

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF LOWELL
LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
10/30/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Judith Walters	01-01-12 to 12-31-15
President of the Town Council	Phillip Kuiper Edgar Corns	01-01-12 to 12-31-12 01-01-13 to 12-31-13
Superintendent of Water Utility	Daniel W. Myers	01-01-12 to 12-31-13
Superintendent of Wastewater Utility	Terrance B. Wright	01-01-12 to 12-31-13



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF LOWELL, LAKE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Lowell (Town), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the Town prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a 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 the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Town for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2013, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Town'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 auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

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



Bruce Hartman
State Examiner

October 3, 2013



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF LOWELL, LAKE COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Town of Lowell (Town), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated October 3, 2013, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

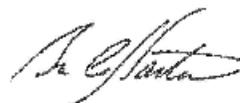
As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01.

Town of Lowell's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

October 3, 2013

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FINANCIAL STATEMENT

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

TOWN OF LOWELL
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 361,779	\$ 3,318,863	\$ 3,153,901	\$ 526,741
Motor Vehicle Highway	62,164	952,482	865,282	149,364
Local Road And Street	58,922	88,840	61,034	86,728
Abandoned Vehicle	774	-	-	774
Law Enforcement Continuing Ed	52,862	28,311	34,495	46,678
Clerk's Records Perpetuation	12,232	6,415	2,960	15,687
Gambling Revenue	351,728	218,364	212,413	357,679
Parks And Recreation	17,859	449,477	452,243	15,093
Adult Probation Services	20,203	22,146	23,881	18,468
Cumulative Capital Development	447,032	141,373	-	588,405
Park Capital Improvement	21,519	-	-	21,519
Cumulative Building & Equipment	152,563	38,746	7,176	184,133
Cumulative Capital Improvement	115,402	24,602	26,217	113,787
Police Pension	113,862	84,825	96,070	102,617
Lowell Town Court	110,596	749,928	771,142	89,382
Debt Service	-	95,945	93,715	2,230
Petty Cash	225	-	-	225
Donations	11,176	25,767	24,728	12,215
Solid Waste Non-Rev	173,790	642,708	630,466	186,032
Park Gift	10,432	11,552	13,671	8,313
Sidewalk & Yard Escrow	7,570	5,000	4,000	8,570
Police Grant	4,290	42,139	42,737	3,692
Unclaimed Property	268	-	-	268
Public Safety Welfare	40,393	-	35,540	4,853
Freedom Park	22,909	32,275	41,880	13,304
Park Bond (Payments)	65,410	59,878	61,482	63,806
Cumulative Sewer	231,545	10,396	32,289	209,652
Cumulative Non-Rev Insurance	24,897	5,284	1,059	29,122
Cumulative Economic Development	1	9,450	4,670	4,781
Payroll	1,105	3,064,011	3,064,261	855
Cafe-Section 125	-	74,408	74,408	-
SRF Lowell Wastewater	-	4,523,835	4,523,835	-
SRF Lowell Wastewater Debt Service Reserve	1,074,919	-	-	1,074,919
SRF Lowell WW Bond And Interest	-	1,064,448	116,595	947,853
Wastewater Utility Operating	497,357	2,412,468	2,472,143	437,682
Wastewater Utility Bond And Interest	371,797	1,020,439	1,064,448	327,788
Wastewater Utility Deprec/Improve	2,990,154	1,787,251	1,356,505	3,420,900
Wastewater Utility Customer Deposit	76,550	7,475	6,575	77,450
Wastewater Operating Reserve	88,500	-	88,500	-
Wastewater Utility Debt Reserve	-	-	-	-
SRF Construction Fund	55,025	10	55,035	-
Water Utility Operating	333,808	2,073,150	1,996,045	410,913
Water Utility Bond And Interest	8,392	4,482,235	4,294,694	195,933
Water Utility Deprec/Improve	651,660	176,154	-	827,814
Water Utility Customer Deposit	84,649	9,452	8,688	85,413
Water Utility Debt Reserve	377,908	71	46,920	331,059
Totals	<u>\$ 9,104,227</u>	<u>\$ 27,760,173</u>	<u>\$ 25,861,703</u>	<u>\$ 11,002,697</u>

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

TOWN OF LOWELL
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council 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 Town.

