

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

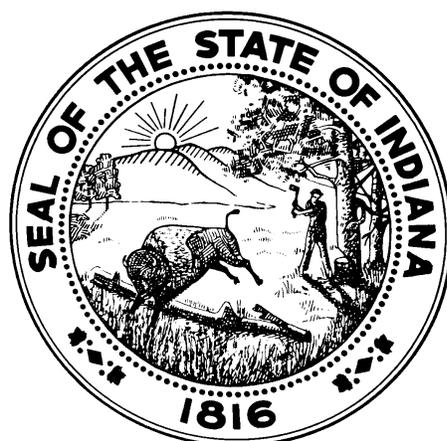
EXAMINATION REPORT

OF

CITY OF VALPARAISO

PORTER COUNTY, INDIANA

January 1, 2007 to December 31, 2007



FILED
12/23/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Emerson Swihart	01-01-04 to 12-31-11
Mayor	Jon Costas	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	Jon Costas	01-01-04 to 12-31-11
President of the Common Council	Jon Costas	01-01-04 to 12-31-11
Superintendent of Utilities	John Hardwick	01-01-07 to 12-31-08
City Administrator	William Hanna	01-01-07 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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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 Valparaiso (City), for the period of January 1, 2007 to December 31, 2007. 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, 2007, 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 required parts 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

September 30, 2008

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, 2007

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 299,145	\$ 19,371,375	\$ 17,900,544	\$ 1,769,976
Special Revenue Funds:				
Crime Control	11,511	111,300	64,198	58,613
Donation	54,299	22,227	57,192	19,334
Law Enforcement Continuing Education	70,097	40,549	25,689	84,957
Local Road and Street	254,110	317,720	133,107	438,723
Motor Vehicle Highway	601,445	1,349,143	1,632,082	318,506
Parking Meter	23,350	63,717	62,697	24,370
Rainy Day	-	1,682,323	800,000	882,323
Riverboat	468,547	172,954	175,054	466,447
Cemetery	249,386	23,970	72,837	200,519
Unsafe Building	-	18,000	-	18,000
Firefighting	23,249	41,895	42,581	22,563
Grant-Police Substance Abuse	854	9,146	854	9,146
Bullet Proof Partnership	-	4,753	4,753	-
Rental Rehab Revolving Loan	177,425	7,637	-	185,062
Tobacco Education Grant	657	1,192	1,849	-
Emergency Medical Services	-	29,112	-	29,112
Transportation	-	146,127	155,468	(9,341)
Edith Fund Grant	-	34,970	34,970	-
IDEM Recycling Grant	-	25,000	-	25,000
Urban Forestry Grant	-	10,350	10,350	-
Park and Recreation	182,196	3,387,233	3,488,923	80,506
Park Donation	456,499	613,381	754,843	315,037
Park Non-reverting Operating	354,223	429,818	544,571	239,470
Park Cash Change	1,058	-	-	1,058
Park City Tree Ordinance	13,790	-	2,306	11,484
Park PGA Grant	-	-	-	-
Park Impact Fees	69,825	228,511	196,737	101,599
Debt Service Funds:				
Park Creekside Operations	16,288	440,608	396,983	59,913
Corporation Bond and Interest Sinking	269,501	335,311	430,462	174,350
Redevelopment Debt Service	468,900	-	-	468,900
Park Bond Sinking	141	400,882	332,190	68,833
Park Creekside Debt Service	129,207	255,017	234,055	150,169
Park Creekside Bond and Interest	-	234,055	234,055	-
Capital Projects Funds:				
Cumulative Capital Development	282,048	168,929	295,686	155,291
Cumulative Capital Improvement	341,526	96,338	51,834	386,030
Cumulative Revolving Improvement	309,440	803	-	310,243
Cumulative Sewer	987,770	316,977	575,000	729,747
Capital Equipment	30,989	299,000	328,392	1,597
Police Vehicle Equipment	23,941	13,405	15,000	22,346
2002 Bond Issue Construction	2,256,764	11,779,558	12,488,164	1,548,158
2006 Bond Issue Construction	3,561,653	16,725	2,825,637	752,741
County Economic Development Income Tax (CEDIT)	837,867	1,740,014	2,005,983	571,898
Major Moves Construction	3,457,384	5,593,405	5,777,877	3,272,912
Redevelopment Consolidated Area	7,347,839	3,143,432	5,594,596	4,896,675
Park Nonreverting Capital	81,104	15,618	29,938	66,784
Proprietary Funds:				
Internal Service Funds:				
Employee Benefit Plan	667,542	2,722,881	2,151,361	1,239,062
Employee Health Claims	578	1,862,880	1,862,880	578
Enterprise Funds:				
Storm Water Utility Operating	1,118,086	661,871	460,201	1,319,756
Storm Water Utility Bond and Interest	283,163	277,828	277,828	283,163
Storm Water Utility Construction	1,653,586	-	1,085,075	568,511
Sewage Works Operating	188,668	-	35,469	153,199
Water Utility	6,717,916	8,814,763	9,599,998	5,932,681
Water Reclamation (Wastewater Utility)	9,947,486	20,031,053	15,198,464	14,780,075
Fiduciary Funds:				
Pension Trust Funds:				
Fire Pension	207,543	512,553	599,504	120,592
Police Pension	188,017	396,095	497,821	86,291
Agency Funds:				
Payroll	-	9,639,050	9,639,050	-
Sign Deposit	1,000	-	-	1,000
Indiana Police and Fire Pension	58,143	233,156	248,860	42,439
Park Indiana Sales Tax	1,348	17,462	18,617	193
Park Credit Card Services Account	25,549	-	-	25,549
Park General Gift Certificates	34,096	24,667	19,716	39,047
Totals	\$ 44,806,749	\$ 98,186,739	\$ 99,472,301	\$ 43,521,187

