

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

CITY OF LAKE STATION  
LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



**FILED**  
04/10/2015



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Brenda Samuels	01-01-12 to 12-31-15
Mayor	Keith Soderquist	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Keith Soderquist	01-01-12 to 12-31-15
President Pro Tempore of the Common Council	Garry Szostek Todd Lara Todd Rogers John McDaniel	01-01-12 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-15



## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on the Financial Statement***

We have audited the accompanying financial statement of the City of Lake Station (City), 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 City'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 City'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 City 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 City 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 City 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.

***Going Concern***

The accompanying financial statement has been prepared assuming that the City will continue as a going concern. As discussed in Note 10 to the financial statement, the City has been experiencing significant negative cash balances of the City's General Fund, as well as other funds related to operations of City functions. The deficit cash balances of the City, as well as the City's procedures performed to operate without addressing the root causes of the deficits raises substantial doubt about the City's ability to continue as a going concern. The financial statement does not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

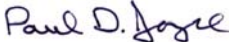
***Accompanying Information***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the City'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.

Our audit 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 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.

Based upon information obtained during the audit of the financial statement, we believe that the Schedule of Capital Assets is materially misstated as presented in this report. As described in the preceding paragraph, the Schedule of Capital Assets presented in this report is for additional analysis and is not a required part of the financial statement nor has it been subjected to any auditing procedures and, accordingly, we express no opinion on it.

  
Paul D. Joyce, CPA  
State Examiner

January 6, 2015



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 CITY OF LAKE STATION, 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 City of Lake Station (City), 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 January 6, 2015, wherein we noted the City 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 City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 items 2012-001 and 2012-002 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 City'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 2012-002.

***City of Lake Station's Response to Findings***

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

***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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

January 6, 2015

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## FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
GENERAL FUND	\$ (1,683,903)	\$ 7,982,501	\$ 8,256,416	\$ (1,957,818)
MOTOR VEHICLE HIGHWAY	(136,851)	731,303	651,237	(56,785)
LOCAL ROAD AND STREET	215,591	147,574	258,537	104,628
BRICK DONATION FUND	-	25	8	17
PARK NON-REVERTING FUND	10,614	94,264	88,522	16,356
EMPLOYEES HEALTH INS.	742	-	-	742
ALCOHOL PROGRAM MONITOR	82	1,200	-	1,282
AMBULANCE DONATION FUND	125	-	-	125
ECONOMIC DEVELOPMENT	16,526	9,450	424	25,552
DRUNK DRIVING /BLITZ	192	43,461	43,252	401
REFUSE DEPARTMENT	3,181	664,940	645,823	22,298
LOCAL LAW ENFOR.CON'T ED.	15,416	18,200	19,918	13,698
CLERK'S RECORD PERP	652	1,587	-	2,239
DEFERRAL - ORDINANCE VIOLATION	294	30,814	31,108	-
UNSAFE BUILDING NON-REVERTING	3,289	-	1,285	2,004
RIVERBOAT - INFRASTRUCTURE	336,810	190,761	126,000	401,571
PARK AND RECREATION FUND	217,689	251,144	272,897	195,936
USER FEE LS CONTINUING EDUCATION	853	2,898	-	3,751
FIRE HAZARDOUS NON-REVERTING	11,385	1,349	-	12,734
POLICE - K9 DONATION	2,266	-	-	2,266
DRUG SEIZURE MONIES	(5,040)	23,810	18,090	680
MAJOR MOVES CONSTRUCTION	111,889	-	-	111,889
FIREFIGHTERS GRANT	31	-	-	31
WATER SRF - BOND	-	754,265	754,265	-
WATER SRF - SINK BOND INTEREST	-	23,201	-	23,201
WATER SRF - SINK RESERVE	-	10,353	-	10,353
POLICE DEPT - VESTS	30	-	-	30
FIRE DONATION	822	-	664	158
CUMULATIVE SEWAGE FUND	241,023	30,932	-	271,955
STORMWATER MS4	-	542,202	347,080	195,122
AMBULANCE NON-REVERTING	3,180	-	-	3,180
MUNICIPAL COMPLEX	86,978	1,411,021	1,677,563	(179,564)
COMPOST	6,452	89,954	96,405	1
CUMULATIVE CAPITAL IMPROVEMENT	158,709	33,344	74,951	117,102
DRUG SEIZURE (STATE)	-	1,107	-	1,107
WATER DEPOSITS	2,450	42,955	-	45,405
POLICE PENSION FUND	327,224	320,694	325,871	322,047
COURT COST DUE COUNTY	1,475	27,556	29,031	-
COURT	183,403	506,572	452,708	237,267
CIVIC CENTER	27,671	-	20,946	6,725
GRAND BLVD LAKE ENHANCEMENT	4,608	7,265	7,608	4,265
PARK GO	(5,838)	172,004	122,348	43,818
POLICE DONATION FUND	1,539	1,000	521	2,018
POLICE - INSURANCE REPAIR	216	-	-	216
STREETS & SANI CLOTHING	2,893	5,351	8,244	-

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

CITY OF LAKE STATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Year Ended December 31, 2012  
(Continued)

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
PARK DONATION FUND	1,341	26,232	5,819	21,754
PARK SECURITY DEPOSIT	881	14,120	13,125	1,876
COPS	-	134,322	134,322	-
DEFERRAL - POLICE	63	29,229	29,292	-
DEFERRAL - INFRACTION	13	17,691	17,704	-
MUNICIPAL BOND	355,814	900,020	1,065,426	190,408
PARK CAPITAL IMPROVE. FUND	170	-	-	170
SEWAGE	(35,125)	1,316,593	1,074,013	207,455
SANITARY DIST - BOND	149,728	837,615	715,950	271,393
PAY-DD-NET	-	2,762,395	2,762,395	-
PAY-FED W/H	-	370,093	370,093	-
PAY-FICA	-	229,883	229,883	-
PAY-MEDI	-	96,929	96,929	-
PAY-STATE	-	120,795	120,795	-
PAY-COUNTY	-	3,274	3,274	-
PAY-PERF	-	43,502	33,060	10,442
PAY-INPP	-	69,222	54,833	14,389
PAY-AFLAC	520	18,193	17,871	842
PAY-CHILD SUPPORT	-	25,110	25,110	-
PAY-DENTAL	-	5,823	5,823	-
PAY-457 2%	-	45,361	45,361	-
PAY-457 VOL%	-	13,086	13,086	-
PAY-457 C/P	-	47,129	47,129	-
PAY-FOP DUES	-	3,720	3,720	-
PAY-GARNI-HP	-	4,711	4,711	-
PAY-GARNI-KG	-	18,980	18,980	-
PAY-GARNI-SV	-	3,125	3,125	-
PAY-GARNI-JG	-	625	625	-
PAY-GARNI-MB	-	490	490	-
GARNI-JT	-	3,435	3,435	-
PAY-GARNI-SV2	-	1,625	1,625	-
PAY-GARNI-DP	-	1,375	1,375	-
PAY-GARNI-ES	-	498	498	-
CIN Life Ins	-	691	-	691
PAY-HEALTH	-	151,560	151,560	-
PAY-PP LEGAL	-	383	383	-
PAY-SUPPORT FEES	-	110	110	-
PAY-UNION DUES	-	11,503	11,503	-
PAY-VISION	-	4,626	4,626	-
PAY-VOL CIVIL PERF	-	8,410	7,179	1,231
SANITARY DISTRICT OPERATING	10,409	3,421,932	3,689,590	(257,249)
WATER UTILITY OPERATING	553	1,422,193	1,440,140	(17,394)
Totals	<u>\$ 649,035</u>	<u>\$ 26,361,666</u>	<u>\$ 26,556,690</u>	<u>\$ 454,011</u>

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 Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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, innkeeper's 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

CITY OF LAKE STATION  
NOTES TO FINANCIAL STATEMENT  
(Continued)

received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

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

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

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

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

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial 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.