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, 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 Town.

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,

TOWN OF LOWELL
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, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

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

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

Penalties which include fees received for late payments.

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 Town. It includes all expenditures for the reduction of the principal and interest of the Town'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.

TOWN OF LOWELL
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

F. Interfund Transfers

The Town 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 Town. 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 Town. 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 Town 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 Town 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 Town 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.

TOWN OF LOWELL
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 Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The Town 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 Town 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 Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 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

TOWN OF LOWELL
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

Funding Policy

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

TOWN OF LOWELL
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 7. Subsequent Event

State Revolving Fund (SRF)

The American Recovery and Reinvestment Act of 2009 Bond Anticipation Note was forgiven on April 15, 2013, under the State Revolving Fund Loan Program, for \$280,000. These funds were used to install the radio based automatic meter reading drive-by system with billing and records capabilities.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's 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 Town which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF LOWELL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Abandoned Vehicle	Law Enforcement Continuing Ed	Clerk's Records Perpetuation	Gambling Revenue
Cash and investments - beginning	\$ 361,779	\$ 62,164	\$ 58,922	\$ 774	\$ 52,862	\$ 12,232	\$ 351,728
Receipts:							
Taxes	1,920,481	368,401	-	-	-	-	-
Licenses and permits	204,294	-	-	-	6,590	-	-
Intergovernmental	226,794	270,738	88,840	-	-	-	88,031
Charges for services	10,209	-	-	-	13,523	-	-
Fines and forfeits	122,887	-	-	-	3,717	6,415	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	834,198	313,343	-	-	4,481	-	130,333
Total receipts	<u>3,318,863</u>	<u>952,482</u>	<u>88,840</u>	<u>-</u>	<u>28,311</u>	<u>6,415</u>	<u>218,364</u>
Disbursements:							
Personal services	1,715,404	357,673	-	-	-	-	-
Supplies	87,620	105,529	-	-	-	2,960	-
Other services and charges	525,392	102,080	7,235	-	10,634	-	-
Debt service - principal and interest	-	-	49,144	-	-	-	-
Capital outlay	-	-	4,655	-	23,861	-	192,454
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	825,485	300,000	-	-	-	-	19,959
Total disbursements	<u>3,153,901</u>	<u>865,282</u>	<u>61,034</u>	<u>-</u>	<u>34,495</u>	<u>2,960</u>	<u>212,413</u>
Excess (deficiency) of receipts over disbursements	<u>164,962</u>	<u>87,200</u>	<u>27,806</u>	<u>-</u>	<u>(6,184)</u>	<u>3,455</u>	<u>5,951</u>
Cash and investments - ending	<u>\$ 526,741</u>	<u>\$ 149,364</u>	<u>\$ 86,728</u>	<u>\$ 774</u>	<u>\$ 46,678</u>	<u>\$ 15,687</u>	<u>\$ 357,679</u>

TOWN OF LOWELL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Parks And Recreation	Adult Probation Services	Cumulative Capital Development	Park Capital Improvement	Cumulative Building & Equipment	Cumulative Capital Improvement	Police Pension
Cash and investments - beginning	\$ 17,859	\$ 20,203	\$ 447,032	\$ 21,519	\$ 152,563	\$ 115,402	\$ 113,862
Receipts:							
Taxes	203,824	-	128,297	-	34,301	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	20,773	-	13,076	-	3,495	24,602	-
Charges for services	48,289	-	-	-	950	-	-
Fines and forfeits	-	22,146	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	176,591	-	-	-	-	-	84,825
Total receipts	<u>449,477</u>	<u>22,146</u>	<u>141,373</u>	<u>-</u>	<u>38,746</u>	<u>24,602</u>	<u>84,825</u>
Disbursements:							
Personal services	189,644	18,502	-	-	-	-	95,950
Supplies	32,837	455	-	-	-	-	-
Other services and charges	53,863	4,924	-	-	-	-	120
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	7,176	26,217	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	175,899	-	-	-	-	-	-
Total disbursements	<u>452,243</u>	<u>23,881</u>	<u>-</u>	<u>-</u>	<u>7,176</u>	<u>26,217</u>	<u>96,070</u>
Excess (deficiency) of receipts over disbursements	<u>(2,766)</u>	<u>(1,735)</u>	<u>141,373</u>	<u>-</u>	<u>31,570</u>	<u>(1,615)</u>	<u>(11,245)</u>
Cash and investments - ending	<u>\$ 15,093</u>	<u>\$ 18,468</u>	<u>\$ 588,405</u>	<u>\$ 21,519</u>	<u>\$ 184,133</u>	<u>\$ 113,787</u>	<u>\$ 102,617</u>

