

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

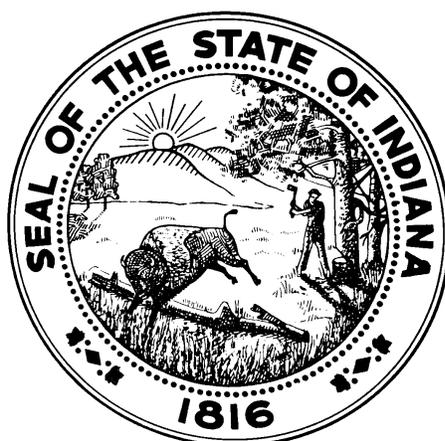
EXAMINATION REPORT

OF

CITY OF PORTAGE

PORTER COUNTY, INDIANA

January 1, 2007 to December 31, 2007



FILED
01/26/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Pappas	01-01-04 to 12-31-11
Mayor	Douglas Olson Olga Velazquez	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Douglas Olson Olga Velazquez	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Edward H. Gottschling	01-01-07 to 12-31-08
President of the Storm Water Management Board	Vernon Cunningham	01-01-07 to 12-31-08
President of the Port Authority	John Smolar Allen Ekdahl	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the Water Reclamation Board	Douglas Olson Olga Velazquez	01-01-04 to 12-31-07 01-01-08 to 12-31-11
Superintendent of the Water Reclamation Field Division	Robert Dixon	01-01-07 to 12-31-08
Superintendent of the Water Treatment Plant	Ricky Dodd Donald Slawnikowski	01-01-07 to 12-31-07 01-01-08 to 12-31-08



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 PORTAGE

We have examined the financial information presented herein of the City of Portage (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

December 23, 2008

CITY OF PORTAGE
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	\$ 793,891	\$ 15,611,337	\$ 16,275,018	\$ 130,210
Motor Vehicle Highway	261,907	2,289,472	2,392,202	159,177
Local Road and Street	24,284	921,518	777,206	168,596
Park and Recreation	35,796	1,538,054	1,534,971	38,879
Law Enforcement Continuing Education	54,188	31,441	46,636	38,993
Riverboat	-	211,218	211,000	218
Rainy Day	-	1,277,523	1,185,515	92,008
Gift Fund	40,295	36,300	27,784	48,811
Cumulative Capital Improvement	187,953	217,651	300,000	105,604
Cumulative Capital Development	64,131	399,039	358,894	104,276
Cable Board	293,905	329,960	453,644	170,221
Drainage Maintenance	-	107,313	9,750	97,563
Unsafe Building	29,796	150	25,330	4,616
Economic Development Operating	825	-	-	825
Grant Fund	33,243	4,480,168	1,534,438	2,978,973
Hazardous Materials	466	-	-	466
Marina Operating	64,030	320,218	296,743	87,505
Park Nonreverting	98,758	502,005	546,541	54,222
Redevelopment Allocation	876,930	2,999,748	3,818,385	58,293
1990 Willowcreek Bond	620	-	-	620
1997 G O Bond	8,922	100,000	100,000	8,922
2000 G O Bond	20,402	-	304	20,098
2002 TIF Bond Series A	1,697	5,291	5,764	1,224
2002 TIF Bond Series B	4,771	7,468	11,476	763
Bond Redemption	659,847	1,112,784	1,647,162	125,469
1998 Storm Water Bond	119,757	2,388	55,486	66,659
2004 Park Bond	653,639	10,000	616,053	47,586
EDIT Bond	1,863,412	550,000	1,821,420	591,992
Redevelopment Debt Service	700,000	-	-	700,000
AmeriPlex Economic Development Debt Service	1,336,569	1,258,411	1,259,617	1,335,363
AmeriPlex Economic Development Project	-	5,436	5,436	-
Economic Development Income Tax	52,699	4,948,344	4,628,361	372,682
Major Moves Construction	2,670,844	2,650,000	4,416,925	903,919
Construction Site	40,177	134,600	174,777	-
Storm Water Construction	20,223	-	18,320	1,903
Cumulative Building and Capital Improvement	25,381	10,250	24,611	11,020
Cumulative Park	-	31,500	-	31,500
Park Nonreverting Capital	20,702	92,789	107,216	6,275
Sidewalk Waiver Fund	86,454	46,132	915	131,671
Redevelopment General	334,621	968,103	817,807	484,917
Redevelopment Authority	532,829	232,208	193,631	571,406
Proprietary Funds:				
Port Authority	80,112	43,091	11,874	111,329
Storm Water Utility	43,137	112,509	147,296	8,350
Water Reclamation Utility - Operating	53,673	3,274,338	3,205,403	122,608
Water Reclamation Utility - Bond and Interest	158,821	598,752	589,995	167,578
Water Reclamation Utility - Debt Reserve	1,099,770	32,679	500,000	632,449
Water Reclamation Utility - Improvement	1,053,838	911,257	625,374	1,339,721
Water Reclamation Utility - Revenue	3,417,588	10,837,383	11,227,155	3,027,816
Water Reclamation Utility - Employee Medical	42,730	2,589	22,847	22,472
Employee Medical Benefit Plan	161,366	3,128,131	3,193,643	95,854
Cumulative Liability/Physical Damage	135,480	587,509	700,000	22,989
Fiduciary Funds:				
Police Officers' Pension	83,408	556,419	550,502	89,325
Firefighters' Pension	154,420	470,169	552,107	72,482
Payroll	140,875	3,642,676	3,638,863	144,688
Totals	<u>\$ 18,639,182</u>	<u>\$ 67,636,321</u>	<u>\$ 70,664,397</u>	<u>\$ 15,611,106</u>