CITY OF LAKE STATION  
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 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 Capitol 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 Capitol 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. Cash Balance Deficits**

The financial statement contains some funds with deficits in cash. This is a result of some funds that have been overdrawn prior to 2008, and the tax caps. Although the City has a plan in place, it will take years to alleviate the large deficits.

**Note 8. Holding Corporation**

The City has entered into a capital lease with the Lake Station 2008 Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during the year 2012 totaled \$961,500.

**Note 9. Subsequent Events**

The City borrowed \$9,771,000 in December 2012, through the State of Indiana's State Revolving Loan Fund, for improvements to the Water Treatment system. It is anticipated that the project should be substantially completed by the end of 2014.

**Note 10. Current and Future Financial Considerations**

At December 31, 2012, the City's overall cash and investment balance was \$454,011 with the General Fund, Motor Vehicle Highway, Municipal Complex, Sanitary District Operating, and Water Utility Operating funds cash and investment balances at a negative \$1,957,818, \$56,785, \$179,564, \$257,249, and \$17,394, respectively. The General Fund has reported an overdrawn ending cash balance at December 31 for every year since 2007. The General Fund's cash position at December 31, 2012, would have been a larger negative balance except for the interfund loans it received from various funds as described below.

The City's General Fund disbursements exceeded the fund's budget. The budget, as approved by the Indiana Department of Local Government and Finance (DLGF), for 2012 was \$2,519,337. After adjusting for disbursements that do not require appropriation, such as temporary loans and tax anticipation warrants, the adjusted budget amount as computed was \$6,285,976. The City disbursed \$8,256,416 from the General Fund in 2012, resulting in disbursements in excess of budget of \$1,970,440. Disbursements in excess of budgets for the General Fund have also occurred in prior years.

The Municipal Complex fund overdrawn cash balance was due to a temporary interfund loan of \$260,000 provided to the General Fund in December 2012 and not repaid until 2013.

CITY OF LAKE STATION  
NOTES TO FINANCIAL STATEMENT  
(Continued)

The Water Utility Operating fund has a negative cash balance at year-end of \$17,394 due to a temporary interfund loan of \$60,000 provided to the General Fund in December 2012 and not repaid until 2013. The bond ordinance adopted by the Common Council in 2012 for the Water Utility's State Revolving Loans requires the Water Utility to maintain sufficient cash to fund two months of operating and maintenance expenses in the Water Utility Operating fund. Although the Water Utility rate had a rate increase in 2012, the Water Utility Operating fund did not have sufficient cash to meet the bond ordinance requirements.

The Water Deposits fund's cash balance at December 31, 2012, is less than the meter deposit liability to its customers of \$180,476. Additionally, the Water Deposits fund shares a bank account with the Water Utility Operating fund (which was overdrawn at year end). This has resulted in the operating fund relying on customer deposits to fund operations.

The Sanitary District Operating fund overdrawn cash balance was due to a temporary interfund loan of \$550,000 provided to the General Fund in December 2012 and not repaid until 2013.

The City's cash balance per the financial statement at December 31, 2012, was \$454,011. The court funds are not accounted for through the City's accounting system and are not available for City disbursements. Debt service funds and debt proceeds are restricted by debt covenants and agreements to be spent only for debt service or the purpose for which the debt was issued. After reducing the reported ending balance for court and debt service funds, the City's net available ending cash balance was (\$322,429).

*City's Plans to address General Fund concerns:*

In fiscal 2014, the City took measures to reduce the deficit balance. The City transferred funds to the General Fund from Riverboat - Infrastructure fund of \$420,000, Cumulative Sewage Fund of \$317,841, and the Economic Development fund of \$30,000, totaling \$767,841. Lake County instituted a Local Option Income Tax, which is expected to generate additional revenue for certain political subdivisions in Lake County, including the City, reducing the circuit breaker tax credits. For 2014, the Local Option Income Taxes is expected to reduce the circuit breaker tax credits (and increase property tax distributions) by \$509,800. The City increased the payment in lieu of taxes made by the Water and Storm Water Utilities paid to the City's General Fund by \$177,000 and paid \$141,964 for a portion of public safety employees' salaries and wages and \$132,577 for vehicles from the new LOIT Public Safety Fund to help reduce the burden on the General Fund.

In fiscal 2015, the City adopted a budget of \$4,243,393 for the City's General Fund, which is an approximate 6.51 percent reduction in the budget. The certified budget was \$4,538,936 for 2014. The City will continue to work at reducing its budget and operating costs in order to work towards balancing the budget and bring its General Fund balance to a positive amount over the next several years.

## SUPPLEMENTARY INFORMATION - UNAUDITED

For additional financial information, the City'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 City 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 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, 2012

	GENERAL FUND	MOTOR VEHICLE HIGHWAY	LOCAL ROAD AND STREET	BRICK DONATION FUND	PARK NON-REVERTING FUND	EMPLOYEES HEALTH INS.	ALCOHOL PROGRAM MONITOR	AMBULANCE DONATION FUND
Cash and investments - beginning	\$ (1,683,903)	\$ (136,851)	\$ 215,591	\$ -	\$ 10,614	\$ 742	\$ 82	\$ 125
Receipts:								
Taxes	2,561,008	-	-	-	-	-	-	-
Licenses and permits	107,177	-	-	-	-	-	-	-
Intergovernmental	825,594	532,483	147,498	-	-	-	-	-
Charges for services	285,904	-	-	-	48,327	-	-	-
Fines and forfeits	100	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	4,202,718	198,820	76	25	45,937	-	1,200	-
Total receipts	7,982,501	731,303	147,574	25	94,264	-	1,200	-
Disbursements:								
Personal services	3,121,656	484,202	-	-	-	-	-	-
Supplies	137,965	12,076	109,132	8	-	-	-	-
Other services and charges	987,454	8,747	28,000	-	88,522	-	-	-
Debt service - principal and interest	2,201,639	137,224	-	-	-	-	-	-
Capital outlay	125,910	8,988	121,405	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	1,681,792	-	-	-	-	-	-	-
Total disbursements	8,256,416	651,237	258,537	8	88,522	-	-	-
Excess (deficiency) of receipts over disbursements	(273,915)	80,066	(110,963)	17	5,742	-	1,200	-
Cash and investments - ending	\$ (1,957,818)	\$ (56,785)	\$ 104,628	\$ 17	\$ 16,356	\$ 742	\$ 1,282	\$ 125

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012  
 (Continued)

	ECONOMIC DEVELOPMENT	DRUNK DRIVING /BLITZ	REFUSE DEPARTMENT	LOCAL LAW ENFOR.CON'T ED.	CLERK'S RECORD PERP	DEFERRAL - ORDINANCE VIOLATION	UNSAFE BUILDING NON-REVERTING	RIVERBOAT - INFRASTRUCTURE
Cash and investments - beginning	\$ 16,526	\$ 192	\$ 3,181	\$ 15,416	\$ 652	\$ 294	\$ 3,289	\$ 336,810
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	190,761
Charges for services	-	-	619,336	18,200	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	9,450	43,461	45,604	-	1,587	30,814	-	-
Total receipts	9,450	43,461	664,940	18,200	1,587	30,814	-	190,761
Disbursements:								
Personal services	-	43,252	251,833	-	-	-	-	-
Supplies	-	-	67,409	-	-	31,108	-	-
Other services and charges	424	-	4,828	19,918	-	-	1,285	126,000
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	321,753	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	424	43,252	645,823	19,918	-	31,108	1,285	126,000
Excess (deficiency) of receipts over disbursements	9,026	209	19,117	(1,718)	1,587	(294)	(1,285)	64,761
Cash and investments - ending	\$ 25,552	\$ 401	\$ 22,298	\$ 13,698	\$ 2,239	\$ -	\$ 2,004	\$ 401,571

