

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

FINANCIAL STATEMENTS REVIEW REPORT

OF

TOWN OF SPRING LAKE

HANCOCK COUNTY, INDIANA

January 1, 2012 to December 31, 2015



FILED
11/18/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Claudetta Sue Dennemann Victoria Merlau	01-01-12 to 12-21-15 12-22-15 to 12-31-19
President of the Town Council	Mary Sweetland Andrew Swain	01-01-12 to 06-17-13 06-18-13 to 12-31-16



STATE OF INDIANA

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TO: THE OFFICIALS OF THE TOWN OF SPRING LAKE, HANCOCK COUNTY, INDIANA

We have reviewed the accompanying financial statements of the Town of Spring Lake (Town) for the period of January 1, 2012 to December 31, 2015. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Town's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with a regulatory 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This includes determining that the basis of accounting the Town uses is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with the Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the prescribed basis of accounting described in Note 1. We believe that the results of our procedures provide a reasonable basis for our conclusion.


INDEPENDENT ACCOUNTANT'S REVIEW REPORT
(Continued)

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the prescribed basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.


Paul D. Joyce, CPA
State Examiner

October 18, 2016

FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

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

TOWN OF SPRING LAKE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended December 31, 2012 and 2013

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12	Receipts	Disbursements	Cash and Investments 12-31-13
General	\$ 99,443	\$ 59,750	\$ 32,996	\$ 126,197	\$ 30,350	\$ 34,266	\$ 122,281
Motor Vehicle Highway	37,014	17,196	42,112	12,098	43,753	12,784	43,067
Local Road And Street	7,417	2,792	3,436	6,773	2,784	5,000	4,557
Rainy Day	4,286	-	-	4,286	13,285	-	17,571
Cedit Special Revenue	1,065	-	-	1,065	-	-	1,065
Cumulative Capl Imprv Cigarette Tax	1,386	578	-	1,964	585	300	2,249
Cumulative Capital Development	9,893	-	-	9,893	-	-	9,893
Flower Fund	260	331	165	426	74	-	500
Totals	<u>\$ 160,764</u>	<u>\$ 80,647</u>	<u>\$ 78,709</u>	<u>\$ 162,702</u>	<u>\$ 90,831</u>	<u>\$ 52,350</u>	<u>\$ 201,183</u>

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

TOWN OF SPRING LAKE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended December 31, 2014 and 2015

Fund	Cash and Investments 01-01-14	Receipts	Disbursements	Cash and Investments 12-31-14	Receipts	Disbursements	Cash and Investments 12-31-15
General	\$ 122,281	\$ 27,114	\$ 63,418	\$ 85,977	\$ 30,203	\$ 22,703	\$ 93,477
Motor Vehicle Highway	43,067	45,574	8,013	80,628	49,249	29,818	100,059
Local Road And Street	4,557	2,832	-	7,389	2,890	5,000	5,279
Rainy Day	17,571	30,000	22,084	25,487	-	5,115	20,372
Cedit Special Revenue	1,065	-	-	1,065	-	-	1,065
Cumulative Capl Imprv Cigarette Tax	2,249	577	-	2,826	2,038	1,890	2,974
Cumulative Capital Development	9,893	-	-	9,893	-	-	9,893
Flower Fund	500	1	-	501	31	151	381
Totals	<u>\$ 201,183</u>	<u>\$ 106,098</u>	<u>\$ 93,515</u>	<u>\$ 213,766</u>	<u>\$ 84,411</u>	<u>\$ 64,677</u>	<u>\$ 233,500</u>

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

TOWN OF SPRING LAKE
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statements present the financial information for the Town.

B. Basis of Accounting

The financial statements are 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 statements. The aggregate receipts include the following sources:

Taxes, which can include one or more of the following: property tax, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, 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 Town.

Licenses and permits, which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction, or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include the following: peddler licenses, dog tax licenses, auctioneer licenses, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

TOWN OF SPRING LAKE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Intergovernmental receipts, which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of these types of receipts include, but are not limited to, the following: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distributions received from the state, local road and street distributions 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.

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

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements include the following uses:

Personal services, which 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, the following: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

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

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

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.

TOWN OF SPRING LAKE
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Interfund Transfers

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

G. Fund Accounting

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

Note 2. Budgets

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

Note 3. Property Taxes

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

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.

TOWN OF SPRING LAKE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Note 5. Risk Management

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

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

TOWN OF SPRING LAKE
REVIEW RESULTS AND COMMENTS

CONDITION OF RECORDS

Financial records presented for review were incomplete and contained errors.

Some of the deficiencies included:

1. Depository reconciliations of the fund balances to the bank account balances were either not presented or were incorrect for all months during the review period. The bank reconciliations that were provided did not reconcile to the Town's records and did not always identify outstanding checks or deposits in transit properly. Notations were made as to the amount that the reconciliation was out of balance for some months, but no explanations were given for the variances. The December 31, 2015, reconciliation reflected a cash short in the amount of \$850.

Similar comments appeared in prior Reports, most recently B41212.

2. Disbursements and receipts were not always recorded in the proper amounts.
3. Local property tax and license excise tax distributions for the Motor Vehicle Highway fund totaling \$27,454 were incorrectly posted to the General fund in 2013. An adjustment was proposed, accepted by management, and made to the financial statements presented in this report.
4. Adjusting receipt entries totaling \$3,000 were made to the ledger in 2013 with no supporting documentation.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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)

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)

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)

TOWN OF SPRING LAKE
REVIEW RESULTS AND COMMENTS
(Continued)

COMPENSATION AND BENEFITS

The Town Council did not approve a salary ordinance for the years 2012 through 2015. In addition, the wages reported on the Internal Revenue Service Wage and Tax Statement Form W-2 (W-2) issued to employees for 2015 did not agree with the actual amounts paid to employees. The Clerk-Treasurer's 2015 W-2 gross wages were over-reported by \$2,732 and the Deputy Clerk-Treasurer's 2015 W-2 gross wages were under-reported by \$2,504.

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

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Non-compliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANNUAL FINANCIAL REPORTS

The Annual Financial Reports (AFR) filed for 2012, 2013, 2014, and 2015 contained a number of errors and did not match the Town's records. The following errors were noted:

Description	Years	Amount	
		Over/(Understated)	
Total Cash and Investments 01-01-12	2012	\$	52,023
Total Receipts	2012		(421)
Total Cash and Investments 01-01-14	2014		50,105
Total Disbursements	2014		6,508

The AFRs were used to compile the financial statements presented for review; therefore, the financial statements contained the same errors. Adjustments were proposed, approved by management, and made to the financial statements presented in this report.

In addition, the AFR for 2014 was not filed electronically until April 14, 2015, which was 44 days after the report was required to be filed.

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

TOWN OF SPRING LAKE
REVIEW RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

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

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
Rainy Day	2014	\$ 22,084
Rainy Day	2015	5,115

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."

CERTIFIED REPORT ERRORS

The Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R or its equivalent) submitted for 2015 was inaccurate. The 2015 Form 100-R reported the Clerk-Treasurer's total compensation was \$2,732, but the Clerk-Treasurer was actually was paid \$0 in 2015. The 2015 Form 100-R also reported the Deputy Clerk-Treasurer's total compensation was \$228, but the Deputy Clerk-Treasurer was actually paid \$2,732.

Indiana Code 5-11-13-1(a) states in part:

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

TOWN OF SPRING LAKE
EXIT CONFERENCE

The contents of this report were discussed on October 18, 2016, with Victoria Merlau, Clerk-Treasurer; Andrew Swain, President of the Town Council; and Tony Hutton, Town Council member.