TOWN OF LOWELL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Lowell Town Court	Debt Service	Petty Cash	Donations	Solid Waste Non-Rev	Park Gift	Sidewalk & Yard Escrow
Cash and investments - beginning	\$ 110,596	\$ -	\$ 225	\$ 11,176	\$ 173,790	\$ 10,432	\$ 7,570
Receipts:							
Taxes	-	87,071	-	-	-	-	-
Licenses and permits	-	-	-	-	250	-	-
Intergovernmental	-	8,874	-	-	-	-	-
Charges for services	-	-	-	-	642,443	-	-
Fines and forfeits	749,928	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	25,767	15	11,552	5,000
Total receipts	<u>749,928</u>	<u>95,945</u>	<u>-</u>	<u>25,767</u>	<u>642,708</u>	<u>11,552</u>	<u>5,000</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	1,880	13,671	-
Other services and charges	-	-	-	-	75	-	-
Debt service - principal and interest	-	93,715	-	-	-	-	-
Capital outlay	-	-	-	-	12,354	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	771,142	-	-	24,728	616,157	-	4,000
Total disbursements	<u>771,142</u>	<u>93,715</u>	<u>-</u>	<u>24,728</u>	<u>630,466</u>	<u>13,671</u>	<u>4,000</u>
Excess (deficiency) of receipts over disbursements	<u>(21,214)</u>	<u>2,230</u>	<u>-</u>	<u>1,039</u>	<u>12,242</u>	<u>(2,119)</u>	<u>1,000</u>
Cash and investments - ending	<u>\$ 89,382</u>	<u>\$ 2,230</u>	<u>\$ 225</u>	<u>\$ 12,215</u>	<u>\$ 186,032</u>	<u>\$ 8,313</u>	<u>\$ 8,570</u>

TOWN OF LOWELL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Police Grant	Unclaimed Property	Public Safety Welfare	Freedom Park	Park Bond (Payments)	Cumulative Sewer	Cumulative Non-Rev Insurance
Cash and investments - beginning	\$ 4,290	\$ 268	\$ 40,393	\$ 22,909	\$ 65,410	\$ 231,545	\$ 24,897
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	10,396	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	32,255	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	42,139	-	-	20	59,878	-	5,284
Total receipts	42,139	-	-	32,275	59,878	10,396	5,284
Disbursements:							
Personal services	42,737	-	-	5,003	-	-	1,059
Supplies	-	-	-	6,751	-	-	-
Other services and charges	-	-	-	12,124	300	32,289	-
Debt service - principal and interest	-	-	-	-	61,182	-	-
Capital outlay	-	-	35,540	17,959	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	43	-	-	-
Total disbursements	42,737	-	35,540	41,880	61,482	32,289	1,059
Excess (deficiency) of receipts over disbursements	(598)	-	(35,540)	(9,605)	(1,604)	(21,893)	4,225
Cash and investments - ending	\$ 3,692	\$ 268	\$ 4,853	\$ 13,304	\$ 63,806	\$ 209,652	\$ 29,122