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012  
 (Continued)

	PARK AND RECREATION FUND	USER FEE LS CONTINUING EDUCATION	FIRE HAZARDOUS NON-REVERTING	POLICE - K9 DONATION	DRUG SEIZURE MONIES	MAJOR MOVES CONSTRUCTION	FIREFIGHTERS GRANT	WATER SRF - BOND
Cash and investments - beginning	\$ 217,689	\$ 853	\$ 11,385	\$ 2,266	\$ (5,040)	\$ 111,889	\$ 31	\$ -
Receipts:								
Taxes	241,034	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	9,425	-	1,349	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	685	2,898	-	-	23,810	-	-	754,265
Total receipts	251,144	2,898	1,349	-	23,810	-	-	754,265
Disbursements:								
Personal services	183,370	-	-	-	-	-	-	-
Supplies	15,493	-	-	-	-	-	-	-
Other services and charges	65,584	-	-	-	18,090	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	6,539	-	-	-	-	-	-	754,265
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	1,911	-	-	-	-	-	-	-
Total disbursements	272,897	-	-	-	18,090	-	-	754,265
Excess (deficiency) of receipts over disbursements	(21,753)	2,898	1,349	-	5,720	-	-	-
Cash and investments - ending	\$ 195,936	\$ 3,751	\$ 12,734	\$ 2,266	\$ 680	\$ 111,889	\$ 31	\$ -



CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012  
 (Continued)

	WATER SRF - SINK BOND INTEREST	WATER SRF - SINK RESERVE	POLICE DEPT - VESTS	FIRE DONATION	CUMULATIVE SEWAGE FUND	STORMWATER MS4	AMBULANCE NON-REVERTING	MUNICIPAL COMPLEX
Cash and investments - beginning	\$ -	\$ -	\$ 30	\$ 822	\$ 241,023	\$ -	\$ 3,180	\$ 86,978
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	30,932	542,202	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	23,201	10,353	-	-	-	-	-	1,411,021
Total receipts	<u>23,201</u>	<u>10,353</u>	<u>-</u>	<u>-</u>	<u>30,932</u>	<u>542,202</u>	<u>-</u>	<u>1,411,021</u>
Disbursements:								
Personal services	-	-	-	-	-	122,789	-	-
Supplies	-	-	-	-	-	6,295	-	-
Other services and charges	-	-	-	-	-	207,195	-	260,000
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	7,451	-	1,417,563
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	664	-	3,350	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>664</u>	<u>-</u>	<u>347,080</u>	<u>-</u>	<u>1,677,563</u>
Excess (deficiency) of receipts over disbursements	<u>23,201</u>	<u>10,353</u>	<u>-</u>	<u>(664)</u>	<u>30,932</u>	<u>195,122</u>	<u>-</u>	<u>(266,542)</u>
Cash and investments - ending	<u>\$ 23,201</u>	<u>\$ 10,353</u>	<u>\$ 30</u>	<u>\$ 158</u>	<u>\$ 271,955</u>	<u>\$ 195,122</u>	<u>\$ 3,180</u>	<u>\$ (179,564)</u>

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012  
 (Continued)

	COMPOST	CUMULATIVE CAPITAL IMPROVEMENT	DRUG SEIZURE (STATE)	WATER DEPOSITS	POLICE PENSION FUND	COURT COST DUE COUNTY	COURT	CIVIC CENTER
Cash and investments - beginning	\$ 6,452	\$ 158,709	\$ -	\$ 2,450	\$ 327,224	\$ 1,475	\$ 183,403	\$ 27,671
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	33,344	-	-	320,694	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	506,572	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	89,954	-	1,107	42,955	-	27,556	-	-
Total receipts	89,954	33,344	1,107	42,955	320,694	27,556	506,572	-
Disbursements:								
Personal services	-	-	-	-	600	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	96,307	-	-	-	325,271	-	-	20,946
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	74,951	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	98	-	-	-	-	29,031	452,708	-
Total disbursements	96,405	74,951	-	-	325,871	29,031	452,708	20,946
Excess (deficiency) of receipts over disbursements	(6,451)	(41,607)	1,107	42,955	(5,177)	(1,475)	53,864	(20,946)
Cash and investments - ending	\$ 1	\$ 117,102	\$ 1,107	\$ 45,405	\$ 322,047	\$ -	\$ 237,267	\$ 6,725

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012  
 (Continued)

	GRAND BLVD LAKE ENHANCEMENT	PARK GO	POLICE DONATION FUND	POLICE - INSURANCE REPAIR	STREETS & SANI CLOTHING	PARK DONATION FUND	PARK SECURITY DEPOSIT	COPS
Cash and investments - beginning	\$ 4,608	\$ (5,838)	\$ 1,539	\$ 216	\$ 2,893	\$ 1,341	\$ 881	\$ -
Receipts:								
Taxes	-	172,004	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	134,322
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	7,265	-	1,000	-	5,351	26,232	14,120	-
Total receipts	7,265	172,004	1,000	-	5,351	26,232	14,120	134,322
Disbursements:								
Personal services	-	-	-	-	-	-	-	134,322
Supplies	-	-	521	-	8,244	5,819	13,125	-
Other services and charges	7,608	600	-	-	-	-	-	-
Debt service - principal and interest	-	121,748	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	7,608	122,348	521	-	8,244	5,819	13,125	134,322
Excess (deficiency) of receipts over disbursements	(343)	49,656	479	-	(2,893)	20,413	995	-
Cash and investments - ending	\$ 4,265	\$ 43,818	\$ 2,018	\$ 216	\$ -	\$ 21,754	\$ 1,876	\$ -

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012  
 (Continued)

	DEFERRAL - POLICE	DEFERRAL - INFRACTION	MUNICIPAL BOND	PARK CAPITAL IMPROVE. FUND	SEWAGE	SANITARY DIST - BOND	PAY-DD-NET	PAY-FED W/H
Cash and investments - beginning	\$ 63	\$ 13	\$ 355,814	\$ 170	\$ (35,125)	\$ 149,728	\$ -	\$ -
Receipts:								
Taxes	-	-	797,020	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	1,107,615	837,615	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	29,229	17,691	103,000	-	208,978	-	2,762,395	370,093
Total receipts	29,229	17,691	900,020	-	1,316,593	837,615	2,762,395	370,093
Disbursements:								
Personal services	-	-	-	-	463,637	-	-	-
Supplies	29,292	17,704	-	-	394,185	-	-	-
Other services and charges	-	-	-	-	175,013	-	-	-
Debt service - principal and interest	-	-	1,065,426	-	-	715,950	-	-
Capital outlay	-	-	-	-	41,178	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	2,762,395	370,093
Total disbursements	29,292	17,704	1,065,426	-	1,074,013	715,950	2,762,395	370,093
Excess (deficiency) of receipts over disbursements	(63)	(13)	(165,406)	-	242,580	121,665	-	-
Cash and investments - ending	\$ -	\$ -	\$ 190,408	\$ 170	\$ 207,455	\$ 271,393	\$ -	\$ -

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012  
 (Continued)

