

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

EXAMINATION REPORT  
OF  
CITY OF VALPARAISO  
PORTER COUNTY, INDIANA  
January 1, 2006 to December 31, 2006



**FILED**  
06/06/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Emerson Swihart	01-01-04 to 12-31-07
Mayor	Jon Costas	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Jon Costas	01-01-04 to 12-31-07
President of the Common Council	Jon Costas	01-01-04 to 12-31-07
Superintendent of Utilities	John Hardwick	01-01-06 to 12-31-07
City Administrator	William Hanna	01-01-06 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF VALPARAISO, PORTER COUNTY, INDIANA

We have examined the financial information presented herein of the City of Valparaiso (City), for the period of January 1, 2006 to December 31, 2006. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not a required part of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

April 4, 2007

CITY OF VALPARAISO  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES  
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 1,442,093	\$ 23,388,674	\$ 24,531,622	\$ 299,145
Special Revenue Funds:				
Crime Control	4,359	54,909	47,757	11,511
Donation	38,189	123,507	107,397	54,299
Law Enforcement Continuing Education	55,960	36,198	22,061	70,097
Local Road and Street	282,665	307,398	335,953	254,110
Motor Vehicle Highway	404,065	1,726,506	1,529,126	601,445
Parking Meter	12,755	64,204	53,609	23,350
Riverboat	295,948	467,599	295,000	468,547
Cemetery	228,861	20,525	-	249,386
Federal Grant - Secure Schools	-	9,914	9,914	-
Firefighting	25,147	41,168	43,066	23,249
Grant - Police Substance Abuse	-	9,000	8,146	854
HVAC - IDOC Loan	8,607	-	8,607	-
Rental Rehab Revolving Loan	160,033	172,392	155,000	177,425
Tobacco Education Grant	657	-	-	657
Parks and Recreation	515,179	3,353,239	3,686,222	182,196
Park Donation	80,480	440,118	64,099	456,499
Park Nonreverting Operating	210,512	432,374	288,663	354,223
Park Cash Change	1,254	2,008	2,204	1,058
Park City Tree Ordinance	7,537	7,200	947	13,790
Park PGA Grant	1,858	-	1,858	-
Park Impact Fees	-	69,825	-	69,825
Debt Service Funds:				
Park Creekside Operations	5,416	546,418	535,546	16,288
Corporation Bond and Interest Sinking	229,397	377,605	337,501	269,501
Redevelopment Debt Reserve	-	468,900	-	468,900
Park Bond Sinking	42,533	344,888	387,280	141
Park Creekside Debt Service	242,829	4,526	118,148	129,207
Park Creekside Bond and Interest	-	235,895	235,895	-
Capital Projects Funds:				
Cumulative Capital Development	598,996	370,240	687,188	282,048
Cumulative Capital Improvement	284,819	347,987	291,280	341,526
Cumulative Revolving Improvement	299,395	10,045	-	309,440
Cumulative Sewer	858,008	1,105,373	975,611	987,770
Capital Equipment	7,870	317,000	293,881	30,989
Police Vehicle Equipment	21,128	14,775	11,962	23,941
2002 Bond Issue Construction	2,307,402	55,397	106,035	2,256,764
2006 Bond Issue Construction	-	5,877,235	2,315,582	3,561,653
County Economic Development Income Tax (CEDIT)	653,471	2,367,696	2,183,300	837,867
Major Moves Construction	-	3,457,384	-	3,457,384
Redevelopment Bond	-	4,964,911	4,964,911	-
Redevelopment Consolidated Area	5,583,055	21,372,963	19,608,179	7,347,839
Park Nonreverting Capital	57,460	62,118	38,474	81,104
Park 1998 Park Bond Issue	4,619	-	4,619	-
Proprietary Funds:				
Internal Service Funds:				
Employee Benefit Plan	125,805	2,699,995	2,158,258	667,542
Employee Health Claims	578	1,865,062	1,865,062	578
Enterprise Funds:				
Storm Water Utility Operating	1,513,556	681,426	1,076,896	1,118,086
Storm Water Utility Bond and Interest	283,162	278,093	278,092	283,163
Storm Water Utility Construction	2,523,878	-	870,292	1,653,586
Water Utility	7,846,361	6,916,925	8,045,370	6,717,916
Water Reclamation (Wastewater Utility)	2,905,224	5,992,281	5,700,019	3,197,486
Fiduciary Funds:				
Pension Trust Funds:				
Fire Pension	377,528	740,922	910,907	207,543
Police Pension	366,504	633,031	811,518	188,017
Agency Funds:				
Payroll	-	9,021,833	9,021,833	-
Sign Deposit	1,000	-	-	1,000
Indiana Police and Fire Pension	52,113	233,258	227,228	58,143
Park Indiana Sales Tax	328	4,488	3,468	1,348
Park Nonreverting Sales Tax	1,207	9,711	10,918	-
Park Creekside Indiana Sales Tax	93	3,200	3,293	-
Park Credit Card Services Account	13,148	708,462	696,061	25,549
Park General Gift Certificates	28,234	25,317	19,455	34,096
Totals	<u>\$ 31,011,276</u>	<u>\$ 102,842,118</u>	<u>\$ 95,985,313</u>	<u>\$ 37,868,081</u>