TOWN OF LOWELL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Cumulative Economic Development	Payroll	Cafe-Section 125	SRF Lowell Wastewater	SRF Lowell Wastewater Debt Service Reserve	SRF Lowell WW Bond And Interest	Wastewater Utility Operating
Cash and investments - beginning	\$ 1	\$ 1,105	\$ -	\$ -	\$ 1,074,919	\$ -	\$ 497,357
Receipts:							
Taxes	9,450	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	2,370,320
Penalties	-	-	-	-	-	-	42,063
Other receipts	-	3,064,011	74,408	4,523,835	-	1,064,448	85
Total receipts	9,450	3,064,011	74,408	4,523,835	-	1,064,448	2,412,468
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	4,670	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	116,595	-
Capital outlay	-	-	-	4,523,835	-	-	9,721
Utility operating expenses	-	-	-	-	-	-	1,709,363
Other disbursements	-	3,064,261	74,408	-	-	-	753,059
Total disbursements	4,670	3,064,261	74,408	4,523,835	-	116,595	2,472,143
Excess (deficiency) of receipts over disbursements	4,780	(250)	-	-	-	947,853	(59,675)
Cash and investments - ending	\$ 4,781	\$ 855	\$ -	\$ -	\$ 1,074,919	\$ 947,853	\$ 437,682

TOWN OF LOWELL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Wastewater Utility Bond And Interest	Wastewater Utility Deprec/Improve	Wastewater Utility Customer Deposit	Wastewater Operating Reserve	Wastewater Utility Debt Reserve	SRF Construction Fund
Cash and investments - beginning	\$ 371,797	\$ 2,990,154	\$ 76,550	\$ 88,500	\$ -	\$ 55,025
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	139,174	7,475	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	1,020,439	1,648,077	-	-	-	10
Total receipts	<u>1,020,439</u>	<u>1,787,251</u>	<u>7,475</u>	<u>-</u>	<u>-</u>	<u>10</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	56,505	-	-	-	55,035
Utility operating expenses	-	-	6,575	-	-	-
Other disbursements	1,064,448	1,300,000	-	88,500	-	-
Total disbursements	<u>1,064,448</u>	<u>1,356,505</u>	<u>6,575</u>	<u>88,500</u>	<u>-</u>	<u>55,035</u>
Excess (deficiency) of receipts over disbursements	<u>(44,009)</u>	<u>430,746</u>	<u>900</u>	<u>(88,500)</u>	<u>-</u>	<u>(55,025)</u>
Cash and investments - ending	<u>\$ 327,788</u>	<u>\$ 3,420,900</u>	<u>\$ 77,450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF LOWELL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Water Utility Operating	Water Utility Bond And Interest	Water Utility Deprec/Improve	Water Utility Customer Deposit	Water Utility Debt Reserve	Totals
Cash and investments - beginning	\$ 333,808	\$ 8,392	\$ 651,660	\$ 84,649	\$ 377,908	\$ 9,104,227
Receipts:						
Taxes	-	-	-	-	-	2,751,825
Licenses and permits	-	-	-	-	-	221,530
Intergovernmental	-	-	-	-	-	745,223
Charges for services	-	-	-	-	-	747,669
Fines and forfeits	-	-	-	-	-	905,093
Utility fees	1,995,454	-	-	7,577	-	4,520,000
Penalties	15,777	-	-	-	-	57,840
Other receipts	61,919	4,482,235	176,154	1,875	71	17,810,993
Total receipts	<u>2,073,150</u>	<u>4,482,235</u>	<u>176,154</u>	<u>9,452</u>	<u>71</u>	<u>27,760,173</u>
Disbursements:						
Personal services	-	-	-	-	-	2,425,972
Supplies	-	-	-	-	-	251,703
Other services and charges	-	-	-	-	-	753,706
Debt service - principal and interest	-	-	-	-	-	320,636
Capital outlay	3,995	-	-	-	-	4,969,307
Utility operating expenses	1,377,627	-	-	-	-	3,093,565
Other disbursements	614,423	4,294,694	-	8,688	46,920	14,046,814
Total disbursements	<u>1,996,045</u>	<u>4,294,694</u>	<u>-</u>	<u>8,688</u>	<u>46,920</u>	<u>25,861,703</u>
Excess (deficiency) of receipts over disbursements	<u>77,105</u>	<u>187,541</u>	<u>176,154</u>	<u>764</u>	<u>(46,849)</u>	<u>1,898,470</u>
Cash and investments - ending	<u>\$ 410,913</u>	<u>\$ 195,933</u>	<u>\$ 827,814</u>	<u>\$ 85,413</u>	<u>\$ 331,059</u>	<u>\$ 11,002,697</u>