	PAY-FICA	PAY-MEDI	PAY-STATE	PAY-COUNTY	PAY-PERF	PAY-INPP	PAY-AFLAC	PAY-CHILD SUPPORT
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 520	\$ -
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	229,883	96,929	120,795	3,274	43,502	69,222	18,193	25,110
Total receipts	229,883	96,929	120,795	3,274	43,502	69,222	18,193	25,110
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	229,883	96,929	120,795	3,274	33,060	54,833	17,871	25,110
Total disbursements	229,883	96,929	120,795	3,274	33,060	54,833	17,871	25,110
Excess (deficiency) of receipts over disbursements	-	-	-	-	10,442	14,389	322	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ 10,442	\$ 14,389	\$ 842	\$ -

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012  
 (Continued)

	PAY-DENTAL	PAY-457 2%	PAY-457 VOL%	PAY-457 C/P	PAY-FOP DUES	PAY-GARNI-HP	PAY-GARNI-KG	PAY-GARNI-SV
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	5,823	45,361	13,086	47,129	3,720	4,711	18,980	3,125
Total receipts	5,823	45,361	13,086	47,129	3,720	4,711	18,980	3,125
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	5,823	45,361	13,086	47,129	3,720	4,711	18,980	3,125
Total disbursements	5,823	45,361	13,086	47,129	3,720	4,711	18,980	3,125
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, 2012  
 (Continued)

	PAY-GARNI-JG	PAY-GARNI-MB	GARNI-JT	PAY-GARNI-SV2	PAY-GARNI-DP	PAY-GARNI-ES	CIN Life Ins	PAY-HEALTH
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	625	490	3,435	1,625	1,375	498	691	151,560
Total receipts	625	490	3,435	1,625	1,375	498	691	151,560
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	625	490	3,435	1,625	1,375	498	-	151,560
Total disbursements	625	490	3,435	1,625	1,375	498	-	151,560
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	691	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 691	\$ -

CITY OF LAKE STATION  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012  
 (Continued)

	PAY-PP LEGAL	PAY-SUPPORT FEES	PAY-UNION DUES	PAY-VISION	PAY-VOL CIVIL PERF	SANITARY DISTRICT OPERATING	WATER UTILITY OPERATING	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,409	\$ 553	\$ 649,035
Receipts:								
Taxes	-	-	-	-	-	-	-	3,771,066
Licenses and permits	-	-	-	-	-	-	-	107,177
Intergovernmental	-	-	-	-	-	-	-	2,184,696
Charges for services	-	-	-	-	-	-	-	3,500,905
Fines and forfeits	-	-	-	-	-	-	-	506,672
Utility fees	-	-	-	-	-	2,771,514	1,403,427	4,174,941
Other receipts	383	110	11,503	4,626	8,410	650,418	18,766	12,116,209
Total receipts	383	110	11,503	4,626	8,410	3,421,932	1,422,193	26,361,666
Disbursements:								
Personal services	-	-	-	-	-	24,372	172,286	5,002,319
Supplies	-	-	-	-	-	-	-	848,376
Other services and charges	-	-	-	-	-	-	1,896	2,443,688
Debt service - principal and interest	-	-	-	-	-	-	33,554	4,275,541
Capital outlay	-	-	-	-	-	177,549	62,461	3,120,013
Utility operating expenses	-	-	-	-	-	2,587,256	606,984	3,194,240
Other disbursements	383	110	11,503	4,626	7,179	900,413	562,959	7,672,513
Total disbursements	383	110	11,503	4,626	7,179	3,689,590	1,440,140	26,556,690
Excess (deficiency) of receipts over disbursements	-	-	-	-	1,231	(267,658)	(17,947)	(195,024)
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ 1,231	\$ (257,249)	\$ (17,394)	\$ 454,011



CITY OF LAKE STATION  
SCHEDULE OF LEASES AND DEBT  
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Johnson Melloh Solutions	Wind-solar system	\$ 42,400	7/10/2011	7/10/2021
PNC Equipment Finance	Fire Truck	47,021	6/3/2008	6/1/2015
Regions Bank	Refuse trucks & equipment	293,491	7/2/2009	7/15/2014
Lake Station 2008 Building Corporation	City Hall	<u>960,000</u>	9/17/2009	7/15/2030
Total governmental activities		<u>1,342,912</u>		
Wastewater:				
TCF Equipment Finance	Boom Truck	38,412	8/2/2010	8/2/2013
TCF Equipment Finance	Excavator	<u>24,748</u>	9/17/2010	10/7/2013
Total Wastewater		<u>63,160</u>		
Total of annual lease payments		<u>\$ 1,406,072</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	Park Bond	\$ 1,140,000	\$ 121,748
Wastewater:			
General obligation bonds	Sanitary District Bond	<u>1,985,000</u>	<u>715,175</u>
Water:			
Revenue bonds	Waterworks Revenue Bonds of 2012	<u>9,771,000</u>	<u>342,585</u>
Totals		<u>\$ 12,896,000</u>	<u>\$ 1,179,508</u>

CITY OF LAKE STATION  
 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	\$ 1,175,851
Buildings	7,220,819
Improvements other than buildings	1,625,364
Machinery, equipment, and vehicles	5,456,915
Total governmental activities	15,478,949
Wastewater:	
Machinery, equipment, and vehicles	358,798
Water:	
Machinery, equipment, and vehicles	60,189
Total capital assets	\$ 15,897,936

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS

**FINANCIAL CONCERNS**

**Overdrawn Cash Balances**

The financial statement included the following funds with overdrawn cash balances at December 31, 2012:

Fund	Amount Overdrawn
General Fund	\$ 1,957,818
Motor Vehicle Highway	56,785
Municipal Complex	179,564
Sanitary District Operating	257,249
Water Utility Operating	17,394
 Total	 \$ 2,468,810

As noted above, the General Fund was overdrawn by \$1,957,818 at December 31, 2012. It should also be noted that the City's General Fund cash balance has been consistently overdrawn at December 31 of each year since 2007 as follows:

Year Ended December 31	Ending Cash Balance
2012	\$ (1,957,818)
2011	(1,683,903)
2010	(1,850,962)
2009	(1,995,148)
2008	(1,149,332)
2007	(548,698)

The General Fund's cash position at December 31, 2012, would have been a larger overdrawn balance except for the interfund loans it received from various funds as described below.

The Municipal Complex fund negative cash balance was due to a temporary interfund loan of \$260,000 provided to the General Fund in December 2012 and not repaid until 2013.

The Water Utility Operating fund had a negative cash balance at year end, due to a temporary interfund loan of \$60,000 provided to the General Fund in December 2012 and not repaid until 2013.

The Sanitary District Operating fund negative cash balance was due to a temporary interfund loan of \$550,000 provided to the General Fund in December 2012 and not repaid until 2013.

The City's cash balance per the financial statement at December 31, 2012, was \$454,011. However, certain funds are not available for City use. The court funds do not run through the City's accounting system and are not available for City disbursements. Debt Service funds are restricted by debt covenants and agreements to be spent for debt service only. After reducing the reported ending balance for court and debt service funds, the City's net ending cash balance was (\$322,429).

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

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)

***Customer Meter Deposits - Water Utility***

The Water Utility requires a customer meter deposit on all accounts. The meter deposits are to be recorded in the Water Deposits 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 Deposits 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 through 2012 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.

A detailed deposit register as of December 31, 2012, had a balance of \$180,476. The Water Utility Operating and Water Deposits funds' cash balances at December 31, 2012, were only (\$17,394) and \$45,405, respectively. Refunds of customer deposits for 2011 and 2012 were paid from the Water Operating fund.

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)

***Sanitary District Line of Credit Loan***

The Sanitary District Board approved Resolution 2012-03 on June 11, 2012, approving a line of credit with a bank and using account receivables as collateral, with the line of credit in the amount of \$300,000. The Board of Public Works and Safety approved Resolution 2012-09 on July 3, 2012, which approved a line of credit with the same bank and Board of Public Works and Safety using accounts receivable as collateral.

