the City Council. The Clerk-Treasurer recorded the budget/appropriations as approved by the City Council to the City's records, rather than the appropriations approved per the Budget Order of the DLGF.

Per the budget notice (Notice 1782) provided by the DLGF to the City the following was stated, "Continuation of previous years appropriations and levies because budget not properly appropriated."

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Based upon the budgets approved by the DLGF, the following depicts the funds that had disbursements in excess of appropriations:

<u>Fund</u>	<u>Disbursements In Excess of Appropriations</u>
General	\$ 4,052,887
Motor Vehicle Highway	277,477
Park General Obligation Bond	2,900
Cumulative Capital Improvement	4,548
Sanitary District - Bond	4,981

Indiana Code 6-1.1-18-4 states: "Except as otherwise provided in this chapter, 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)."

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."

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 . . ."

DISBURSEMENTS

Consistency of Posting

In accordance with state statutes and guidelines, the State Board of Accounts provides a chart of accounts for Cities and Towns to use to record receipts and disbursements. The City of Lake Station has not consistently or accurately posted disbursements to the appropriate appropriations and/or accounts as follows:

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Fund/Appropriation	Amount	Description
General - City Council - Promotions	\$ 2,316.30	Christmas Sweatshirts
General - Mayor - City Promotions	2,573.70	Christmas Sweatshirts
General - Mayor - Clothing Allowance	1,200.00	Christmas Sweatshirts
General - Mayor - Petty Cash	200.00	Costco Membership Reimbursements
General - Mayor - Petty Cash	165.04	Local restaurant meals
General - Mayor - Petty Cash	13.54	Starbuck's Coffee, Police Officers, Lafayette
General - Mayor - Petty Cash	5.98	Local Market for Creamer
General - Mayor - Petty Cash	79.83	Starbuck's Coffee and Danishes
Municipal - Construction IN	1,352.67	Cash Advisory Services on Building Corp Accts.
Municipal - Construction IN	11,450.00	Engineering and Sampling Analysis for former City Hall
Municipal - Machinery and Equipment	1,712.00	Consulting Services Alternative Energy Review
Municipal - Machinery and Equipment	201.01	Beef Top Round Split, Condiments, Spices, and Trays
Municipal - Machinery and Equipment	547.50	250 Custom Lapel pins for City Hall Grand Opening
Park - Programs	15.96	Cookies for Board Meeting
Refuse - City Promotion	4,261.08	Pyrotechnics Display on September 3, 2011
Refuse - Misc Items	3,180.72	Pens, Hand sanitizer, mugs, jar openers for Sept. Fest City Promotion
Sewage - Building and Structure	145.52	Cookies and cakes
Sewage - Building and Structure	1,513.27	Monthly Lease for I-Connect (Computer backup services)
Sewage - Building and Structure	2,630.00	Audit Fees - Wastewater Utility 2010
Sewage - Building and Structure	79.96	Office Supplies
Sewage - Building and Structure	293.71	Shredder and Cleaning Supplies
Sewage - City Promotion	1,701.54	Pyrotechnics Display on September 3, 2011
Sewage - Materials and Supplies	4,813.60	Software Maintenance Agreement from June, 2011 to May, 2012
Sewage - Official Records	100.00	Utility Payment Refund
Sewage - Other Supplies	1,003.68	Copy Paper
Sewage - Promotional	50.00	Carpet Runners - Mayor's Office
Sewage - Promotional	400.00	School Supplies - donated to School
Sewage - Promotional	490.00	September Fest signs and banners
Sewage - Promotional	840.00	Screen Printed Bags (600)
Sewage - Telephone	1,275.00	Monthly Lease for Computer Software
Sewage - Telephone	1,065.00	Service for Disaster Recovery
Sewage - Telephone	1,275.00	Monthly Lease for Computer Software
Water - Engineering Fees	1,695.00	Audit Fees - Water Utility 2010
Water - Materials and Supplies	2,725.00	Patching of Various Roads
Water - Materials and Supplies	1,455.09	Monthly Lease for I-Connect (Computer backup services)
Water - Materials and Supplies	1,175.00	Patching of Various Roads
Water - Promotional	330.61	School Supplies - donated to School
Water - Repair Parts	4,800.00	Patching of Various Roads

The prescribed chart of accounts does not address city promotion, a mayor's clothing allowance, or petty cash. The following state statutes address clothing allowances for local units of government, none of which apply to a mayor:

Indiana Code 36-8-4-4 states in part: "(a) A city shall provide the active members of the police and fire departments with all uniforms, clothing, arms, and equipment necessary to perform their duties. . . ."

Indiana Code 36-8-12-5 states in part: "(a) Unless otherwise provided by contract, a unit served by a volunteer fire department shall pay to each active and participating member of the department:

(1) a clothing allowance of not less than one hundred dollars (\$100) per year; and . . ."

Indiana Code 36-8-10-4 states in part: "(c) The county shall furnish to the sheriff and his full-time paid county police officers the uniforms or other clothing they need to perform their duties. . . ."

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

The account numbers used in this manual follow the budget classifications contained in Chapter 5. See Definitions, Page 48-1.

The major objective is to provide a chart of accounts inclusive of every disbursement.

Accounts, as prescribed, are to be used in (1) budgeting, (2) accounting and (3) reporting so as to provide maximum information and uniformity in these three stages. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

Indiana Code 5-11-1-2 states in part:

"The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must comply with the following:

- (1) Be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe.
- (2) Exhibit true accounts and detailed statements of funds collected, received, obligated, and expended for or on account of the public for any and every purpose whatever, and by all public officers, employees, or other individuals. . . ."