The accompanying notes are an integral part of the schedule.

CITY OF VALPARAISO  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, health and social services, culture and recreation, general administrative services, urban redevelopment, water, wastewater and storm water services.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. 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% 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 become delinquent if not paid by May 10 and November 10, respectively.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were 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 statute (IC 5-13-9) authorizes 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.

CITY OF VALPARAISO  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City contributes 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 this 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 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% 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. That 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

Funding Policy and Annual Pension Cost

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

CITY OF VALPARAISO  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2006

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.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets not categorized	\$ 14,452,011
Capital assets, not being depreciated:	
Land	3,578,566
Construction in progress	11,020
Capital assets being depreciated:	
Infrastructure	62,355,656
Buildings	6,667,928
Improvements other than buildings	126,320
Machinery and equipment	<u>7,347,540</u>
Total governmental activities, capital assets	<u>\$ 94,539,041</u>

CITY OF VALPARAISO  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

The City has entered into the following long-term debt agreements:

Description of Asset	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>		
Capital leases:		
City:		
Garbage Trucks and containers	\$ 458,175	\$ 146,950
Storage facility, trucks, and leaf blowers	1,281,576	304,464
Car for planning department	8,650	4,193
Trucks	21,946	10,661
Police cars	233,812	101,247
Ambulance	219,000	54,756
Fire pumper truck	364,995	-
Park Department:		
Trucks	24,872	24,872
Mower	11,753	11,753
Utility Vehicle	5,665	5,665
Golf Carts	32,817	10,635
Land contract	42,400	10,000
Installment purchase (sewer lines)	40,000	20,000
HVAC loan for police department	84,437	14,073
Bond anticipation notes for redevelopment commission	5,395	5,395
Bonds payable:		
General obligation bonds:		
1998 Park bonds for purchase of land, improvements, and renovations	2,000,000	-
2002 City bonds for street improvements	2,785,000	115,000
2005 City bonds for street and road improvements	1,510,000	20,000
2006 City bonds for police and public safety facility	4,400,000	-
Revenue bonds:		
2004 Park refunding bonds for Creekside golf course	3,645,000	40,000
2006 Redevelopment Commission bonds for property acquisition	5,000,000	-
<b>Total governmental activities long-term debt</b>	<b><u>\$ 22,175,493</u></b>	<b><u>\$ 899,664</u></b>
<b>Business-type Activities:</b>		
Stormwater Utility:		
Capital leases:		
Street sweeper	65,811	25,621
Revenue bonds:		
2001 bonds for stormwater system improvements	2,950,000	-
<b>Total business-type activities long-term debt:</b>	<b><u>\$ 3,015,811</u></b>	<b><u>\$ 25,621</u></b>

CITY OF VALPARAISO  
OTHER REPORT

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

Water and Water Reclamation Utilities

CITY OF VALPARAISO  
EXAMINATION RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

The City does maintain records of capital assets, but not all items purchased have been included in the detail listing. The City purchased vehicles and other items under capital lease agreements which were not capitalized. These items included four garbage trucks at a total cost of \$700,000, and a salt storage facility at a cost of \$350,000. Other items purchased were also noted to be omitted from the inventory. Furthermore, the minutes of the Board of Public Works and Safety indicated bids were accepted for various storm water projects; however, no assets have been recorded for the Storm Water Utility.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPENSATION AND BENEFITS

In 2006, two employees tested were not paid in accordance with the salary ordinance. In both cases, the employees were paid below the minimum rates established in the salary ordinance. In 2007, corrections were made, but one of the employees is still being paid below the minimum rate indicated for the position. Officials were informed in the prior examination also that some employees were not paid in accordance with the salary ordinance.