The accompanying notes are an integral part of the financial information.

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, and 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 Plans

A. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

1. 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 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 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 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

Funding Policy and Annual Pension Cost

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

Starting in 2007, the City no longer includes the Water Reclamation employees as PERF plan members. They have been transferred to the Water Department and are part of a defined contribution plan.

2. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which 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.

CITY OF VALPARAISO
NOTES TO FINANCIAL INFORMATION
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

3. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). 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 and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Annual required contribution	\$ 211,387	\$ 484,000	\$ 694,700
Interest on net pension obligation	(23,720)	66,300	120,700
Adjustment to annual required contribution	<u>27,030</u>	<u>(82,400)</u>	<u>(150,000)</u>
Annual pension cost	214,697	467,900	665,400
Contributions made	<u>256,044</u>	<u>393,128</u>	<u>505,300</u>
Increase (decrease) in net pension obligation	(41,347)	74,772	160,100
Net pension obligation, beginning of year	<u>(327,166)</u>	<u>1,104,703</u>	<u>2,012,166</u>
Net pension obligation, end of year	<u>\$ (368,513)</u>	<u>\$ 1,179,475</u>	<u>\$ 2,172,266</u>

CITY OF VALPARAISO
NOTES TO FINANCIAL INFORMATION
(Continued)

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	5%	1,098%	789%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-06	01-01-07	01-01-07
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	30 years	30 years	30 years
Amortization period (from date)	07-01-97	01-01-05	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

Actuarial Assumptions

Investment rate of return	7.25%	6%	6%
Projected future salary increases:			
Total	5%	4%	4%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	0%	0%
Cost-of-living adjustments	2%	2.75/4%*	2.75/4%*

*2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-05	\$ 226,772	134%	\$ (338,295)
	06-30-06	282,590	96%	(327,166)
	06-30-07	214,697	119%	(368,513)
1925 Police Officers' Pension Plan	12-31-05	454,900	139%	1,086,748
	12-31-06	447,800	96%	1,104,703
	12-31-07	467,900	84%	1,179,475
1937 Firefighters' Pension Plan	12-31-05	658,100	104%	1,898,733
	12-31-06	648,800	83%	2,012,166
	12-31-07	665,400	76%	2,172,266

CITY OF VALPARAISO
NOTES TO FINANCIAL INFORMATION
(Continued)

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2007, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	21	26
Current active employees	2	3

B. Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) 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 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF 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 Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2007, 2006, and 2005, were \$895,552, \$815,908, and \$775,551, respectively, equal to the required contributions for each year.

CITY OF VALPARAISO
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 7. Subsequent Event

Reassessment and Property Taxes

In accordance with state statutes, all counties were required to reassess property values prior to billing taxes in 2007. Significant delays in the reassessment process have resulted in delays in billing taxes in 2007 and 2008. Tax bills due in 2007 were mailed on December 14, 2007, for the spring and fall installment, normally due in May and November. The taxes were due and payable in one installment with a due date of January 11, 2008. Final distribution of 2007 taxes collected was made on May 20, 2008. Tax bills normally due in May and November of 2008 have not been mailed as of September 3, 2008.