Shared Disbursements

The City and Utilities share computer software used for billings, collections, and accounts receivable functions. The City is leasing the computer software for which a monthly lease payment of \$1,275 is made. The monthly lease payments made in 2011 were not split among the City and the two utilities. Based upon entries posted to the ledger, the Sewage Utility bore most of the cost of the lease rental.

Furthermore, paper, ink cartridges, and other supplies are purchased in bulk from various vendors. The costs are posted to various departments of the City without documentation provided as to proration of the costs among the departments.

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 for Cities and Towns, Chapter 7)

Approval of Claims

Upon receipt of goods or services, the claim or accounts payable voucher (Prescribed Form 201) is to be signed and dated by the person who was authorized to receive the goods or services under the statement, "I hereby certify that the attached invoice(s), or bill(s), is (are) true and correct and that the materials or services itemized thereon for which charge is made were ordered and received except".

For internal control purposes, the claim indicates to which appropriation the claim will be charged to, so this gives the department head the opportunity to compare the appropriation information per his or her records or purchase order copy to the claim to ensure the disbursement is properly applied to the appropriate fund and account.

Most of the claims tested, even those for disbursements of funds for utilities and road paving projects, were signed as certified by the Mayor.

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10-1.6 states, in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

(2) the invoice or bill is approved by the officer or person receiving the goods and services; . . ."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Claims Paid Prior to Board Approval

The Board of Public Works and Safety adopted resolution 2011-01 on January 4, 2011, which allows for the Clerk-Treasurer to issue certain warrants or checks prior to board approval. This list includes: payroll fund obligations, including wages and withholdings, sales and utility receipts taxes, interest on City bonds, water department billing expense, including postage, health and dental insurance premiums, retirement plan contributions, and "Any and all invoices which would impose a penalty or late charge against the City."

The following is a sampling of claims which were paid prior to board approval, and not authorized by the City's Board of Works Resolution 2011-01 to be paid prior to board approval:

Vendor	Date Paid	Date Approved	Amount	Items Purchased
Dell Marketing LP	04-06-11	04-19-11	\$ 4,129.49	Extended Service Plan
Costco	06-20-11	07-05-11	920.17	Furniture
Costco	06-22-11	07-05-11	1,711.96	Furniture
Costco	06-23-11	07-05-11	2,627.93	Furniture
Costco	06-29-11	07-05-11	3,495.91	Furniture
Northshore	07-12-11	07-19-11	500.00	Donation
Costco	09-30-11	10-04-11	2,978.58	Furniture
KeepIT, Inc.	10-19-11	11-01-11	4,680.00	Assist with Move
Mad Bomber	10-24-11	11-01-11	6,500.00	Pyrotechnics Display September 3, 2011
Grumman/Butkas Assoc.	10-24-11	11-01-11	1,712.00	Consulting Services for Alt. Energy Review
Various Contractors	10-25-11	11-01-11	948,279.97	Construction on new complex

According to the Clerk-Treasurer, for the amounts paid to Costco, the Clerk-Treasurer provided the Mayor with a blank pre-signed check. After the purchase was made, the Mayor would provide the Clerk-Treasurer with the itemized invoice to support the check issued.

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 36-4-8-14 states:

"(a) A city legislative body may adopt an ordinance allowing money to be disbursed for lawful city purposes under this section.

(b) Notwithstanding IC 5-11-10, with the prior written approval of the board having jurisdiction over the allowance of claims, the city fiscal officer may make claim payments in advance of board allowance for the following kinds of expenses if the city legislative body has adopted an ordinance under subsection (a):

- (1) Property or services purchased or leased from the United States government, its agencies, or its political subdivisions.
- (2) License or permit fees.
- (3) Insurance premiums.
- (4) Utility payments or utility connection charges.
- (5) General grant programs where advance funding is not prohibited and the contracting party posts sufficient security to cover the amount advanced.
- (6) Grants of state funds authorized by statute.
- (7) Maintenance or service agreements.
- (8) Leases or rental agreements.
- (9) Bond or coupon payments.
- (10) Payroll.
- (11) State, federal, or county taxes.
- (12) Expenses that must be paid because of emergency circumstances.
- (13) Expenses described in an ordinance.

(c) Each payment of expenses under this section must be supported by a fully itemized invoice or bill and certification by the fiscal officer."

Petty Cash/Reimbursement

As indicated under the heading "Consistency of Posting" above, a check was given to the Mayor for a petty cash fund. This was actually a reimbursement and partial advance payment to the Mayor to cover miscellaneous expenses. The check was dated March 8, 2011, in the amount of \$500. Twenty-eight (28) invoices were attached to the claim to support the disbursement, with dates from January 2010 through March 21, 2011. All but three invoices were for meals and beverages for meetings, of which 11 of the invoices were for Starbucks totaling \$79.83. Only nine of the invoices indicated who the meetings were with,

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

but none of the invoices indicated the nature of the business. For the three invoices which were not for meals or beverages, one was to a local grocer for coffee creamer, while the other two were handwritten generic consecutively numbered receipts prepared by the Mayor to support being reimbursed by the City for his executive membership fees for 2010 and 2011, \$100 each, for the Costco Wholesale Warehouse Store. The total of all of the invoices supported \$464.39 of the \$500 petty cash disbursement.