The terms and conditions document from the bank dated June 7, 2012, stated the following: "The credit line will be primarily used to support short term working capital needs for the City Utility Departments and City Sanitary District."

On December 27, 2012, the City drew \$300,000 from the line of credit (loan). The \$300,000 in loan proceeds were receipted into the Sanitary District Operating fund. On December 28, 2012, the Board of Public Works approved Resolution 2012-11, which declared an emergency and authorized a temporary transfer (loan) from the Sanitary District Operating fund to the General Fund of \$550,000, to be repaid by June 30, 2013. The temporary transfer was recorded in the ledgers on December 28, 2012. The temporary transfer resulted in an overdrawn cash balance in the Sanitary District Operating fund of \$262,059 on December 31, 2012. The cash balance of the Sanitary District Operating fund continued to be overdrawn by \$257,249 at year end.

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

Additionally, the General Fund reimbursed the Sanitary District Operating fund \$4,312 on June 21, 2013, for interest on the loan incurred through that date.

The loan proceeds received by the Sanitary District Operating fund, which were temporarily transferred to the City's General Fund upon receipt from the bank, were not used in accordance with the loan's terms and conditions. The borrowing by the Sanitary District Board, on behalf of the City, did not comply with Indiana Code 36-9-25-10(19) which permits borrowing to pay for services and obligations incurred by the Sanitary Board.

Indiana Code 36-9-25-10 states in part:

"In performing its duties the board may do the following: . . .

- (19) Pay for services rendered or for any other obligations incurred by the board while executing its powers, or pay any judgments, including interest and costs, by issuing and selling the bonds of the district, or obtaining temporary loans or levying taxes as authorized by this or other statutes for any other purpose."

***Loans Between Funds***

Temporary transfers (loans) were made between funds in 2012 without the approval of the Common Council. On December 28, 2012, the Board of Public Works and Safety approved Resolution 2012-11, which authorized temporary loans to the General Fund of \$870,000 from the Municipal Complex, Water Operating, and Sanitary District Operating funds in the amounts of \$260,000; \$60,000; and \$550,000 respectively.

The temporary transfers from the Municipal Complex, Water Operating, and Sanitary District Operating funds were not made in accordance with Indiana Code 36-1-8-4. These three funds did not (1) have sufficient cash to lend in accordance with Indiana statute, or (2) have the City's fiscal body approval of the loan. Lastly, the temporary transfer from the Sanitary District Operating fund did not have the approval of the Sanitary District Board until February 11, 2013, which was 45 days after the transfer was made.

A temporary loan of \$15,000 was made to the Water Operating fund on January 7, 2012, from the General Fund. The loan had no authorizing ordinance or resolution.

Indiana Code 36-1-8-4 states in part:

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

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

CITY OF LAKE STATION  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

- (4) The amount transferred must be returned to the other fund at the end of the prescribed period.
  - (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred.
- (b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:
- (1) Passes an ordinance or a resolution that contains the following:
    - (A) A statement that the fiscal body has determined that an emergency exists.
    - (B) A brief description of the grounds for the emergency.
    - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
  - (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

**Appropriations**

The records presented for audit indicated the following expenditures in excess of budgeted appropriations for 2012:

Fund	Excess Amount Expended
General Fund	\$ 1,970,440
Municipal Bond	1,500

Other issues noted related to appropriations:

1. Review of the appropriation ledger determined that the budget as recorded exceeded the budget as approved by the Indiana Department of Local Government and Finance (DLGF). The budget recorded agreed to the budget approved by the Common Council.
2. Additional review of the appropriation ledger determined that the funds which issued Tax Anticipation Warrants (loans) did not record the interest on the loan against the budget. Although the repayment of the principal does not require an appropriation, the interest was recorded with the principal as unappropriated.

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

3. A transfer of appropriation of \$50,000 was made from the Local Road and Street (LRS) fund to the Motor Vehicle Highway (MVH) fund. The transfer of budget was approved by the Common Council in Resolution 2012-03. The budgets for these two funds require approval by the DLGF. The transferred budgets did not have the DLGF's approval.
4. Many of the funds of the City were required to be locally appropriated by the Common Council. The Common Council adopted Ordinance 2012-24 on December 20, 2012, to budget these funds for the calendar year 2012. Disbursements were made from these funds prior to the adoption of the budget.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Indiana Code 6-1.1-18-10 states:

"(a) 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 of the excess so appropriated and court cost.

(b) Upon the relation of a taxpayer who owns property which is subject to taxation by the political subdivision, the appropriate prosecuting attorney shall initiate an action in the name of this state to recover the amount for which the proper officers of the political subdivision are liable under this section."

Appropriations as stated in the budget, or as modified by additional appropriations, shall constitute the limitation of disbursements. No disbursement shall be made without an appropriation therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

***Fund Sources and Uses***

The following issues with the use of funds were noted:

1. The Stormwater MS4 fund was established in 2012, and is funded by fees assessed against property in the City. Beginning in August 2012, compensation of certain public works employees were disbursed from the fund and continued through the end of the year. These salaries and wages had previously been disbursed from the General Fund and MVH fund. Documentation to support the allocation of the compensation to the Stormwater MS4 fund was not provided.
2. The second installment (the balance due) of the package insurance (Property, General Liability, Auto, Umbrella, Public Officials Errors, Law Enforcement) of \$90,000 was initially charged entirely to the MVH fund. Although \$30,000 was later reversed and moved to the Stormwater MS4 and General Funds, there was no documentation to support the allocation of the insurance to either the MVH or Stormwater MS4 funds.
3. The City disbursed \$19,374 from the LRS fund for liability insurance premiums which is not allowed by Indiana Code 8-14-2-5.

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

4. Two quarters of worker's compensation insurance was paid by the General Fund. The third quarter's premium was charged to the Stormwater MS4 (\$25,000) and Sewage (\$11,926) funds, but not to the Water Utility or the Refuse Department fund. There was no documentation to support the allocation of the insurance to either the Stormwater MS4 or Sewage funds.
5. The Water Utility Operating, Sewage, Stormwater MS4, and the Refuse Department funds were used to partially pay for police and other City vehicles unrelated to the operations of these funds.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 8-14-2-5 states:

"Money from the local road and street account shall be used exclusively by cities, towns, and counties for:

- (1) engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of both local and arterial road and street systems;
- (2) the payment of principal and interest on bonds sold primarily to finance road, street, or thoroughfare projects;
- (3) any local costs required to undertake a recreational or reservoir road project under IC 8-23-5; or
- (4) the purchase, rental or repair of highway equipment."

It appears legislative intent is for local road and street account distributions to be used only for direct expenses incurred in the construction, reconstruction, or maintenance of arterial and local roads and streets in cities and towns. This would prohibit the use of such funds for building buildings or for such indirect costs as administrative salaries or supplies, goods, or materials not used directly for one of the aforementioned purposes. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2011)

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

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)

Indiana Code 36-9-25-11(a) states in part:

"In connection with its duties, the board may fix fees for the treatment and disposal of sewage and other waste discharged into the sewerage system, collect the fees, and establish and enforce rules governing the furnishing of and payment for sewage treatment and disposal service. The fees must be just and equitable and shall be paid by any user of the sewage works and . . . the owner of every lot, parcel of real property, or building that is connected with and uses the sewage works of the district by or through any part of the sewerage system."



CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

***Impact on Independent Auditor's Report***

An explanatory paragraph was added to the Independent Auditor's Report which states the assumption that the City will continue as a going concern. City officials should continue to assess the financial situation of the City to ensure a sustainable resolution to the material deficit cash balances has been determined.