Eastgate Lincolnway Project

On February 28, 2008, Rieth and Riley, Inc., was awarded the contract for the Eastgate Lincolnway project for \$2,643,053.82

Streetscape Phase 3 Project

On April 24, 2008, Gariup Construction, Inc., was awarded the contract for the Streetscape Phase 3 project for \$1,474,800.00

Tax Anticipation Warrants

On November 26, 2007, the City Council approved tax anticipation warrants for the General Fund in the amount of \$4,760,723 at 2.39% interest for 2008. On May 19, 2008, the City Council approved mid-year tax anticipation warrants in the General Fund in the amount of \$1,807,803 at 2.39% interest. In June and August, a total of \$382,868 was repaid.

Tax Increment Revenue Bonds

On May 19, 2008, the Common Council adopted a resolution (No. 10-2008) authorizing the issuance of tax increment revenue bonds and the issue of bond anticipation notes in anticipation of the issuance of such bonds for an amount not to exceed \$9,850,000 for the purpose of procuring funds for property acquisition, redevelopment and economic development in or serving the Medical Office Technology Economic Development Area. This will be paid solely from taxes on real property located in the allocation area relating to the Medical Office Technology Economic Development Area or proceeds from the sale or leasing of property of this area. Presently the City is uncertain if the bonds will be sold for this project.

State Pension Relief Fund

Beginning in 2009, the State Pension Relief Fund shall pay to each unit of local government with Pre-1977 Local Police and Fire Fighter Pension obligations, the total amount of pension, disability, and survivor benefit payments. The Pre-1977 funds include the 1925 Police Pension Fund, the 1937 Firefighters' Fund, and the 1953 Police Pension Fund. For property taxes due and payable after December 31, 2008, the Department of Local Government Finance shall reduce the maximum permissible property tax levy of any civil taxing unit and special service district by the amount of the payment to be made in 2009 by the State for the obligations.

CITY OF VALPARAISO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES 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)
07-01-05	\$ 6,183,377	\$ 6,211,667	\$ (28,290)	100%	\$ 5,668,109	(0%)
07-01-06	6,594,415	5,740,258	854,157	115%	4,841,654	18%
07-01-07	7,388,623	5,601,216	1,787,407	132%	4,658,253	38%

1925 Police Officers' Pension Plan

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)
01-01-02	\$ 222,217	\$ 7,528,000	\$ (7,305,783)	3%	\$ 146,300	(4,994%)
01-01-03	412,879	6,720,300	(6,307,421)	6%	185,300	(3,404%)
01-01-04	317,960	6,837,700	(6,519,740)	5%	112,700	(5,785%)
01-01-05	139,065	6,333,900	(6,194,835)	2%	118,300	(5,237%)
01-01-06	366,504	6,299,800	(5,933,296)	6%	41,700	(14,229%)
01-01-07	188,017	6,476,800	(6,288,783)	3%	44,100	(14,260%)

1937 Firefighters' Pension Plan

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)
01-01-02	\$ 280,684	\$ 10,290,500	\$ (10,009,816)	3%	\$ 145,600	(6,875%)
01-01-03	524,566	9,390,300	(8,865,734)	6%	221,500	(4,003%)
01-01-04	355,144	9,994,700	(9,639,556)	4%	112,200	(8,591%)
01-01-05	152,624	9,249,500	(9,096,876)	2%	115,600	(7,869%)
01-01-06	377,528	9,140,200	(8,762,672)	4%	83,400	(10,507%)
01-01-07	207,543	9,276,100	(9,068,557)	2%	88,100	(10,293%)

CITY OF VALPARAISO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

<u>1925 Police Officers' and 1937 Firefighters' Pension Plan</u>					
	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed		
			City	State	
1925 Police Officers' Pension Plan	12-31-02	\$ 819,600	0%	72%	
	12-31-03	785,500	0%	36%	
	12-31-04	808,200	0%	29%	
	12-31-05	470,900	0%	135%	
	12-31-06	462,600	0%	93%	
	12-31-07	484,000	0%	81%	
1937 Firefighters' Pension Plan	12-31-02	\$ 1,108,600	0%	66%	
	12-31-03	1,133,500	0%	31%	
	12-31-04	1,170,200	0%	28%	
	12-31-05	682,500	0%	101%	
	12-31-06	674,600	0%	79%	
	12-31-07	694,700	0%	73%	