Two additional checks were issued to "Petty Cash" for the Mayor's petty cash fund. On these two occasions, the checks were posted to the Mayor's promotion account in the General Fund. The first was issued on June 23, 2011, with receipts attached to the claim dated from February 16, 2011 through December 28, 2011. All but 2 of the 12 invoices were for meals or refreshments for meeting or for food items for the office. On December 13, 2011, another \$500 check was issued to "Petty Cash" for the Mayor's petty cash fund. Once again receipts attached to the claim were dated from January 27, 2011 through May 19, 2012. Invoices supporting this claim included meals and tolls while in travel status, for which a travel claim should have been prepared and submitted for reimbursement. A few other invoices were for items for "movie night", a pump for flood in office, and kitty litter "for Office". The pump was purchased on March 17, 2012, while the kitty litter was purchased on June 23, 2010.

Indiana Code 36-1-8-3 states:

"(a) The fiscal body of a political subdivision may establish a petty cash fund for any of its offices in a like manner to that prescribed by section 2 of this chapter.

(b) The custodian of a petty cash fund shall use it to pay small or emergency items of operating expense. A receipt shall be taken for each expenditure made from the fund.

(c) The custodian of a petty cash fund shall periodically file a voucher, with all original receipts totaling the cash claimed expended being attached to it, so that the fund can be reimbursed for expenditures from it. Reimbursement must be approved and made in the same manner as is required for other expenditures of the political subdivision."

Purchasing Bonus

As noted above under "Petty Cash/Reimbursement", the Mayor submitted generic receipts as supporting documentation for the payment of an executive membership to Costco. A receipt issued by Costco was not provided.

The Costco's Executive Membership includes receiving a 2 percent reward up to \$750 on most purchases. Per the Costco website, excluded purchases include tobacco related items, fuel, cash cards, and various other miscellaneous items. The 2 percent reward may only be used to purchase merchandise at Costco. Per Vendor Detail History reports, the City paid \$5,203.58 and \$20,189.45 to Costco in 2010 and 2011, respectively, for purchases made using this executive membership. Based upon the disbursements posted in the vendor history report, the calculated rewards received by the Mayor should have received rewards of at least \$104.07 and \$403.79 in 2010 and 2011, respectively. The Mayor has not provided documentation as to if, when and how, the rewards were spent.

Any compensation, premium, bonus, or product earned as a result of the purchase of goods or services by the governmental unit becomes the property of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

Indiana Code 5-11-10-2 states:

"(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."

PROMOTION OF CITY BUSINESS

The City appropriates and spends funds for promotion of city business from a few funds as indicated below:

<u>Fund/Department</u>	<u>Disbursements</u>
General Fund (101):	
Mayor	\$ 32,947.05
Council	6,091.04
Refuse Department (220)	4,600.00
Water Utility Operating (601)	330.61
Sewage (605)	<u>500.00</u>
Total	<u>\$ 44,468.70</u>

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Some of the claims paid from promotional accounts included invoices for pyrotechnics bills, meals and refreshments for meetings, alarm services, donations, and other miscellaneous items. The City has not adopted an ordinance to allow for promotional expenses.

Indiana Code 36-7-2-7 allows cities and towns to promote economic development and tourism. Such statute replaced a prior law which authorized cities and towns to budget and appropriate funds from the general fund to pay the expenses of, or to reimburse city or town officials as the case may be, for expenses incurred in promoting the best interest of the city or town. Accordingly, a Home Rule ordinance needs to be adopted in accordance with Indiana Code 36-1-3 in order to enable a city or town to pay for such expenses. In an effort to assist cities and towns that have not passed an enabling ordinance but who wish to establish the promotion of business appropriation, we are repeating wording contained in the old statute. Many municipalities have used similar wording in their enabling ordinance.

"City and town councils are authorized to budget and appropriate funds from the general fund of the city, or town, to pay the expenses of or to reimburse city officials or town officials as the case may be for expenses incurred in promoting the best interest of the city or town. Such expenses may include, but not necessarily be limited to, rental of meeting places, meals, decorations, memorabilia, awards, expenses incurred in promoting industrial, commercial, and residential development, expenses incurred in developing relations with other units of government and any other expenses of a civic or governmental nature deemed by the mayor or the town council to be in the interest of the city or town."

This is furnished only for your information. Each city and town should establish, by ordinance, the parameters for such appropriations and expenditures. Such ordinance should list the specific types of promotional expenses which can be paid from moneys appropriated for such purposes. (Cities and Towns Bulletin and Uniform Compliance Guidelines, June, 2002)

CREDIT CARDS

The Board of Works approved Resolution 2011-13 on October 6, 2011, Authorizing Use of a City Credit Card. The Resolution states in part: ". . . the Mayor of the City of Lake Station may authorize City Departments to use the Lake Station city credit card and . . . the credit card shall be used for schools, seminars, lodging and city emergencies only and . . . the issuance and use of the credit card shall be controlled by the Lake Station Clerk-Treasurer . . . custody of the card which will be kept at the Office of the Clerk-Treasurer. . . a receipt for the expenditure shall be delivered by the purchaser to the Clerk-Treasurer. . . In the event, the purchaser does not deliver the receipt for the purchase, the purchaser shall be personally liable for any late payment fees."

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

A review of the credit card activity from August 1, 2011 to August 1, 2012, noted the following deficiencies:

1. Payments for Travel and Education charges were being paid out of the wrong accounts within the correct fund, for example rooms at the Hampton in Indianapolis for Police Schooling from December 13, 2011, were paid out of the Equipment Service Fund. Also rooms at the Westin Indianapolis from November 15, 2011 to November 17, 2011, were paid out the Cell Phone & Radio Equipment Fund.

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. The City incurred, but has not paid, interest charges on the credit card. Interest charges have been incurred from August 2011 to August 2012 (the most recent statement available for examination) totaling \$136.50.