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)

***PREAPPROVED PAYMENTS OF CLAIMS***

The Board of Public Works and Safety (Board) adopted Resolution 2013-04 on June 4, 2013. This resolution detailed what items may be paid by the Clerk-Treasurer prior to approval by the Board. Prior to adopting Resolution 2013-04, the Board had adopted Resolutions 2013-01 and 2012-01 in January of 2013 and 2012 to grant the Clerk-Treasurer authorization to pre-pay certain claims. The Clerk-Treasurer had relied upon these resolutions to make payments of claims prior to Board approval. Indiana statute however, requires an ordinance to be adopted by the Common Council to permit payment of claims prior to Board approval.

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.

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (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.
- (d) The city legislative body or the city board having jurisdiction over the allowance of the claim shall review and allow the claim at its next regular or special meeting following the preapproved payment of the expense."

***PUBLIC PURCHASES AND PURCHASING POLICY***

The City purchased vehicles in 2012, both cars and trucks, from several dealerships, over a period of several months. The total disbursed for the purchase of the vehicles in 2012 was \$127,624. However, there was no evidence presented for audit that the City obtained quotes for the purchase of the vehicles.

Inquiry was made of City officials and the City Attorney, which determined that the City did not have a purchasing policy to guide City officials when making small purchases. The Attorney indicated in a written opinion to the Clerk-Treasurer that the City did not have a formal purchasing policy as described in Indiana Code 5-22-3-3 and that the City followed Indiana Code when making a purchase.

Indiana Code 5-22-8-1 states:

- "(a) This chapter applies only to a purchase expected by the purchasing agent to be less than one hundred fifty thousand dollars (\$150,000).
- (b) Purchase requirements may not be artificially divided so as to constitute a small purchase under this chapter."

Indiana Code 5-22-8-2 states:

- "(a) This section applies only if the purchasing agent expects the purchase to be less than fifty thousand dollars (\$50,000).
- (b) A purchasing agent may make a purchase under small purchase policies established by the purchasing agency or under rules adopted by the governmental body."

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 5-22-8-3 states:

"(a) This section applies only if the purchasing agent expects the purchase to be:

- (1) at least fifty thousand dollars (\$50,000); and
- (2) not more than one hundred fifty thousand dollars (\$150,000).

(b) A purchasing agent may purchase supplies under this section by inviting quotes from at least three (3) persons known to deal in the lines or classes of supplies to be purchased.

(c) The purchasing agent shall mail an invitation to quote to the persons described in subsection (b) at least seven (7) days before the time fixed for receiving quotes.

(d) If the purchasing agent receives a satisfactory quote, the purchasing agent shall award a contract to the lowest responsible and responsive offeror for each line or class of supplies required.

(e) The purchasing agent may reject all quotes.

(f) If the purchasing agent does not receive a quote from a responsible and responsive offeror, the purchasing agent may purchase the supplies under IC 5-22-10-10."

**IMPROPER USE OF COURT FUNDS**

The City established five funds which are not in compliance with Indiana Code 33-37-8-3, which indicates only one City User Fee fund should be established for the receipts and disbursements of these fees collected by the City Court. The cash balances, receipts, and disbursements of these funds for 2012 are:

Fund Name	Beginning Cash Balance	Receipt	Disbursement	Ending Cash Balance
Alcohol Program Monitor	\$ 82	\$ 1,200	\$ -	\$ 1,282
Deferral - Police	63	29,229	29,292	-
Deferral - Ordinance Violation	294	30,814	31,108	-
User Fee LS Continuing Education	853	2,898	-	3,751
Deferral - Infraction	12	17,692	17,704	-

Total disbursements of the Deferral - Police fund \$29,292, as well as partial disbursements from the Deferral - Ordinance Violation \$28,528 and Deferral - Infraction \$14,509 funds consisted of transfers to the General Fund in December 2012.

A similar comment appeared in the prior report.

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 33-37-8-3 states:

"(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:

- (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:

"(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:
  - (A) a prosecuting attorney;
  - (B) a deputy prosecuting attorney;
  - (C) support staff for a prosecuting attorney or deputy prosecuting attorney; or
  - (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.

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (8) An activity or program operated by the prosecuting attorney that is intended to reduce or prevent criminal activity, including:
  - (A) substance abuse;
  - (B) child abuse;
  - (C) domestic violence;
  - (D) operating while intoxicated; and
  - (E) juvenile delinquency.
- (9) Any other purpose that benefits the office of the prosecuting attorney or law enforcement and that is agreed upon by the county fiscal body and the prosecuting attorney.

(c) Funds described in subsection (b) may be used only in accordance with guidelines adopted by the prosecuting attorneys council under IC 33-39-8-5."

**CAPITAL ASSETS**

The City has not properly maintained a complete inventory of capital assets owned as follows:

1. As stated in four prior reports, infrastructure, such as roads, pumping stations, water and wastewater distribution lines, are not included in the capital asset records.
2. Several donated properties accepted by the Board of Public Works and Safety in 2012 were not recorded in the capital asset records or were posted with no value amount.
3. The acquisition or disposal of two vehicles was not recorded in the records.
4. Engineering costs related to the water improvement project were not reflected as construction in progress.
5. The Common Council adopted a capitalization policy with Ordinance 2012-21 on October 11, 2012. The capitalization policy has a threshold to record assets with a purchase value of \$5,000 or more, and/or an anticipated life of three or more years if certain conditions are met. The ordinance stated that it repealed the previous capitalization policy. However, the capital asset record was not updated to reflect the revised policy and contained numerous assets which did not meet the revised capitalization policy requirements.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the applicable 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  
AUDIT RESULTS AND COMMENTS  
(Continued)

The records of each governmental unit should reflect land owned, its location, its acquisition date and the cost (purchase price). If the purchase price is not available, appraised value may be used. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**NONUSE OF PURCHASE ORDERS**

The City does not utilize purchase orders to encumber/reserve appropriations when purchases are initiated. The City had previously implemented purchase orders but discontinued use of the forms as the City Departments were using the form after the purchase was made instead of beforehand. The lack of use of purchase orders has contributed to the City overspending both appropriations and cash for various funds.

Indiana Code 5-22-18-5(b) states in part:

"Within thirty (30) days after the acceptance of an offer, the purchasing agent shall deliver in person or by first class mail to the successful offeror the original of each purchase order or lease, retain a copy for the purchasing agent's records, and file a copy for public record and inspection as follows:

- (1) When a purchase or lease is made for a county or municipality, the copy of the purchase order or lease must be filed with the fiscal officer of the unit."

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

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

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

The original will be delivered to the vendor, the duplicate copy filed with the purchasing authority and the triplicate copy filed with the Clerk-Treasurer. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 5)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**PRESCRIBED FORMS - RECEIPTS**

The City did not use the prescribed receipt form in the proper manner. If a receipt consisted of both cash and check, the breakdown between the payment types was not noted. The payment type and amount section of the receipt form did not always include the amount of cash or check received by the various offices issuing receipts, which included the Clerk-Treasurer's Office, the Police Department and the Park and Recreation Department.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

***UTILITY RECEIPTS TAX***

The Water Utility did not properly calculate the amount of Utility Receipts Tax to remit to the Indiana Department of Revenue for the calendar year 2012. The Water Utility included sales tax in their determination of total taxable receipts, but excluded receipt types such as penalties, hydrant rental fees, and reconnect fees.

A similar comment appeared in the prior Report B41763.

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 Indiana Code 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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."

***BUY MONEY - POLICE DEPARTMENT***

An ordinance adopted by the Common Council, establishing the police buy money and approving related receipts and disbursements, was not presented for the audit.