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

CITY OF PORTAGE
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, highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water reclamation, and urban redevelopment.

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 PORTAGE
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 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.

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 PORTAGE
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 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.

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

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.

CITY OF PORTAGE
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 7. Subsequent Event

Tax Anticipation Warrants

Tax anticipation warrants were issued in 2008 for \$8,393,342 to cover operating expenses.

Reassessment and Property Taxes

In accordance with state statutes, all counties were required to reassess property values prior to billing taxes in 2005 through 2007. Significant delays in the reassessment process have resulted in delays in billing taxes in 2005 through 2007. The late billing has delayed timely property tax distributions to the Town. The 2007 tax bills were not sent out until December 2007, with a due date of January 11, 2008. On May 20, 2008, the Town received the final 2007 tax distribution from the County.

CITY OF PORTAGE
 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 being depreciated:	
Land	\$ 61,620,776
Infrastructure	44,607,902
Buildings	10,208,451
Improvements other than buildings	7,121,196
Machinery and equipment	<u>12,996,137</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 136,554,462</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 711,013
Buildings	2,578,393
Plant	14,945,749
Improvements other than buildings	24,510,872
Machinery and equipment	8,140,733
Furniture and fixtures	<u>89,914</u>
 Total business-type activities capital assets	 <u>\$ 50,976,674</u>

CITY OF PORTAGE
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
2000 Fire Station	\$ 1,162,000	\$ 383,000
2004 GMC Envoy	13,853	5,136
2004 GMC Sierra	9,111	4,835
2006 Pontiac Montana	13,457	3,908
2006 Street equipment	607,807	187,263
2006 Fire equipment	592,075	131,793
Notes and loans payable:		
Bond anticipation notes	6,036,408	6,056,660
Bonds payable:		
General obligation bonds:		
1996 Storm water bond	1,730,000	247,035
1998 Storm water bond	2,360,000	222,166
2000 GOB	765,000	271,440
2004 Park bond	2,975,000	424,463
Revenue bonds:		
1993 Redevelopment bond	1,095,000	207,000
2000 TIF revenue AmeriPlex project	500,000	233,750
2005 EDIT bond	5,955,000	586,075
2006 Marina bond	418,000	60,879
2006 Economic redevelopment bond	16,300,000	1,200,248
2008 Refunding TIF	<u>8,875,000</u>	<u>624,465</u>
 Total governmental activities debt	 <u>\$ 49,407,711</u>	 <u>\$ 10,850,116</u>
 Business-type Activities:		
Wastewater Utility		
Notes and loans payable:		
State revolving loan payable	\$ 7,850,000	\$ 568,615
Revenue bonds:		
1996 Refunding bond for plant expansion	<u>1,625,000</u>	<u>590,445</u>
 Total Wastewater Utility	 <u>\$ 9,475,000</u>	 <u>\$ 1,159,060</u>