This interest has been accumulating, because in accordance with the state statutes and guidelines, the Clerk-Treasurer has not been remitting payment on charges for which itemized vendor invoices have not been provided to her for payment. Below is a listing of the unpaid charges:

<u>Incurred Date</u>	<u>Amount</u>	<u>Vendor</u>	<u>Invoice Provided/ Date Paid</u>	<u>Number of Days Outstanding</u>	<u>Cardholder</u>	<u>Amount Remaining Outstanding</u>
01-27-11	\$ 32.10	Dunkin Donuts			Keith Soderquist	\$ 32.10
02-01-11	35.36	Dennys	09-11-11	222	Keith Soderquist	
02-02-11	30.27	Burger King	09-11-11	221	Keith Soderquist	
02-02-11	15.65	Dunkin Donuts	09-11-11	221	Keith Soderquist	
02-03-11	23.47	Culvers	09-11-11	220	Keith Soderquist	
02-02-11	32.75	Long Johns Silvers	09-11-11	221	Keith Soderquist	
03-28-11	191.00	GCTWholesale			Ray Ostrander	191.00
06-17-11	118.90	Southwest Airlines	03-29-12	286	Mike Stills	
06-17-11	118.90	Southwest Airlines	03-29-12	286	Mike Stills	
05-26-11	10.14	Redneck Trailers	06-19-12	390	Ray Ostrander	
05-31-11	26.30	Redneck Trailers	06-19-12	385	Ray Ostrander	
07-14-11	207.27	Swirled Ice	03-20-12	250	Dewey Lemley	
07-06-11	120.00	Indiana Pest Mgmt.	06-19-12	349	Ray Ostrander	
09-02-11	242.43	Lowe's	03-09-12	189	Ray Ostrander	
09-02-11	25.01	Dennys	03-09-12	189	Keith Soderquist	
09-02-11	294.00	Best Western	04-22-12	233	Mike Stills	
10-12-11	446.41	MyShopAngel	03-29-12	169	Mike Stills	
10-13-11	75.00	MyShopAngel	03-29-12	168	Mike Stills	
10-12-11	28.00	Marriott	05-07-12	208	Keith Soderquist	
10-19-11	53.50	Walgreens			Dewey Lemley	53.50
Totals	<u>\$2,126.46</u>					<u>\$ 276.60</u>

3. The City also incurred late payment fees for making payments below the minimum payment amount after the due date. Fees incurred for late payments from August 2011 to August 2012 totaled \$68.00.
4. The City also incurred a fee and interest charges from a \$270.00 cash advance taken on November 15, 2011, by the Sanitary Superintendent. There was a \$10.00 fee plus \$18.30 in interest charges associated with the cash advance.

We recommended the Clerk-Treasurer obtain the documentation for all of the remaining unpaid invoices from the responsible parties, and in compliance with the City's Resolution assess each for their proportionate share of the fees and interest charges incurred, but not yet paid by the City.

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.

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

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 card 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)

Accounts, as prescribed, are to be used in (1) budgeting, (2) accounting and (3) reporting so as to provide maximum information and uniformity in these three stages. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ALCOHOL AND DRUG MONITORING PAYROLL

As stated in the prior audit, a court employee was paid \$250 per month as the Alcohol and Drug Program Monitor. The \$250 stipend was paid on a vendor claim for which the compensation was included on a Federal Miscellaneous Income Report (Federal Form 1099-M). This compensation was not included in the Salary Ordinance, nor was there a contract for the services.

In 2012, the position of Alcohol and Drug Program Monitor was added to the Salary Ordinance at the rate of \$3,700 per year. The current Alcohol and Drug Program Monitor is paid at the rate of \$291.66 per month, which complies with the Salary Ordinance; however, the former Alcohol and Drug Program Monitor who worked from January 1, 2012 through June 30, 2012, was paid \$250 per month.

On December 16, 2011, a "Payroll Status Change" was signed by the City Judge authorizing the reduction from \$3,700 per year to \$3,500 per year for the former Alcohol and Drug Program Monitor.

Indiana Code 36-4-7-3 states in part:

"(a) This section does not apply to compensation paid by a city to members of its police and fire departments.

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

(c) Compensation fixed under this section may be increased or decreased by the executive during the budget year for which it is fixed."

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)

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(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)

FRINGE BENEFITS NOT REPORTED ON FEDERAL WAGE AND TAX STATEMENTS (FORM W-2)

The Mayor and other Department heads and/or employees are provided with vehicles which are taken home. Take-home vehicles are considered taxable fringe benefits to be included as compensation on the employee's Federal Wage and Tax Statement (Form W-2). The value of the take-home vehicles has not been included on the Form W-2 as required by Internal Revenue Service guidelines.

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)

CERTIFIED REPORT OF NAMES, ADDRESSES, DUTIES, AND COMPENSATION OF PUBLIC EMPLOYEES (FORM 100-R)

The City reported the names of officers, employees, duties, and compensation on the Form 100R. The report was dated and submitted on December 31, 2011, but included compensation which was effective beginning in January 2012. In accordance with state statutes, the report is to be prepared during the month of January.

The report prepared and submitted by the City excluded the compensation for elected officials which is paid from the Utilities or other funds. Additional compensation paid to Council Members for serving on other boards was also excluded. Finally, only the compensation paid for serving on a board was reported for one individual who is also employed as a department supervisor.