The following procedures should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

1. under Indiana Code 36-1-3 an ordinance should be passed allowing this type of program and associated expenditures;

CITY OF LAKE STATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

2. an appropriation for such purpose must be obtained in the manner authorized by state statutes;
3. petty cash fund procedures are to be followed as authorized by Indiana Code 36-1-8-3; and
4. a minimum documentation procedure must be followed, similar to either:
  - A. "Guidelines for the Expenditure of Confidential Funds," published by the U. S. Department of Criminal Justice.
  - B. "Guidelines for Obtaining and Accounting For Confidential Funds Used in Support of Criminal Investigations," (Revised S.O.P. INV-009), by the Indiana State Police Department.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2013)

***FEES - MAYOR'S OFFICE***

Fees charged for booth rentals and beverages sold at September Fest, collected by the Mayor's Office, were not approved by the Park Board or the Common Council. The fees which were readily available from the City's ledgers totaled \$1,375.

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



SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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

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

***Report on Compliance for the Major Federal Program***

We have audited the City of Lake Station's (City) 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 its major federal program for the year ended December 31, 2012. The City'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 the City's major federal program 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 City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on the Major Federal Program***

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

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

***Report on Internal Control Over Compliance***


Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-003 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City'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.

  
Paul D. Joyce, CPA  
State Examiner

January 6, 2015

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

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

CITY OF LAKE STATION  
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>Department of Justice</u>				
ARRA - Public Safety Partnership and Community Policing Grants COPS Hiring Recovery Program	Direct Grant	16.710	2009RKWX0344	\$ 134,322
Equitable Sharing Program	Direct Grant	16.922	IN0450400	40,263
Total - Department of Justice				<u>174,585</u>
<u>Department of Transportation</u>				
Highway Safety Cluster State and Community Highway Safety Operation Pull Over - Seatbelt/DUI	Indiana Criminal Justice Institute	20.600	032NHTSA4022012	14,975
<u>Environmental Protection Agency</u>				
Capitalization Grants for Drinking Water State Revolving Funds Water Improvement - Phase I	Indiana Finance Authority	66.468	DW12034501	372,154
Total federal awards expended				<u>\$ 561,714</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

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

***Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City 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.

CITY OF LAKE STATION  
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?	yes
Significant deficiencies identified?	none reported
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
66.468	Capitalization Grants for Drinking 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 2012-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting.

1. Lack of Segregation of Duties: The City has not separated incompatible activities related to cash and investment balances, disbursements (including payroll), and the preparation of the Annual Financial Report (AFR) and financial statement. Due to the size of the Clerk-Treasurer's Office, one employee is responsible for all functions related to payroll. The Clerk-Treasurer is solely responsible reconciling the cash and investment balances. The Clerk-Treasurer also prepares the AFR in Gateway without oversight, review, or approval. The financial information submitted via Gateway generates the City's financial statement.



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

The Clerk-Treasurer and another employee perform the vendor disbursements functions, but there is insufficient segregation of duties at times due to the needs of the office and availability of staff. Although the Board of Public Works and Safety approves all disbursements on the Accounts Payable Voucher (APV) Docket, they do not physically inspect the APV's.

The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

2. **Monitoring of Controls:** An evaluation of the City's system of internal control has not been conducted. The failure to monitor the internal control system places the City at risk that controls may not be designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.

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)

***FINDING 2012-002 - INTERNAL CONTROLS AND COMPLIANCE OVER  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The SEFA was prepared by the Clerk-Treasurer and was not reviewed by another knowledgeable individual.

The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors:

1. The SEFA did not contain the Capitalization Grants for Drinking Water State Revolving Funds, which was the major program for the City. The Clerk-Treasurer's Office did not receive the documents from the Indiana Finance Authority approving the draws made in 2012. The documents were sent to another office which did not realize that these documents contained the information needed for accurate reporting of the SEFA.
2. The Equitable Sharing Program was also omitted from the SEFA.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

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

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 in part:

"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:

- (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."

***Section III - Federal Award Findings and Questioned Costs***

***FINDING 2012-003 - INTERNAL CONTROLS OVER CAPITALIZATION  
GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS***

Federal Agency: Environmental Protection Agency  
Federal Program: Capitalization Grants for Drinking Water State Revolving Funds  
CFDA Number: 66.468  
Federal Award Number: DW12034501  
Pass-Through Entity: Indiana Finance Authority

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

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs, and Reporting compliance requirements. This would also include monitoring activities of paid consultants, related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs, and Suspension and Debarment compliance requirements, as follows:

1. The consultant engineering firm reviews all contractor requests for payment and submits them to the City for payment. The firm also submits invoices to the City for payment for services rendered. Upon receipt of the invoices and requests from the Mayor's Office, the Clerk-Treasurer prepares the Accounts Payable Vouchers (APV) and the drawdown requests to be submitted to the Indiana Finance Authority (IFA) for State Revolving Fund (SRF) payment.

The drawdowns as prepared by the Clerk-Treasurer, for submission to the IFA for payment, are not reviewed by anyone else at the City. Although the Mayor signs the drawdown requests as required, the requests are not reviewed for compliance with reporting requirements.

2. The consulting engineering firm inserted Suspension and Debarment compliance language into the bid specifications for the construction projects. The City relied upon the consultants engaged by the IFA to ensure that Suspension and Debarment compliance requirements were met for other vendors paid from the SRF funds.
3. The APVs prepared by the Clerk-Treasurer are approved by the Board of Public Works and Safety, based upon an APV register submitted at a meeting. The actual APVs with the attached invoices are not individually reviewed by the Board. No documentation was provided to indicate that anyone at the City had reviewed the APVs for compliance with Activities Allowed or Unallowed and Allowable Costs compliance requirements.

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

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

In order to have an effective internal control system, it is important to have proper segregation of duties, and to ensure that the activities of paid 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. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity. Additionally, the City did not have a system in place to ensure the work product provided by consultants related to Activities Allowed or Unallowed, Allowable Costs, Suspension and Debarment, and Reporting compliance requirements was adequate, complete, and accurate.

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

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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above. We also recommended that the City's management establish controls to effectively monitor the activities of consultants to ensure compliance related to the grant agreement and compliance requirements that have a direct and material effect on the program.

AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



1969 Central Ave. Lake Station, IN 46405

CORRECTIVE ACTION PLAN

**FINDING 2012-001**

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer  
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan:

Lack of Segregation of Duties

The City has not separated incompatible activities due to the size of the Clerk-Treasurer's Office and the availability of staff. The Clerk-Treasurer's Office will review the segregation of duties and separate the approval function, the accounting/reconciliation function, and the asset custody function when possible. When these functions cannot be separated, a detailed supervisory review of related activities will be required.

Monitoring of Controls

The Clerk-Treasurer's Office will design, implement and monitor a system of internal controls. The Clerk-Treasurer's Office implement controls over the receipting, disbursing, recording and accounting for financial activities. When these controls cannot be implemented, a detailed supervisory review of related activities will be required.

Anticipated Completion Date: March 30, 2015

  
\_\_\_\_\_  
(Signature)

Clerk Treasurer  
\_\_\_\_\_  
(Title)

01-14-15  
\_\_\_\_\_  
(Date)

  
\_\_\_\_\_  
(Signature)

Mayor  
\_\_\_\_\_  
(Title)

1/14/15  
\_\_\_\_\_  
(Date)

  
\_\_\_\_\_  
(Signature)

Council President  
\_\_\_\_\_  
(Title)

1/14/15  
\_\_\_\_\_  
(Date)



1969 Central Ave. Lake Station, IN 46405

CORRECTIVE ACTION PLAN

**FINDING 2012-002**

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer  
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan: The Clerk-Treasurer's Office will implement a procedure whereby the Police Department staff will reconcile with the Clerk-Treasurer's Office staff grant balances, payroll and general ledger expenditures, and drawdown receipt reports to assure that reports submitted are accurate, and has proper documentation to ensure a proper system of internal controls on the Schedule of Expenditures of Federal Awards (SEFA).