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)

FIRE INSPECTIONS AND FEES

The City has an ordinance under which the Fire Department performs inspections and charges fees.

Receipts are not issued at the time payment is made. When an inspection is performed, officials have indicated that the businesses are instructed to mail the payment to the Fire Department, although some pay the inspector at the time of the inspection. When the payment is received at the Fire Department or by the inspector, the collections are remitted to the Clerk-Treasurer's Office, where a "Violations Bureau Receipt" is issued.

When an inspection is performed, prenumbered inspection forms printed in triplicate are used by the inspectors. A white original which is given to the business, a yellow duplicate is retained by the inspector, and a pink triplicate is given to the Fire Chief. We observed voids in which only the pink triplicate copy was retained for examination. We also found two pink triplicates on which it was indicated that the businesses paid cash. One, Form 06-0221, indicated \$40 cash was received, and a second Form 06-0490 indicated \$75 was received in cash. Receipts could not be located for examination. Upon presentation to the Fire Chief, the money was found and deposited with the Clerk-Treasurer. All of the pink triplicate copies for which receipts could not be located totaled \$5,995. Only one of these copies, issued for \$20, was marked as void.

CITY OF VALPARAISO  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

The Fire Chief maintains a list in "Quick Books" (a computer software accounting program) of all fire inspections performed. The total of his listing, which was \$43,982.50, was compared to the receipts of the Clerk-Treasurer, which totaled \$41,167.50 a difference of \$2,815. It should also be noted that the pink triplicates discussed in the above paragraph were found to have been included on the Fire Chief's listing. Only two of the reports were included on the Fire Chief's listing for different amounts than those listed on the inspection reports.

Finally, the ordinance allows for the inspectors to reduce the inspection fees. Specifically, ordinance 94.040 states: "A fire inspector may reduce the inspection fee by up to 50% if no serious fire safety violations are found at the time of inspection." We observed the rate being reduced on several inspections, which results in businesses not being charged consistently. For example, three salons were charged three different fees.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

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

#### TRANSACTION RECORDING

The Redevelopment Commission issued bond anticipation notes in 2006. The Commission could drawdown funds as needed. The first and only drawdown in 2006 in the amount of \$6,865,274.15 was not deposited into the bank accounts of the City; instead, a check was made payable from the bank to a vendor for the purchase of property. The transactions were subsequently recorded by the Clerk-Treasurer in the records of the City.

The Commission also opened trust accounts with First National Bank for which the activity is not being recorded by the City. One of the trust accounts receives the repayments of principal and interest on the bond anticipation notes, which are subsequently disbursed to Centier Bank. The second account is entitled "City of Valparaiso Redevelopment Bonds of 2006". This account did not have any activity for 2006, even though the Commission did receive bond proceeds in the amount of \$4,964,911.40.

The first trust account earned interest, which is still maintained in that account. To date, none of the interest has been posted to the records of the City.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF VALPARAISO  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

FEES

Fees for golf were collected which were not addressed in the fee schedule approved by the Park Board. Such fees included a Father's Day Tournament, a "Lung Card" rate, a handicap fee, a twilight golf fee, and a Forest Park weekend discount given at Creekside. One event was addressed in the "Activity and Facility Guide", which is a booklet provided by the Parks and Recreation Department including fees for the golf courses; however, the fee for the event was not listed.

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)

CREDIT CARD USED BY THE PARK DEPARTMENT

The Park Department credit card is being used for purposes other than those approved by the Clerk-Treasurer. When the credit card was issued to the Park Department, the Clerk-Treasurer issued a memorandum that the card was not to leave the office. It was to be used only for purchasing airline tickets, making advance reservations at hotels, or for paying advance registration fees. Purchases on the credit card included office supplies from Staples and Railcats (a minor league baseball team) tickets for a fundraiser. It was also noted that the card was taken on a trip, as parking and other airport charges were paid in a subsequent payment.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.

CITY OF VALPARAISO  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

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

CITY OF VALPARAISO  
EXIT CONFERENCE

The contents of this report were discussed on April 4, 2007, with Jon Costas, Mayor; and Sharon Emerson Swihart, Clerk-Treasurer.