Indiana Code 5-11-13-1 states:

"(a) Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state or of any county, city, town, or township, and every state, county, city, town, or township employee or agent who is the head of, or in charge of, or the executive officer of any department, bureau, board, or commission of the state, county, city, town, or township, and every executive officer by whatever title designated, who is in charge of any state educational institution or of any other state, county, or city institution, 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 business addresses of each and all officers, employees, and agents in their respective offices, departments, boards, commissions, and institutions, 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. However, no more than one (1) report covering the same officers, employees, and agents need be made from the state or any county, city, town, township, or school unit in any one year."

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

TEMPORARY LOAN

A temporary loan of \$20,000 was made in 2011 from the Water Deposits Fund to the Water Utility Operating Fund, which was not repaid by December 31, 2011. A resolution was approved declaring an emergency to extend the loan for six more months through June 30, 2012. This loan was not repaid until September 30, 2012.

Indiana Code 36-1-8-4 concerning temporary loans states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

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

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

PENALTIES, INTEREST, AND OTHER CHARGES - WATER UTILITY

Penalties and interest totaling \$41.87 were paid to the Indiana Department of Revenue on July 19, 2011, for the quarters ended September 30, 2009 and April 30, 2011, in relation to Indiana Sales tax returns. A similar comment appeared in the prior audit.

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

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

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

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

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

**INTERNAL CONTROLS AND COMPUTER GENERATED REPORTS -
WATER AND SEWAGE UTILITIES AND REFUSE DEPARTMENT**

Accounts Receivable Balances

The Utilities use computer software to record and maintain billings, collections, adjustments and amounts owed by customers on unpaid bills (accounts receivable balances) for water, sewage and refuse services. System generated reports provided for audit were not consistent, and could not be verified as accurate.

We were provided with a "Billing Register" (Billing Register) report as well as an "Open Accounts Receivable" (Accounts Receivable) report for each month. Accounts receivable balances are reported on both reports; however, significant differences exist between the two accounts receivable reported balances. The Accounts Receivable balance reported on the Accounts Receivable Report exceeded the Accounts Receivable balance on the Billing Report by \$160,470.78. Both reports were dated December 1, 2011, and based upon the computer time stamp on the reports, the Billing Report was run prior to the Accounts Receivable Report.

The user has the ability to generate both the Billing Report and the Accounts Receivable Report with detail. A detail report will list each individual account and account balance. Only two (January and March, 2011) of the Accounts Receivable Reports provided for audit provided this detail. All of the Billing Reports provided the detail.

The Accounts Receivable Balances reported on each report do not remain consistent, and the Billing Reports and Accounts Receivable Reports are not always generated on the same date. We attempted to compare the balances reported as of December 31, 2010 and 2011, but the Billing Report and Accounts Receivable Reports were generated on different dates. The Billing Reports were generated on December 28, 2010, and on January 4, 2012, for December 31, 2010 and 2011, respectively. The Accounts Receivable Reports were generated on January 3, 2011 and 2012.

Since the reports were not generated on the same dates, the accounts receivable balances were adjusted for collections made between report dates, if necessary. Also included is a comparison of the Accounts Receivable balances from the reports generated on December 1, 2011, since they were both generated on the same date.

Per Billing Register Report				Per Accounts Receivable Report		Difference Between Accounts Receivable Balances
Billing Report Date	Accounts Receivable Balance	Adjustment for Collections	Adjusted Accounts Receivable Balance	Accounts Receivable Report Date	Accounts Receivable Balance	
12-28-10	\$ 560,283.18	\$ (26,292.71)	\$ 533,990.47	01-03-11	\$ 1,004,505.60	\$ (470,515.13)
12-01-11	516,988.02	-	516,988.02	12-01-11	677,458.80	(160,470.78)
01-04-12	548,963.03	7,449.58	556,412.61	01-03-12	720,812.93	(164,400.32)

The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely. Procedures must also exist to assure that only authorized individuals have access to computer generated output. All receipts or payments generated by the accounting system must include unique document identification numbers either preprinted on the form or printed on the form by the application system. If the numbers are printed on the form by the application system, adequate security

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

must be implemented to prevent unauthorized modification of the number sequence. Preprinted receipt and check stock must not include preprinted signatures, must be securely stored, and usage must be logged and reconciled. If the report content can be modified via user selection of various criteria such as account codes, department codes, transaction codes, status codes, etc., the report heading should contain sufficient information regarding the selection criteria to allow another user to understand what information is being reported and recreate the report. All output reports must clearly indicate the effective dates of the information in addition to the report generation date. Output reports must have appropriate subtotals to allow reconciliation to other reports and to external documentation. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Record Retention

Officials were assured by the computer software providers that they would be paperless. As such, requested records would be available electronically; however, historical records could not be retrieved from the system. For example, on September 18, 2012, we requested a Detailed Accounts Receivable Report with balances as of December 1, 2011 and December 31, 2011. The reports were provided; however, the balances and activity was as of September 18, 2012.

Public records, financial statement information and supporting information generated through the computer system must be maintained in a manner that will allow access for audit and public inquiry on equipment of the governmental unit. (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.

Prior to 2011, all meter deposits were maintained in the Water Utility Operating Fund. In 2011, the Water Utility created a Water Deposits Fund. All meter deposits collected in 2011 were posted to the Water Deposits Fund; however, no transfers were made from the Water Utility Operating Fund to account for collections prior to 2011. Thus, the combined cash balance of the Water Utility Operating and Water Deposits Funds must be at least equal to, if not greater than, the balance of the Guarantee Deposit Register at any given time.

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

A detailed deposit register as of December 31, 2011, had a balance of \$169,346. The Water Utility Operating and Water Deposits Funds' cash balances at December 31, 2011, were only \$553 and \$2,450; respectively. The combined cash balance of both funds was significantly less than the deposit register balance. The Water Utility has continued to use customer deposits to fund daily operations.