Anticipated Completion Date: June 30, 2015

  
\_\_\_\_\_  
(Signature)


Clerk Treasurer  
\_\_\_\_\_  
(Title)

01-14-15  
\_\_\_\_\_  
(Date)

  
\_\_\_\_\_  
(Signature)

Mayor  
\_\_\_\_\_  
(Title)

1/14/15  
\_\_\_\_\_  
(Date)

  
\_\_\_\_\_  
(Signature)

Council President  
\_\_\_\_\_  
(Title)

1/14/15  
\_\_\_\_\_  
(Date)



1969 Central Ave. Lake Station, IN 46405

CORRECTIVE ACTION PLAN

**FINDING 2012-003**

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer  
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan: The Clerk-Treasurer will establish a system of internal controls, including segregation of duties related to monitoring compliance with the federal grant agreement's requirements, including activities that are allowed or not allowed, allowable costs, and documenting and reporting compliance with the requirements. The Clerk-Treasurer will also review the accounts payable vouchers and monitor and document the monitoring of consultant activities to ensure compliance with all requirements of the grant agreement, including, but not limited to Davis-Bacon requirements.

Anticipated Completion Date: April 30, 2015

*Brenda Samuels*

(Signature)

Clerk Treasurer

(Title)

01-14-15

(Date)

*Mayor Keith Sedquist*

(Signature)

Mayor

(Title)

1/14/15

(Date)

*[Signature]*

(Signature)

Council President

(Title)

1/14/15

(Date)



CITY OF LAKE STATION  
EXIT CONFERENCE

The contents of this report were discussed on January 6, 2015, with Keith Soderquist, Mayor; Brenda Samuels, Clerk-Treasurer; John McDaniel, President Pro Tempore of the Common Council; Todd Rogers, Common Councilperson; and James Meyer, Assistant City Attorney.



1969 Central Ave. Lake Station, IN 46405

January 28, 2015

State Board of Accounts  
302 West Washington Street, Room E418  
Indianapolis, IN 46204-2765  
idavid@sboa.in.gov

### OFFICIAL RESPONSE FOR 2012

#### A) Overdrawn Cash Balances

Since we took office in 2008 many of the City Funds have a negative balance, with the General Fund taking the brunt of it. We found that many payables weren't even in the system at the time as they were found in desk drawers, on file cabinets, etc. We hired Umbaugh and Associates to help us come up with a plan to reduce this deficit and eliminating it may take a year or two more with our implemented plan. Since the City doesn't receive it's money from the County until usually the last day of the year, there is no way to know in advance how much money we will have and, knowing we must pay all previous loans (TAW's) taken in the prior year....and all Bonds, all due by December 31<sup>st</sup>, requires the City to use interfund loans to temporarily cover the cash shortfalls at the end of the year.

#### B) Customer Meter Deposits - Water Utility

Once we were advised in 2011 that the meter deposits should be kept in a separate fund from the water utility operating fund, we created said fund and started depositing all deposits to this fund. Refunds were still paid from the Operating Fund to gain a substantial balance in the new Meter Deposit Fund until we could research and verify what the balance in the Meter Deposit Fund should be. Now that amount has been established, we will implement a plan in 2015 to start

transferring the funds from the Operating Fund...to the Meter Deposit Fund until we have the correct balance in that Fund.

### C) Sanitary District Line of Credit Loan

The Sanitary District originally took out the line of credit to fund an anticipated large sewer system construction project for which federal funds were to be used to pay the largest part of the project and the line of credit would be used to pay the City's match. For various reasons, the federal funds did not become available so the Sanitary District did not use the line of credit. Several months later, at the very end of the year, due to an unexpected substantial shortfall in the amount of property taxes the City received from the County, the City was in dire need of cash to pay its end of year expenses and there wasn't time to go through the process of processing a TAW. Therefore, the City had to temporarily borrow money on very short notice from a Fund and the line of credit was drawn on by the Sanitary District and a temporary transfer was made to the City. That temporary transfer was repaid within the time required by Indiana law and the City paid the interest cost incurred by the Sanitary District on the line of credit. The Sanitary District repaid the line of credit in a timely manner before the line of credit expired. Since the Sanitary District did not actually spend the line of credit money and it received all of it back from the City, with interest, its action in temporarily loaning it to the City did not violate the bank documents or state law requiring the money to only be spent on paying Sanitary District expenses.

### D) Loans between funds

The temporary were made at the last minute to pay commitments (TAW's and Bonds) due on December 31<sup>st</sup>, with no time allotment to present to the council.

### E) Appropriations

1) Due to the negative balance in the General Fund, the DLGF wouldn't approve our budget/appropriation, but paying our wages and bills was the only way to keep the City operating.

- 2) Being made aware there needs to be an appropriation line for the interest on the TAW loans, we will implement this in our next budget.
- 3) We were unaware this transfer was a violation and will not do so in the future.
- 4) Prior to us taking office in 2008, many funds were not in the budget submitted to DLGF. Our city attorney recommended we do this, which happened to fall at year end.

#### F) Fund Sources and Uses

1-5) Documentation was not requested and in fact, we did a percentage shared cost for all related departments that is why employees were shifted to different departments as they shared cost.

#### G) Impact on Independent Auditor's Report

The City has been working with financial consultants since 2008, slowly reducing this deficit.

#### H) Preapproved payments of Claims

Being made aware an Ordinance through the Council is necessary instead of the Resolution of the BOW. An ordinance has already been submitted to the Council for approval.

#### I) Public Purchases and Purchasing Policy

No documentation was requested and as a matter of fact, each and every time the police department/any department has always provided minimum three requests for quotes as this is standard procedure before every purchase.

#### J) Improper Use of Court Funds

We are currently working with the city attorney to take the proper steps to combine the three Deferral funds, and process expenditures per law.

#### K) Capital Assets

- 1) Infrastructure will be assessed and included in the assets when the city can financially afford to do so.
- 2) The detail for these properties has already been researched and to the capital assets.
- 3) These vehicles now been added to the capital assets list.
- 4) We were unaware we needed to keep a "construction in progress" in our capital asset list, assuming we'd show the project as a whole upon completion. We have now added to our asset list through 2014.
- 5) We have now deleted all assets under \$5,000.00 per Ordinance 2012-21

#### L) Nonuse of Purchase Orders

The City has always used purchase orders to encumber, and when necessary for large purchases. The nonuse of purchase orders has no affect on overspending, as we make sure the appropriation is there prior to payment.

#### M) Prescribed Forms - Receipts

We were notified by SBOA on December 18, 2014 of this and sent notice to all departments that process receipts as to the proper process.

#### N) Utility Receipts Tax


We will notify the clerk responsible for the calculation in the Water Utility so that future calculations are correct.

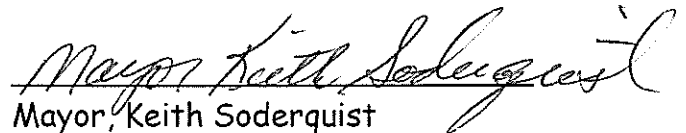
O) Buy Money - Police Department

We'll take the necessary steps to have an Ordinance drawn up to cover this and present to the council for approval.

P) Fees - Mayor's Office

Moving forward, we will make sure these discussions and votes will be reflected in the minutes as they are discussed at and approved at the meetings. The Park Board has approved these fees in January 2015 to clarify in the minutes.

  
Clerk Treasurer, Brenda Samuels

  
Mayor, Keith Soderquist