

B27711

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

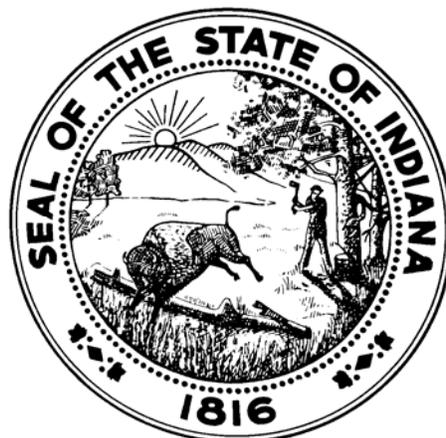
ANNUAL FINANCIAL REPORT

2005

WASTEWATER UTILITY

CITY OF PORTAGE

PORTER COUNTY, INDIANA



FILED
08/25/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Auditor's Report.....	3
Statement of Net Assets.....	4
Statement of Revenues, Expenses and Changes in Fund Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14
Supplementary Information:	
Schedule of Funding Progress	15
Audit Results and Comments:	
Payment Made From Restricted Fund	16
Capital Asset and Depreciation Policy	16
Credit Cards.....	16
Advance Payments	17
Records of Hours Worked	17
Certified Report Not Filed	17
Exit Conference.....	18
Official Response	19-20

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer of the Wastewater Utility	Sherry L. Smolar	01-01-05 to 12-31-06
President of the Utility Service Board	Douglas W. Olson	01-01-05 to 12-31-06
Superintendent of the Wastewater Utility	Ricky Dodd	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WASTEWATER UTILITY, CITY OF PORTAGE, PORTER COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Wastewater Utility, a department of the City of Portage, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Wastewater Utility, City of Portage, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City of Portage as of December 31, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Wastewater Utility, as of December 31, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Utility has not presented Management's Discussion and Analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

June 29, 2006

WASTEWATER UTILITY
CITY OF PORTAGE
STATEMENT OF NET ASSETS
December 31, 2005

Assets

Current assets:	
Operating cash and cash equivalents	\$ 89,233
Revenue cash and cash equivalents	3,622,001
Accounts receivable - customer	327,093
Accounts receivable - other	<u>25,057</u>
Total current assets	<u>4,063,384</u>
Noncurrent assets:	
Restricted cash and cash equivalents	
Bond and interest cash and equivalents	201,969
Debt reserve fund cash and cash equivalents	671,130
Improvement cash and cash equivalents	281,740
Employee medical benefit plan cash and cash equivalents	<u>40,894</u>
Total restricted assets	<u>1,195,733</u>
Deferred charges	<u>49,784</u>
Capital assets:	
Land	711,013
Other capital assets (net of accumulated depreciation)	<u>26,170,216</u>
Total capital assets	<u>26,881,229</u>
Total noncurrent assets	<u>28,126,746</u>
Total assets	<u>32,190,130</u>

Liabilities

Current liabilities:	
Accounts payable	46,471
Accrued payroll and withholdings payable	36,453
Due to City	99,457
Loans payable	240,000
Current liabilities payable from restricted assets:	
Interest payable	113,461
Revenue bonds payable	<u>470,000</u>
Total current liabilities	<u>1,005,842</u>
Noncurrent liabilities:	
Revenue bonds payable (net of unamortized discounts)	2,112,539
Deferral of loss on refunding	(82,608)
Loans payable	<u>8,105,000</u>
Total noncurrent liabilities	<u>10,134,931</u>
Total liabilities	<u>11,140,773</u>

Net Assets

Invested in capital assets, net of related debt	16,086,082
Restricted for debt service	873,099
Restricted for other purposes	322,634
Unrestricted	<u>3,767,542</u>
Total net assets	<u>\$ 21,049,357</u>

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

WASTEWATER UTILITY
CITY OF PORTAGE
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

Operating revenues:	
Measured revenue:	\$ 4,645,801
Other	<u>455,596</u>
Total operating revenues	<u>5,101,397</u>
Operating expenses:	
Salaries and wages	1,215,963
Employee pensions and benefits	146,050
Purchased water	5,239
Purchased power	300,506
Chemicals	39,692
Maintenance and supplies	241,733
Materials and supplies	194,654
Contractual services	118,511
Insurance expense	455,994
Depreciation and amortization of loss on refunding	1,635,392
Miscellaneous expenses	<u>400,330</u>
Total operating expenses	<u>4,754,064</u>
Operating income	<u>347,333</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	49,244
Amortization of deferred charges	(11,715)
Interest expense	<u>(489,042)</u>
Total nonoperating (expenses)	<u>(451,513)</u>
Loss before contributions	(104,180)
Capital contributions	<u>403,997</u>
Change in net assets	299,817
Total net assets - beginning	<u>20,749,540</u>
Total net assets - ending	<u><u>\$ 21,049,357</u></u>