A similar comment appeared in the prior audit.

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)

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 - WATER UTILITY

During a cursory review of the Water Utility's calculation of Utility Receipts Tax, we noted the following errors:

1. Sales tax was included in the calculation.
2. The Utility used 1.5 percent as the tax rate instead of the correct percentage of 1.4 percent.
3. The Utility failed to include collections for water penalties, hydrant rental, and reconnect fees in their tax calculation.

These errors caused the Utility to overpay their utility receipts tax by \$1,624 for the 2011 calendar year. Although the Utility received a refund on their annual tax return, they failed to correct the issues addressed above. The total sales, as listed on their annual return, was simply the sum of the total sales, which included sales tax as calculated and reported on the four quarterly reports.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to IC 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 6-2.3-2-2 states: "The receipt of taxable gross receipts from transactions is subject to a tax rate of one and four-tenths percent (1.4%)."

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 6-2.3-3-4 states:

"(a) Gross receipts do not include collections by a taxpayer of a tax, fee, or surcharge imposed by a state, a political subdivision, or the United States if:

- (1) the tax, fee, or surcharge is imposed solely on the sale at retail of utility services;
- (2) the tax, fee, or surcharge is remitted to the appropriate taxing authority; and
- (3) the taxpayer collects the tax, fee, or surcharge separately as an addition to the price of the utility service sold.

(b) Gross receipts do not include collections by a taxpayer of a tax, fee, or surcharge that is:

- (1) approved by the Federal Communications Commission or the utility regulatory commission; and
- (2) stated separately as an addition to the price of telecommunication services sold at retail."

CAPITAL ASSET RECORDS

The City maintains a record of capital asset additions and disposals in a capital asset register (a prescribed form).

As stated in prior reports, only additions and disposals of land, buildings, and machinery and equipment are included in the capital asset register. Infrastructure, such as roads, pumping stations, water and wastewater distribution lines are not included in the capital asset records.

Furthermore, the capital asset records do not include furniture, as well as the numerous additions of machinery, equipment, and furniture purchases to equip the new Municipal Complex. Amounts have been added to land and buildings for the new Municipal Complex, but records to support the accuracy of the amounts included as additions were not maintained.

The accumulation of capital assets remaining at December 31, 2011, per the capital asset register does not agree to the balance of capital assets reported in the Schedule of Capital Assets included as Supplementary Information in the Examination Report for 2011.

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)

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

DEPOSITS - PARK

As stated in the prior audit, collections for facility rentals receipted in 2010 and 2011 were held for periods exceeding one week prior to being deposited. Officials continued to hold collections in 2012 for up to twenty days before being deposited. Officials indicated that they try to make deposits at least once per week, but during the winter months when business slows down, collections may be held for longer periods of time. Collections tested for 2012 included winter and summer months with the results being similar.

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. . . ."

PUBLIC RECORDS RETENTION - PARK

The Park Department uses a cash register to record sales of concessions. A "Z Tape" is produced from the register which documents sales transactions in detail and summary form. After each Z Tape is produced, the sales information is cleared from the register. Each Z Tape produced from the cash register is sequentially numbered.

A review of Z Tapes produced for a one-month period showed that four Z Tapes could not be provided for audit. Because the Z Tapes were not provided for audit, we could not determine if any collections from sales of concessions were associated with the missing Z Tapes.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, 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 Cities and Towns, Chapter 7)

INTERNAL CONTROLS - EMERGENCY MEDICAL SERVICES (EMS)

The City contracts with AccuMed to perform billing, collections and accounts receivable functions over the emergency medical services (ambulance or EMS) services provided.

The City provides AccuMed with bank deposit books, so collections can be deposited directly into the City's bank account. At the time a deposit is made, AccuMed sends a facsimile to the Clerk-Treasurer indicating the customer account information and collection amounts deposited. Based upon this information, the Clerk-Treasurer issues a receipt to account and record the collections in the City's records.

Insurance carriers generally pay by electronically transferring the funds into the City's bank account. Those collections are not receipted by the Clerk-Treasurer until she receives the bank statement. AccuMed does not provide any supporting documentation for the individual electronic deposit amounts.

CITY OF LAKE STATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

At the end of each month, AccuMed provides a billing statement for their services, which includes information on all customer collections for the month, including the insurance collections. A comparison of the collections reported on the AccuMed statement to the receipts and deposits recorded in the City's records for a period of five months (March through July) in 2011 indicated differences ranging from cash long for one month of \$121.32 to cash shortages for the other four months ranging from \$333.59 to \$2,186.87. Currently, officials do not have controls in place which allow for a comparison of such documents.

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)

POLICE DEPARTMENT PETTY CASH

The Police Department has a petty cash fund which the current Police Chief states has not been used during his term. A cash count was performed on October 30, 2012, indicating the fund is short by \$26.50.

Also, the Police Chief is holding a \$1,000 check from North Shore Health Systems dated September 26, 2011 with the petty cash. The money was provided for use by "first responders" on the tenth anniversary of 9/11. It is unclear as to why this check was not remitted to the Clerk-Treasurer for receipt and deposit.

Indiana Code 36-1-8-3(a) states: "The fiscal body of a political subdivision may establish a petty cash fund for any of its offices in a like manner to that prescribed by section 2 of this chapter."

Indiana Code 36-1-8-2(c) states: "The fiscal body shall require the entire cash change fund to be returned to the appropriate fund whenever there is a change in the custodian of the fund or if the fund is no longer needed."