CITY OF VALPARAISO
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

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	3,542,566
Capital assets being depreciated:	
Infrastructure	69,005,000
Buildings	10,410,857
Improvements other than buildings	186,590
Machinery and equipment	<u>7,969,747</u>
Total governmental activities, capital assets	<u>\$ 105,566,771</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 298,282
Construction in progress	52,961
Capital assets being depreciated:	
Buildings	3,549,244
Improvements other than buildings	25,202,320
Machinery and equipment	<u>12,309,683</u>
Total Water Utility capital assets	<u>41,412,490</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	575,915
Construction in progress	2,733,490
Capital assets being depreciated:	
Buildings	15,381,399
Improvements other than buildings	1,185,618
Sewer lines	15,855,916
Treatment center	6,347,009
Machinery and equipment	<u>843,255</u>
Total Wastewater Utility capital assets	<u>42,922,602</u>
Total business-type activities capital assets	<u>\$ 84,335,092</u>

CITY OF VALPARAISO
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2007

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

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
City:		
Garbage Trucks and containers	\$ 311,225	\$ 152,657
Storage facility, trucks, and leaf blowers	977,112	314,846
Payloader	42,400	33,346
Car for planning department	4,457	4,457
Trucks	11,285	11,285
Police cars	305,065	145,529
Fire Vehicles	207,894	-
Ambulance	229,194	65,631
Fire pumper truck	364,995	70,214
Park Department:		
Field Lights	133,232	963
Copier	28,172	5,235
Playground Equipment	233,969	42,820
Golf Simulator	102,000	14,103
Golf Carts	22,182	10,933
Fairways and Greens Mower	59,550	13,632
Land contract	32,400	10,000
Installment purchase (sewer lines)	20,000	20,000
HVAC loan for police department	70,364	14,073
Tax anticipation notes	4,895,568	4,895,568
Bonds payable:		
General obligation bonds:		
1998 Park bonds for purchase of land, improvements, and renovations	1,775,000	245,000
2002 City bonds for street improvements	2,670,000	120,000
2005 City bonds for street and road improvements	1,490,000	50,000
2006 City bonds for police and public safety facility	4,400,000	120,000
Revenue bonds:		
2004 Park refunding bonds for Creekside golf course	3,605,000	80,000
2006 Redevelopment Commission bonds for property acquisition	5,000,000	240,000
Total governmental activities long-term debt	<u>\$ 26,991,064</u>	<u>\$ 6,680,292</u>
Business-type Activities:		
Water Utility:		
Revenue bonds:		
2002 bonds for water system improvements	7,195,000	350,000
Water Reclamation Utility:		
Capital leases:		
Vacuum Truck	168,563	56,188
SRF Loan	13,575,000	781,000
Revenue bonds:		
2007 bonds for wastewater system improvements	11,000,000	-
Stormwater Utility:		
Capital leases:		
Street sweeper	40,190	26,553
Revenue bonds:		
2001 bonds for stormwater system improvements	2,810,000	150,000
Total business-type activities long-term debt:	<u>\$ 34,788,753</u>	<u>\$ 1,363,741</u>

CITY OF VALPARAISO
OTHER REPORT

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

Water and Water Reclamation Utilities

CITY OF VALPARAISO
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN FUND BALANCE

The Transportation Fund was overdrawn at December 31, 2007, in the amount of \$9,341.01.

The fund 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)

CAPITAL ASSET RECORDS

The City does maintain a detailed record of capital assets, but not all items purchased have been included in the detail listing. The City purchased equipment and other items under capital lease agreements which were not capitalized. These items included playground equipment at a total cost of \$238,002 and a golf simulator at a cost of \$102,000. Other items purchased were also noted to be omitted from the inventory. Assets have not been recorded for the Storm Water Utility. In addition, records are not maintained for construction in progress.

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 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)

REFUNDS - PARKS AND RECREATION DEPARTMENT

The Parks and Recreation Department had established a cash change drawer that was specifically used for refunds of program fees.

Persons, companies or governmental units that have overpaid amounts to a governmental unit are entitled to a repayment or refund by check or warrant. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROVAL OF CLAIMS - PARKS AND RECREATION DEPARTMENT

Claim dockets were not presented to the Parks and Recreation Board for approval. Instead, the bookkeeper would prepare a report which indicated the total amount of claims for each fund. The report did not include a detailed listing of recipients, claim numbers, or amounts. The Board would then approve this report and sign the docket cover sheet. The claims would be entered into the computer system anywhere from 7 to 65 days after the meeting, and an Accounts Payable Register, which lists claim number, check number, recipient, date, and amount, would then be printed. Also, the October and December signed docket cover sheets were not presented for examination.