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

WASTEWATER UTILITY
CITY OF PORTAGE
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
As Of And For The Year Ended December 31, 2005

Cash flows from operating activities:	
Receipts from customers and users	\$ 5,098,642
Payments to suppliers and contractors	(1,820,380)
Payments to employees	<u>(1,359,641)</u>
Net cash provided by operating activities	<u>1,918,621</u>
Cash flows from capital and related financing activities:	
Capital contributions	403,997
Acquisition and construction of capital assets	(756,553)
Principal paid on revenue bond	(445,000)
Principal paid on loans	(235,000)
Interest paid on revenue bonds	(144,135)
Interest paid on loans	<u>(332,412)</u>
Net cash used by capital and related financing activities	<u>(1,509,103)</u>
Cash flows from investing activities:	
Interest received	<u>49,244</u>
Net increase in cash and cash equivalents	458,762
Cash and cash equivalents, January 1	<u>4,448,205</u>
Cash and cash equivalents, December 31	<u>\$ 4,906,967</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 347,333</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	1,654,825
(Increase) decrease in assets:	
Accounts receivable - customer	(6,155)
Accounts receivable - other	(7,829)
Increase (decrease) in liabilities:	
Accounts payable	(63,723)
Accrued wages and withholdings payable	2,372
Due to the City	<u>11,231</u>
Total adjustments	<u>1,590,721</u>
Net cash provided by operating activities	<u>\$ 1,938,054</u>
Noncash investing, capital and financing activities:	
Amortization of bond discount	\$ 579
Amortization of bond issuance costs	11,715
Amortization of deferral of loss on refunding	19,433
Transfer of completed construction work in progress to capital assets	4,402,489

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

WASTEWATER UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utility and are not intended to present fairly the position of the City of Portage (City), and the results of its operations and cash flows of its enterprise funds. The Utility, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utility's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utility 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.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

WASTEWATER UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

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.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Rate
Buildings	\$ 5,000	Composite rate	2.5%
Improvements other than buildings	5,000	Composite rate	2.5%
Machinery and equipment	5,000	Composite rate	10%
Furniture and fixtures	5,000	Composite rate	10%

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

4. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 6 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is paid to employees through cash payments upon termination. Every fulltime employee earns major illness leave at the rate of 1 day per month. Unused major illness leave may be accumulated to 90 days. Accumulated major illness leave is not paid to employees upon termination.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. Unused vacation leave is paid to employees upon termination.
- c. Personal Leave – Utility employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

No liability is reported for compensated leave balances.

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

WASTEWATER UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 708,513	\$ 2,500	\$ -	\$ 711,013
Construction in progress	<u>4,191,747</u>	<u>749,817</u>	<u>4,941,564</u>	<u>-</u>
Total capital assets, not being depreciated	<u>4,900,260</u>	<u>752,317</u>	<u>4,941,564</u>	<u>711,013</u>
Capital assets, being depreciated:				
Improvements other than buildings	33,903,394	4,444,478	-	38,347,872
Buildings	2,571,317	-	-	2,571,317
Machinery and equipment	7,201,543	482,246	-	7,683,789
Furniture and fixtures	<u>33,696</u>	<u>19,076</u>	<u>-</u>	<u>52,772</u>
Totals	<u>43,709,950</u>	<u>4,945,800</u>	<u>-</u>	<u>48,655,750</u>
Less accumulated depreciation for:				
Improvements other than buildings	15,013,314	847,585	-	15,860,899
Buildings	984,138	64,283	-	1,048,421
Machinery and equipment	4,852,690	720,154	-	5,572,844
Furniture and fixtures	<u>-</u>	<u>3,370</u>	<u>-</u>	<u>3,370</u>
Totals	<u>20,850,142</u>	<u>1,635,392</u>	<u>-</u>	<u>22,485,534</u>
Total capital assets, being depreciated, net	<u>22,859,808</u>	<u>3,310,408</u>	<u>-</u>	<u>26,170,216</u>
Total capital assets, net	<u>\$ 27,760,068</u>	<u>\$ 4,062,725</u>	<u>\$ 4,941,564</u>	<u>\$ 26,881,229</u>