The Attorney General held in Official Opinion No. 68 of 1961 that no further appropriation by other officials of government is necessary to expend monies donated for the specific purpose designated by the donor of the gift.

Such donation should be receipted into a separate fund properly titled, such monies not to be commingled with any other monies received by the city or town. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on December 10, 2012, with Brenda Samuels, Clerk-Treasurer; Keith Soderquist, Mayor; Garry Szostek, President of the Common Council; and James B. Meyer, City Attorney. The Official Response has been made a part of this report and may be found on pages 56 through 61.



3701 Fairview Ave. Lake Station, IN 46405

Phone: (219) 962-3111 Fax: (219)963-9275

Clerk-Treasurer: Brenda Samuels

"OFFICIAL RESPONSE"

December 24, 2012

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

Mary Jo Small
msmall@sboafe.in.gov

RE: SBOA exit conference of 12/10/12 for 2011

Responses

1) OVERDRAWN CASH BALANCES

When I took office as Clerk Treasurer in January 2008, after all bills were paid, the true general fund balance for 2007 would have been well over \$1,000,000.00 in the red. This will take years to overcome but we will continue to lower our expenditures until we can rectify this issue.

2) EXCLUDED ACTIVITY FROM THE CITY'S FINANCIAL REPORTS

A) Financial Statement

2011 was the first year of the Gateway system and I was unaware the Court needed to be included. Being made aware, the Court has already been entered into the Gateway system for 2011.

B) Schedule of Federal Expenditures

2011 was the first year of the Gateway system and I was unaware the Federal Expenditures schedule needed to be included. This will be corrected for future Federal Expenditures.

C) Schedule of Financial Assistance to Non-Governmental Entities

2011 was the first year of the Gateway system and I was unaware that financial assistance to non-governmental entities needed to be included. This will be corrected for future donations.

3) STORM WATER FEE

The City has been advised by its Assistant City Attorney and financial consultant of the following:

IC 36-9-1-8 defines "Sewage Works" to include storm sewers (item 8) and any other structures necessary or useful for the collection, treatment, purification, and sanitary disposal of storm drainage and other drainage of a municipality. Clearly, this would include infrastructure necessary to implement the MS4 storm water management requirements imposed on the City under Indiana Code and 327 IAC 15-13.

IC 36-9-6-2 provides that the City's Board of Works is to supervise sewers and other City property and shall keep them in repair and good condition. IC 36-9-6-10 authorizes the Board of Works to construct and maintain storm sewers and drains and IC 36-9-6-12 adds culverts to the list.

IC 36-9-23-3 provides that the Board of Works is to construct, operate, and maintain the City's sewage works which, as pointed out above, includes storm sewers and other structures used to collect, transport, and treat storm water and other drainage of the City.

IC 36-9-23-23 provides that the City Council must establish just and equitable fees for services rendered by the sewage works by ordinance and that those fees must be sufficient to properly maintain and operate the sewage works.

Thus, Indiana law clearly allows the City Council to establish fees for the collection and treatment of storm water without any requirement that a separate board and department be set up under IC 8-1.5-5-1, et seq. In fact, the very language cited in the audit from IC 8-1.5-5-1 provides that that chapter only applies to a municipality "that adopts the provisions of this chapter by ordinance." It does not say that a city must adopt those provisions. Thus, while the City could certainly have adopted chapter IC 8-1.5-5, as advocated in the Audit, and created a storm water department governed by a separate board if it had wanted to, there is nothing in the law cited in the audit or any other provision of the Indiana Code mandating that it do so. As demonstrated in other parts of the Audit, the City cannot afford to waste any of the money it collects from its citizens and the Mayor and Council always strive to operate as efficiently as possible. Therefore, the Mayor and the City Council did not see the need to create another costly bureaucracy merely to be able to adopt and collect fees to operate and maintain its storm water system when that could be done legally and much more efficiently and cost effectively without the additional that additional bureaucracy of a storm water utility.

As a final point on this issue, it should be noted that the cities of Angola, Columbia City, Fortville, and Plymouth have also adopted storm water fee ordinances without creating a storm water utility and it is believed that, for and before the year ending December 31, 2011 this has not been raised as an issue in their audits. The City believes there should be uniformity in the application of law.

In regards to the Audit's criticism of the City's storm water fees being collected by adding them as a separate charge on property tax bills issued by the County, again the City was implementing its philosophy of being as frugal as possible with the citizens' money. The alternative to collecting the storm

water fees through the County would have been to incur the substantial cost to send out individual bills for the storm water fee. The City's utility billing process could not be used since it only sends bills to customers of those utilities, not to owners of unimproved property in the City of which there are a substantial number. The one time fee paid to the County to modify the tax bills to include the storm water fee was substantially smaller than the cost the City would have to incur annually for the manpower, supplies, and postage to be able to print and mail individual storm water fee bills to all property owners in the City.

The laws cited in the Audit apply to property taxes and charges based on "assessments," not storm water fees. The cited language of IC 6-1.1-22-9 specifically refers to "property taxes" as being collected in the following year. Storm water fees are collectable upon the proper passage of an ordinance. Also, the laws cited in the Audit from Title 6 of the Indiana Code state what may be done, they do not prohibit the City and County from using the property tax bills as the vehicle by which to collect the City's storm water fees. Indiana Home Rule law, IC 36-1-3-1, et seq., provides that "The policy of the state is to grant units all powers that they need for the effective operation of government as to local affairs." (Emphasis added) IC 36-1-3-2 It allows the City and County to exercise their power "as long as it is not expressly denied by statute" [IC 36-1-3-5(a)] and that each has all "powers necessary or desirable in the conduct of its affairs even though not granted by statute." IC 36-1-3-4(b)(2) There is no statutory provision cited forbidding the City and County from using property tax bills to collect the City's storm water fees.