Indiana Code 5-11-10-2(a) states: "Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

CITY OF VALPARAISO
EXAMINATION RESULTS AND COMMENTS
(Continued)

CREDIT CARDS - PARKS AND RECREATION DEPARTMENT

As stated in the prior report, 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, van repairs, books from Barnes and Noble, and gas from various gas stations.

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.
- (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)

INTERNAL CONTROLS OVER PARKING TICKETS - POLICE DEPARTMENT

The City collects fines for parking violations. Tickets issued are entered into a computerized software program. Receipts for payments on these tickets can then be computer generated. The computerized software does not allow for the user to print or review reports of all tickets entered into the system, receipts issued, or balances remaining due for any given time period. Such reports would allow the City to ensure that all information has been entered, and all tickets are accounted for.

CITY OF VALPARAISO
EXAMINATION RESULTS AND COMMENTS
(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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INSPECTIONS AND FEES - FIRE DEPARTMENT

The City has an ordinance authorizing the Fire Department to perform inspections and assess fees. The ordinance allows for the inspectors to reduce the inspection fees. Specifically, Ordinance No. 5-2006 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.

The City also has a regulation under which "Fire Department personnel in charge of inspections may exercise their discretion, and for good cause shown, waive the fee" for false alarms. This also results in businesses not being charged consistently.

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)

TRANSACTION RECORDING – REDEVELOPMENT DEPARTMENT

The Redevelopment Commission opened two trust accounts in 2006 with First National Bank for which the activity is not being recorded by the City. One of the trust accounts receives the payments of principal and interest on the bond, which are subsequently disbursed to pay the bond. This account earned interest of \$326 which is still maintained in that account. To date, none of the interest has been posted to the records of the City. The second trust account was for the bond anticipation note which was closed on April 11, 2007, and the remaining balance of \$640.96, after administrative fees, was posted to the ledger. In addition, the trust statement for the last half of 2007 was not available for examination.

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)

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)

CITY OF VALPARAISO
EXAMINATION RESULTS AND COMMENTS
(Continued)

BILLING - EMERGENCY MEDICAL SERVICE

The Emergency Medical Service Department hired a company to perform billing services and collect the fees from the ambulance runs. The company did not provide documentation on having a SAS 70 audit, which is a highly specialized audit on design and operational effectiveness of a service organization's internal control over processing transactions for user organizations. As a result we were not able to determine if the internal controls for this company are operating effectively.

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

CITY OF VALPARAISO
EXIT CONFERENCE

The contents of this report were discussed on September 30, 2008, with Sharon Emerson Swihart, Clerk-Treasurer; Jon Costas, Mayor; and William Hanna, City Administrator. The official response has been made a part of this report and may be found on pages 21 and 22.



CITY OF VALPARAISO
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN FUND BALANCE

The Transportation was overdrawn as a result of a delay in distribution of grant money from NIRPC. The issue has been resolved.

CAPITAL ASSET RECORDS

The City does maintain a detailed record of capital assets. Even with the detailed list, some assets have not been accounted for. The City department heads have been directed to update the lists as soon as possible.

REFUNDS – PARKS AND RECREATION DEPARTMENT

The refund cash drawer was set up for customer convenience. From here forth, all refunds will be processed as claims in compliance with Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7.

APPROVAL OF CLAIMS – PARKS AND RECREATION DEPARTMENT

The City administration recognized this issue earlier this year and made corrective changes. The process is now in compliance with proper protocol.

CREDIT CARDS – PARKS AND RECREATION DEPARTMENT

The parks department will no longer have a credit card. The clerk-treasurer will maintain one for appropriate city use.

INTERNAL CONTROLS OVER PARKING TICKETS – POLICE DEPARTMENT

Safeguards and control oversight will be installed in compliance with Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7.

CITY OF VALPARAISO
EXAMINATION RESULTS AND COMMENTS

Page Two

INSPECTION AND FEES – FIRE DEPARTMENT

The Valparaiso Fire Department performs inspections and assesses fees. The VFD is allowed to reduce the fee up to 50% if no serious violations are found. The justification for this is found in the fact that building with serious violations require much more time and resources translating into higher costs to the tax payer. We will articulate and define "serious violations" in order to remove subjectivity.

TRANSACTION RECORDING - REDEVELOPMENT DEPARTMENT

The accounting questions will be recorded in compliance with Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7.

BILLING – EMERGENCY MEDICAL SERVICE

The third party biller will receive a request by the City of Valparaiso to conduct an independent SAS 70 audit.

Date 12-04-08

Signature 
Jon Costas, Mayor