TOWN OF LOWELL
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Lowell Wastewater Utility	\$ 18,404	\$ 86,593
Lowell Water Utility	57,640	83,876
Governmental activities	157,158	-
Totals	\$ 233,202	\$ 170,469

TOWN OF LOWELL
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	2002 Park Bonds	\$ 415,000	\$ 59,278
General obligation bonds	2009 General Obligation Bonds	220,000	125,065
Leases	Street Sweeper Lease	<u>200,000</u>	<u>42,540</u>
Total Governmental Activities		<u>835,000</u>	<u>226,883</u>
Lowell Wastewater Utility:			
2005 State Revolving Fund Loan Program*	Improvements to the Wastewater Plant	5,970,000	575,368
2011 State Revolving Fund Loan Program*	Improvements to the Wastewater Plant	7,050,000	489,070
2013 State Revolving Fund Loan Program**^	Improvements to the Wastewater Plant	<u>5,094,696</u>	<u>-</u>
Total Lowell Wastewater Utility		<u>18,114,696</u>	<u>1,064,438</u>
Lowell Water Utility:			
General obligation bonds	Water Bonds	<u>4,140,000</u>	<u>330,330</u>
Totals		<u>\$ 23,089,696</u>	<u>\$ 1,621,651</u>

* The Town of Cedar Lake is responsible for half of the payments and debt for these loans.

^ This is the amount currently drawn down at December 31, 2012.

TOWN OF LOWELL
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

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.

	Ending Balance
Governmental activities:	
Land	\$ 825,775
Infrastructure	5,646,483
Buildings	1,851,999
Improvements other than buildings	684,369
Machinery, equipment, and vehicles	4,085,928
Books and other	200,000
Total governmental activities	13,294,554
Lowell Wastewater Utility:	
Land	112,857
Buildings	18,787,355
Improvements other than buildings	539,040
Machinery, equipment, and vehicles	1,193,089
Construction in progress	5,094,696
Total Lowell Wastewater Utility	25,727,037
Lowell Water Utility:	
Land	470,250
Buildings	4,988,411
Improvements other than buildings	3,707,627
Machinery, equipment, and vehicles	1,711,013
Total Lowell Water Utility	10,877,301
Total capital assets	\$ 49,898,892

TOWN OF LOWELL
AUDIT RESULT AND COMMENT

***INTERNAL CONTROLS AND COMPLIANCE OVER THE FINANCIAL STATEMENT AND REPORTING
FEDERAL EXPENDITURES IN THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE***

The Town did not have a proper system of internal controls in place to prevent or detect and correct errors on the financial statement and the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place, including segregation of duties, over the preparation of the financial statement and the SEFA to ensure accurate reporting of the financial activity and federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the financial statement and the SEFA could remain undetected.

The Town has not established controls to effectively verify that all financial activity related to the Town is included in the financial statement. The Town received a bond through the State Revolving Fund (SRF) federal program for improvements to the wastewater treatment plant. Under this program, the State set up various trust accounts in the Town's name for the activity related to the bond issue and construction on the wastewater plant. The Town did not include the SRF Wastewater Bond and Interest Trust Account in the financial statement for 2012. This included receipts of \$1,064,448, disbursements for interest payments of \$116,595, and an ending balance of \$947,853. In addition, all SRF activity reported in financial statement for the SRF Construction Fund, SRF Lowell Wastewater, and SRF Lowell Wastewater DSR (Debt Service Reserve) were not recorded in the Town's ledgers.

The Town has not established controls to effectively identify, manage, and report federal financial assistance. Under the current system, the Clerk-Treasurer independently monitors the grant activities and prepares the SEFA for inclusion in the financial report.