CITY OF PORTAGE
EXAMINATION RESULTS AND COMMENTS

ADVANCE PAYMENT OF SALARIES

The City submits payroll claims to the Clerk-Treasurer for hours worked through the date of the payroll check or direct deposit for salaried employees. Payroll is prepared three days before payroll checks are issued or direct deposits occurs. This results in the possibility of employees receiving compensation prior to earning it. The City plans to correct this problem in 2009.

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)

Indiana Code 5-7-3-1 states: "(a) Public officers may not draw or receive salaries in advance. (b) This section does not prohibit a payment under IC 36-4-8-9."

COMPENSATORY TIME

According to the City's policy, individuals will receive compensatory time as long as they are not "exempt". The opinion of the City Attorney is that the following positions are considered "exempt": the Mayor, Clerk-Treasurer, Police and Fire Chiefs, Park Superintendent, Sanitary Board Secretary/Treasurer and Plant Superintendent, Street Superintendent, all Police Captains and Lieutenants, all Fire Assistant Chiefs, Captains, and Lieutenants, all Fire Department employees who serve as turn commanders on a regular basis, the three Park Department employees highest in rank beneath the Park Department Administrator, and the two Street Department employees highest in rank beneath the Street Department Superintendent. Based on review of the employee service record, some of these individuals are receiving and accumulating compensatory time.

The policy states that no more than 240 hours of compensatory time, or 480 hours for public employees who provide safety services work, emergency response work, or seasonal work, can be accumulated; otherwise, the unit is to pay the employee the overtime rate for additional overtime hours worked. Individuals who are under the 240 hours maximum limitation were noted to have accrued up to 1,372 hours of compensatory time.

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)

INTERNAL CONTROLS OVER MARINA RECEIPTS

Internal controls over marina receipts were insufficient as follows:

- (1) Prenumbered ramp tickets are used. Also, an honor system of prenumbered drop box ramp tickets is used when the marina office is closed. Both sets of tickets are not used in numerical sequence, making it difficult to trace receipts to the date they were issued.
- (2) The Marina office has a cash register. The cash register does not allow for items to be voided when necessary. This results in the register totals being overstated. However, a duplicate receipt is printed and marked void to account for voids. Management does not authorize the voids. Voids totaled \$1,494.54 for the month reviewed.

CITY OF PORTAGE
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (3) The Marina office cash register daily tape does not provide a detail of each transaction. The only individual transactions that appear on the tape are those requested to be printed.
- (4) All transactions through the cash register are designated as cash. Therefore, it cannot be determined if cash and checks are deposited in the same form in which they are received.
- (5) Nine of the twenty-six daily cash register tapes reviewed did not have the date entered on the tape.
- (6) The cash register does not allow for a designation as to which employees are entering the transactions.
- (7) Cash register tapes did not agree with the deposits by immaterial amounts. There was no indication of any attempt to resolve these differences.
- (8) Official receipts are not issued for ramp fees.

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)

POLICE RECEIPT DEPOSITS

Police Department receipts were not always marked cash or check. The composition of 9 out of 32 remittances to the Clerk-Treasurer could not be determined.

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)1

WATER RECLAMATION ACCOUNTS RECEIVABLE

Accounts Receivable (the control account) has a balance of \$497,863 and the balance of the detail is \$474,648 at December 31, 2007. The difference between the Accounts Receivable control and detail accounts is \$23,215.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on December 23, 2008, with Olga Velazquez, Mayor; Donna Pappas, Clerk-Treasurer; Edward H. Gottschling, President of the Common Council; and Joan Sobczak, Water Reclamation Secretary/Treasurer. The officials concurred with our findings.