The City act of saving its citizens a substantial amount of money by using the cost effective and efficient method of using the property tax bills as the vehicle to collect its storm water fees is not prohibited by statute and is clearly in the best interests of its citizens. The County also helps its citizens to enjoy those savings and gets funds to help defray some of its fixed cost for sending out property tax bills which benefits all County taxpayers. The City submits that this practice also clearly advances the interest of the State and its citizens in having the most efficient and effective local government operations through reduction of duplication of effort and increased intergovernmental cooperation.

4) FUNDS NOT PROPERLY ESTABLISHED FOR COURT FEES

Funds 219 and 307 were both in effect prior to our administration in 2008. The 3 new Deferral funds were set up by ordinance and approved by State Board of Accounts in Indianapolis.

5) APPROPRIATIONS

The city is operating on a total budget concept while it is in its recovery. Over time, as funds become available via budget planning and budget savings, the city will budget each fund separately. This process will take multiple years to complete. Our improving fund balances are evidence of this improvement.

6) DISBURSEMENTS

A) Consistency of Posting

We will address this issue with all employees to ensure they understand the proper procedure.

B) Shared Disbursements

Many departments share in many of the costs to run the department. As we move forward we will be more descriptive.

C) Approval of Claims

When possible the supervisor will sign off on the claims, but someone will sign acknowledging receipt for all claims.

D) Claims Paid Prior to Board Approval

The Board of Works has approved the payment of bills to avoid late fees which are not allowed.

E) Petty Cash/Reimbursement

Petty cash fund is used on behalf of the city and following state code 36-1-8-3.

F) Purchasing Bonus

The rebate was used for the City.

7) PROMOTION OF CITY

The City did adopt Ordinance #2005-44 on December 28, 2005 for City Promotion Funds, attached to this response.

8) CREDIT CARDS

All old charges to the City's credit cards have now been submitted and paid. The credit card company has since made adjustments deleting fees/interest, and the account is completely current, with only charges less than 30 days old.

9) ALCOHOL AND DRUG MONITORING PAYROLL

We have already placed the Alcohol Monitor into Court payroll, both on the Salary Ordinance and the Budget, effective January 1, 2012, and we are paying the correct amount per the Salary Ordinance.

10) FRINGE BENEFITS NOT REPORTED ON FEDERAL WAGE AND TAX STATEMENTS (FORM W-2)

The payroll department was unaware of whom, if anyone, other than the mayor, had a take home vehicle. We have now been supplied a list of employees that have this benefit and effective on our next payroll, said employees have already been notified this will be included in their compensation.

11) CERTIFIED REPORT OF NAMES, ADDRESSES, DUTIES, AND COMPENSATION OF PUBLIC EMPLOYEES (FORM 100-R)

We were unaware that our software didn't incorporate this information into this form. We have already initiated the process with our software tech support to take care of this issue.

12) TEMPORARY LOAN

We will be more careful in the future, this was an oversight.

13) PENALTIES, INTEREST AND OTHER CHARGES – WATER UTILITY

This was mostly due to new employees and change of responsibilities with employees. The Clerk Treasurer's office will make a schedule of when monthly and quarterly payments are due, and make sure the department responsible for those duties; submits them in a timely fashion.

14) INTERNAL CONTROLS AND COMPUTER GENERATED REPORTS – WATER AND SEWAGE UTILITIES AND REFUSE DEPARTMENT

A) Accounts Receivable Balances

Utility department will upgrade the software program.

B) Record Retention

Utility department will upgrade the software program.

15) CONSUMER METER DEPOSITS – WATER UTILITY

This is mostly due to the fact that the Water Utility has been greatly underfunded for many years. The City implemented a rate increase to help rectify the problem by increasing the available balance in the Utility; and hope to have the funds balanced in the near future

16) UTILITY RECEIPTS TAX – WATER UTILITY

This was mostly due to new employees and change of responsibilities with employees. The Clerk Treasurer's office will be contacting the Indiana Department of Revenue to help the Utility department make sure they are calculating the Utility Receipts Tax correctly.

17) CAPITAL ASSET RECORDS

As we have stated in the past, we will rectify this problem when funding is available.

18) DEPOSITS – PARK

We thought the issue had been corrected. We'll instruct the Park Director to make sure they get their deposits into the bank in a more timely manner.

19) PUBLIC RECORDS RETENTION – PARK

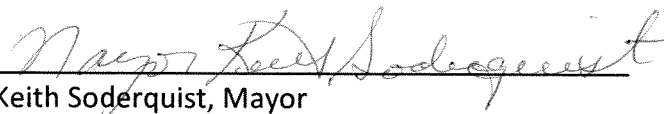
This has been addressed with the Superintendant with the Park.

20) INTERNAL CONTROLS – EMERGENCY MEDICAL SERVICES (EMS)

We have already been in contact with AccuMed to make sure we have all the necessary documentation to verify that the fees charged to the city for the amount of money the City should have received is correct. We started balancing with January 2012, and hope to be current before year end.

21) POLICE DEPARTMENT PETTY CASH

The current police chief has never used the petty cash in the police department since he took office January 1, 2012. Therefore, the remaining petty cash and the check have now been turned into the Clerk Treasurer's office and receipted. The current police chief no longer has a petty cash fund.



Keith Soderquist, Mayor

12-24-12

Date



Brenda Samuels, Clerk Treasurer

12-24-12

Date