The Town initially reported federal expenditures in the amount of \$109,958. Audit adjustments to the Schedule of Federal Financial Assistance were \$1,743,587. The Town did not report both the Capitalization Grants for Clean Water State Revolving Funds in the amount of \$1,717,692, and the Capitalization Grants for Drinking Water State Revolving Funds, in the amount of \$25,894, which passed through Indiana Finance Authority.

In failing to establish controls to effectively verify the financial statements and to effectively identify, manage, and report federal financial assistance, the Town materially misrepresented the financial statement and the federal assistance expended in 2012 in the SEFA provided for audit.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement and the SEFA presented in this report. These adjustments resulted in a presentation of the financial statement and the SEFA that is materially correct in relation to the financial statement.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual 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.

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)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE TOWN OF LOWELL, LAKE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Lowell's (Town) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal program for the year ended December 31, 2012. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-02. Our opinion on each major federal program is not modified with respect to these matters.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

The Town's response to our audit is described in the accompanying Official Response. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2012-02 that we consider to be significant deficiencies.

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

October 3, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the Town. The schedule and notes are presented as intended by the Town.

TOWN OF LOWELL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. Department of Justice</u>				
Bulletproof Vest Partnership Program	Direct Grant	16.607	1121-0235	\$ 2,070
Public Safety Partnership and Community Policing Grants Secure Our Schools Program (SOS)	Direct Grant	16.710	205-CK-WX-0532	19,856
Total for U.S. Department of Justice				<u>21,926</u>
<u>U.S. Department of Transportation</u>				
Highway Planning and Construction Cluster Highway Planning and Construction SR 2 Curb & Sidwalk Project	Indiana Dept of Transportation	20.205	DES #1000077	88,032
<u>U.S. Environmental Protection Agency</u>				
Capitalization Grants for Clean Water State Revolving Funds State Revolving Fund Loan Program	Indiana Finance Authority	66.458	WW 09834501	1,717,692
Capitalization Grants for Drinking Water State Revolving Funds State Revolving Fund Loan Program	Indiana Finance Authority	66.468	DW 09334501	25,894
Total for U.S. Environmental Protection Agency				<u>1,743,586</u>
Total federal awards expended				<u>\$ 1,853,544</u>

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

TOWN OF LOWELL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

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

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the Town provided federal awards to subrecipients as follows for the year ended December 31, 2012:

Program Title	Federal CFDA Number	2012
Public Safety Partnership and Community Policing Grants	16.710	\$ <u>19,856</u>

TOWN OF LOWELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	yes
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-01 - INTERNAL CONTROLS AND COMPLIANCE OVER THE FINANCIAL STATEMENT AND REPORTING FEDERAL EXPENDITURES IN THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The Town did not have a proper system of internal controls in place to prevent or detect and correct errors on the financial statement and the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place, including segregation of duties, over the preparation of the financial statement and the SEFA to ensure accurate reporting of the financial activity and federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the financial statement and the SEFA could remain undetected.

TOWN OF LOWELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Town has not established controls to effectively verify that all financial activity related to the Town is included in the financial statement. The Town received a bond through the State Revolving Fund (SRF) federal program for improvements to the wastewater treatment plant. Under this program, the State set up various trust accounts in the Town's name for the activity related to the bond issue and construction on the wastewater plant. The Town did not include the SRF Wastewater Bond and Interest Trust Account in the financial statement for 2012. This included receipts of \$1,064,448, disbursements for interest payments of \$116,595, and an ending balance of \$947,853. In addition, all SRF activity reported in financial statement for the SRF Construction Fund, SRF Lowell Wastewater, and SRF Lowell Wastewater DSR (Debt Service Reserve) were not recorded in the Town's ledgers.

The Town has not established controls to effectively identify, manage, and report federal financial assistance. Under the current system, the Clerk-Treasurer independently monitors the grant activities and prepares the SEFA for inclusion in the financial report.