Depreciation expense was charged to functions/programs of the Utility as follows:

Wastewater \$ 1,635,392

WASTEWATER UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Long-Term Liabilities

1. Revenue Bonds

The Utility issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Balance December 31	Less: Unamortized Discount	Amount
1996 Wastewater expansion	4.7% to 5.1%	<u>\$ 2,585,000</u>	<u>\$ 2,461</u>	<u>\$ 2,582,539</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2006	\$ 470,000	\$ 122,870
2007	490,000	99,950
2008	515,000	75,445
2009	540,000	49,445
2010	<u>570,000</u>	<u>21,930</u>
Totals	<u>\$ 2,585,000</u>	<u>\$ 369,640</u>

2. Notes and Loans Payable

The Utility has entered into a loan with the State Revolving Loan Fund for utility improvements. Annual debt service requirements to maturity for the loan, including interest of \$2,586,673, are as follows:

2006	\$ 563,115
2007	568,560
2008	568,615
2009	568,084
2010	562,360
2011-2015	5,787,324
2016-2020	<u>2,313,615</u>
Total	<u>\$ 10,931,673</u>

WASTEWATER UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable:					
Wastewater Utility	\$ 3,030,000	\$ -	\$ 445,000	\$ 2,585,000	\$ 470,000
Loans payable	<u>8,580,000</u>	<u>-</u>	<u>235,000</u>	<u>8,345,000</u>	<u>240,000</u>
Total long-term liabilities	<u>\$ 11,610,000</u>	<u>\$ -</u>	<u>\$ 680,000</u>	<u>\$ 10,930,000</u>	<u>\$ 710,000</u>

D. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

Bond and interest cash and cash equivalents	\$ 201,969
Debt reserve fund cash and cash equivalents	671,130
Improvement cash and cash equivalents	281,740
Employee benefit plan cash and cash equivalents	<u>40,894</u>
Total restricted assets	<u>\$ 1,195,733</u>

III. Other Information

A. Risk Management

The Utility is 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 (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees and Dependents

The Utility has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the Employee Medical Benefit Plan Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$45,000 per year, per person, and up to \$1,000,000, per year, for the City and Utility as a whole. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Funding for this risk group is through actual claim payment. Provisions are also made for unexpected and unusual claims. However, claim liabilities cannot be reasonably estimated.

WASTEWATER UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Workmen's Compensation

During 1993, the Utility joined together with other governmental entities in the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for 350 member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of workmen's compensation. The Utility pays an annual premium to the risk pool for its workmen's compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Related Party Transactions

During the period in which financial statements are presented, the Utility had material transactions with the City in relation to trash fee collections by the Utility, subsequently paid to the City, in the amount of \$681,370. As of the balance sheet date, the amount of \$99,457 was due to the City.

C. Rate Structure

Wastewater Utility

The current rate structure was approved by the Utility on September 1, 1996. The Utility has 10,773 customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Utility contributes with the City, to the Indiana Public Employees' Retirement Fund (PERF), 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 the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utility 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 member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF 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. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

WASTEWATER UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utility's annual pension cost and related information combined with the City, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 225,346
Interest on net pension obligation	(11,446)
Adjustment to annual required contribution	13,043
Annual pension cost	226,943
Contributions made	226,025
Increase in net pension obligation	918
Net pension obligation, beginning of year	(157,873)
Net pension obligation, end of year	\$ (156,955)
Contribution rates:	
Utility	4.5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

WASTEWATER UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 215,347	80%	\$ (149,546)
	06-30-04	189,053	104%	(157,873)
	06-30-05	226,943	120%	(156,955)

WASTEWATER UTILITY
CITY OF PORTAGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 3,663,967	\$ 3,535,300	\$ 128,667	104%	\$ 4,563,193	3%
07-01-04	3,725,598	3,874,773	(149,175)	96%	4,890,176	(3%)
07-01-05	3,904,815	4,555,414	(650,599)	86%	5,095,369	(13%)

WASTEWATER UTILITY
CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS

PAYMENT MADE FROM RESTRICTED FUND

The payment in lieu of taxes in the amount of \$180,000 paid December 31, 2005, was paid in error from the restricted fund 105.1 SRF Debt Reserve Loan Fund.

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)

CAPITAL ASSET AND DEPRECIATION POLICY

The Utility did not present a current board approved capital asset and depreciation policy. The Utility is using an old policy from the City in which the depreciation method stated in the policy is straight-line. The depreciation method used by the Utility is composite rate.

The governing body should establish capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS

Credit card payments were observed which did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WASTEWATER UTILITY
CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS
(Continued)

ADVANCE PAYMENTS

We noted a claim for a lawn chemical service company that was prepaid for the 2006 year. The claim was paid on January 31, 2006, for services to be performed beginning in the spring, and ending in the fall. The total payment was \$536.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECORDS OF HOURS WORKED

We noted three employees that are paid from both the City and the Wastewater Utility. A record of hours worked for each employee was not presented for audit from the utility.

Indiana Code 5-11-9-4(b) states in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

CERTIFIED REPORT NOT FILED

The Utility did not file a certified report of compensation of officers and employees (Form 100-R or its equivalent) with the State Board of Accounts for the year 2005.

Indiana Code 5-11-13-1 states in part: "Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

WASTEWATER UTILITY
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on June 29, 2006, with Sherry L. Smolar, Treasurer of the Wastewater Utility; and Douglas W. Olson, President of the Utility Service Board. The official response has been made a part of this report and may be found on pages 19 and 20.

CITY OF PORTAGE

WATER RECLAMATION BOARD

Sanitary Sewer Department
6071 Central Avenue • Portage, Indiana 46368-3587
Telephone (219) 762-2016 • Fax (219) 762-1484



Home of the Port of Indiana

July 5, 2006

**Bruce Hartman
State Examiner
State Board of Accounts
155 Indiana Avenue
Valparaiso, In 46383**

In Re: 2005 City of Portage/Water Reclamation Audit

Dear Mr. Hartman:

This letter is in response to the 2005 audit done for the Portage Water Reclamation Department.

With regard to the comment on advance payments for services not yet performed, I have attached an invoice for the lawn care services paid for in advance. As you can see, with an early payment, we are saving 7% on a full year's service. This I would think would be an exception to the statute since we are saving the utility money by paying in advance.

Sincerely,



**Sherryl L. Smolar
Secretary-Treasurer
Portage Water Reclamation Dept.**

Nutri-Lawn Corp.

310 E. 1050 N. Chesterton, IN 46304-9314

(877)926-2220



Billing Address

Portage Water Reclamation Dept
6071 Central Ave
Portage, IN 46368

Service Address

Portage Water Reclamation Dept
6071 Central Ave
Portage, IN 46368

Customer number: 9243

01/09/06

**VALUED
CUSTOMER
PREPAY
DISCOUNT**

SAVE!

7%

**On Your Service
for One Full Year**

Expires on 03/31/06

Lawn and irrigation service pre-pay information

Thank you for your past loyalty to Nutri-Lawn. While the winter winds are currently blowing, it will soon be spring and time to think of your lawn! Below you will find the list of services that you have scheduled. Be sure to call if you have questions or wish to change your scheduled services. If you are interested in taking advantage of our prepayment offer, please send a check or call with your credit card information by March 31, 2006. We are now offering a monthly installment plan. Please call if you are interested in information and pricing. You may also pay as services are rendered.

REMEMBER, YOUR SERVICE WILL BEGIN AUTOMATICALLY UNLESS YOU CALL TO CANCEL

	Price	Prepay Price
Early Spring	\$ 92.24	\$ 85.78
Late Spring	\$ 92.24	\$ 85.78
Summer	\$ 92.24	\$ 85.78
Early Fall	\$ 92.24	\$ 85.78
Late Fall	\$ 92.24	\$ 85.78
Grub Application	\$ 115.27	\$ 107.20

<i>Total Service Amount</i>	\$	576.47
<i>After 7% Prepay Discount</i>	\$	536.10
<i>You Save</i>	\$	40.37
<i>Prepay Amount</i>	\$	536.10

Nutri-Lawn installs and services irrigation systems!

	Regular price	Prepay price
Core Aeration	\$ 225.00	\$ 209.25
Irrigation Startup	\$ 65.00	\$ 60.45
Irrigation Winterization	\$ 65.00	\$ 60.45