The Town initially reported federal expenditures in the amount of \$109,958. Audit adjustments to the Schedule of Federal Financial Assistance were \$1,743,587. The Town did not report both the Capitalization Grants for Clean Water State Revolving Funds in the amount of \$1,717,692, and the Capitalization Grants for Drinking Water State Revolving Funds, in the amount of \$25,894, which passed through Indiana Finance Authority.

In failing to establish controls to effectively verify the financial statement and effectively identify, manage, and report federal financial assistance, the Town materially misrepresented the financial statement and the federal assistance expended in 2012 in the SEFA provided for audit.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement and the SEFA presented in this report. These adjustments resulted in a presentation of the financial statement and the SEFA that is materially correct in relation to the financial statement.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual 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.

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

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

TOWN OF LOWELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

We recommended that the Town establish controls to allow the Town to adequately identify all financial and grant transactions and balances to allow for adequate reporting in the financial statement and SEFA at the end of the year.

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-02 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

Federal Agency: U.S. Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW 09834501
Pass-Through Entity: Indiana Finance Authority

Management of the Town of Lowell has not established an effective internal control system, which would include monitoring activities of paid consultants, related to the grant agreement and the compliance requirements that have a direct and material effect to the program. This includes the compliance requirements for Davis Bacon, Suspension and Debarment, Equipment and Real Property Management, Period of Availability, and Reporting. The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. This lack of an effective internal control system could allow the misuse and mismanagement of federal funds and assets by not having proper oversight, and reviews over the activities of the grant.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis.

TOWN OF LOWELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Davis Bacon and Suspension and Debarment:

In order to have an effective internal control system, the activities of independent consultants need to be monitored by the Town's management. This is accomplished by ensuring there are proper reviews, oversight, and approvals taking place, as well as ensuring the governing board is informed about any deficiencies to allow appropriate follow up action to be taken. The Town did not have a system in place to ensure the work product provided by the consultant, employed by the Indiana Finance Authority, was in compliance with Davis Bacon, and Suspension and Debarment and that the work product was adequate, complete, and accurate.

Equipment and Real Property Management:

The Town had not effectively established controls to allow for the identification of assets purchased with federal funds within the detail capital asset records, which is necessary in order to comply with federal guidelines over equipment and real property management. Because effective controls over equipment and real property management have not been established, the Town may not recognize the disposal, and they may not comply with federal guidelines covering the disposal of assets acquired with federal funds.

The failure to establish an effective internal control system resulted in the Town being in noncompliance with some of the equipment and real property management compliance requirements. Information and cost amounts related to the acquisition of some equipment and infrastructure related improvements was not properly captured and accounted for in the Town's capital asset records. Additionally, the Town did not conduct an inventory of property as required.

Period of Availability:

The Town did not establish controls to ensure employees and management were aware of the period of availability. Management relies upon a financial consultant and the Indiana Finance Authority to advise them on such issues.

Reporting:

The Town did not establish controls to effectively review the State Revolving Fund (SRF) Disbursement Request Form prior to being submitted to the Indiana Finance Authority. This form includes the draw down requests, total amount of previous disbursements, balance available after the current requested draw down, amount to contractor, and retainage amount for this request. Management has relied on the Indiana Finance Authority to review the amounts reported in the request and make corrections.

The Indiana Finance Authority maintains the funds and makes payments to the contractors directly from a trust account. The Indiana Finance Authority requires the consultant to provide documentation directly to them on the compliance with Davis Bacon, and Suspension and Debarment compliance, as well as any reports on deficiencies. The Indiana Finance Authority also reviews the SRF Disbursement Request Form and makes corrections to the amounts and submits the corrections back to the Town. Thus, it is unlikely that the Town would be in noncompliance with the compliance requirements of Davis Bacon, Suspension and Debarment, Period of Availability, and Reporting. It is also unlikely that the Town would dispose of plant improvements to place the Town in noncompliance with the Equipment and Real Property Management compliance requirement. Therefore, these control deficiencies are considered significant deficiencies.

An internal control system, which includes monitoring of consultants, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis.

TOWN OF LOWELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

In order to have an effective internal control system it is important to be properly informed of the grant compliance requirements and ensure consultants are monitored. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

40 CFR 31.32(d) states in part:

- "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Utility.

We recommended that the Town's management establish controls to effectively monitor the activities of consultants employed to ensure compliance related to the grant agreement and compliance requirements that have a direct and material effect to the program.



TOWN OF LOWELL

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October 3, 2013

CORRECTION ACTION PLAN AND RESPONSE TO SCHEDULE OF FINDINGS

Findings 2012-01 Internal Controls and Compliance over the Financial Statements and Reporting Federal expenditures in the Schedule of Federal Financial Assistance:

When reporting the 2012 Town of Lowell Receipts, Disbursements & Cash Balances for December 31, 2012 the SRF Lowell Wastewater Bond & Interest Fund, being held by the Bank of New York, was not listed on the advertised annual report. We disagree that the Town of Lowell did not have established controls for reporting federal financial transactions. While it was not listed on our Keystone reporting software, it was included in our general ledger for the Sewer Utility, which is prepared annually by a certified public accountant. Since we now know that money being held by a fiscal agent should be reported as an asset of the Town it will be included in the annual report.

Findings 2012-02 - Internal Controls over Compliance Requirements that have a direct and material effect to Capitalization Grants for Clean Water State Revolving Funds:

The Town of Lowell entered into an agreement with a consulting engineering company, as is normal practice, to review the pay requests from contractors. The pay request is then reviewed by Public Works Director and recommended for approval with proper documentation attached and forward to Town Council for approval before a drawdown is requested. We disagree that an internal control system was not in place. We had effective guidelines and procedures in place to have all SRF pay requests signed and certified by a professional engineer. We followed all requirements for the Davis-Bacon Act. The payroll report summary were being approved by an independent consultant for the SRF fund.

We believe we had a proper control system in place and disagree that there were significant deficiencies and asked that this statement be removed from the annual audit findings.



Judith Walters, IAMC, CMC
Clerk-Treasurer

TOWN OF LOWELL
EXIT CONFERENCE

The contents of this report were discussed on October 3, 2013, with Judith Walters, Clerk-Treasurer; Edgar Corns, President of the Town Council; and Greg Shook, Utilities Director. The Official Response has been made a part of this report and may be found on pages 43 and 44.



TOWN OF LOWELL

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October 3, 2013

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2769

RE: Town of Lowell - 2012 Audit Official Response

We wish to file an official response to audit results and comments in the form of a letter to be included in the audit report.

Internal Controls

When reporting the 2012 Town of Lowell Receipts, Disbursements & Cash Balances for December 31, 2012, the SRF Lowell Wastewater Bond & Interest Fund, being held by the Bank of New York, was not listed on the annual report. We disagree that the Town of Lowell did not have established controls for reporting federal financial transactions. While it was not listed on our Keystone reporting software it was included in our general ledger for the Sewer Utility, which is reviewed annually by a certified public accountant. Since we now know that money being held by a fiscal agent should be reported as an asset of the Town it will be included in the annual report. Also, the federal percentage of the portion of the SRF Loan, which will be paid back by the Town of Lowell, was inadvertently not listed on the grant awards. This item will be corrected with the 2013 annual report.

In regard to the internal controls for the Clean Water State Revolving Funds, we had entered into an agreement with a consulting engineering company, as has been normal practice in the past, to review the pay request from contractors. The pay request is then reviewed by Public Works Director and recommended for approval with proper documentation attached and forwarded to Town Council for approval before drawdown is requested. We had effective guidelines and procedures in place to have all SRF pay requests signed and certified by a professional engineer.

We believe we had a proper control system in place and disagree that there were significant deficiencies and ask that this statement be removed from the annual audit findings. Internal reviews will be properly documented in the future to show proper controls are in place.

Thank you for allowing me this opportunity to respond. Your representatives were very professional and helpful.

Yours truly,

A handwritten signature in cursive script that reads "Judith Walters". The signature is written in black ink and is positioned above the typed name and title.

Judith Walters, IAMC,CMC
Clerk-Treasurer

cc: Lowell Town Council
Financial Solutions Group