

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

ANNUAL FINANCIAL REPORT

2010

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
LAPORTE COUNTY, INDIANA



**FILED**  
05/19/2011



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Teresa L. Ludlow	01-01-08 to 12-31-11
Mayor	Kathleen A. Chroback	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Kathleen A. Chroback	01-01-08 to 12-31-11
President Pro-Tem of the Common Council	A.C. Pressler David K. Schmitt	01-01-10 to 12-31-10 01-01-11 to 12-31-11
Superintendent of the Water Utility	Todd A. Taylor	01-01-10 to 12-31-11
Superintendent of the Wastewater Utility	Jerry P. Jackson	01-01-10 to 12-31-11



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,  
CITY OF LAPORTE, LAPORTE COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities (Utilities), departments of the City of LaPorte, as of and for the year ended December 31, 2010. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express opinions on these financial statements based on our examination.

Except as discussed in the three following paragraphs our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, include examining, on a test basis, evidence supporting the financial statements 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.

The Water Utility does not maintain a complete record of capital assets in accordance with generally accepted accounting principles. The Water Utility does not have records providing historical costs for some of the Water Utility's capital assets, and records classifying and summarizing the Water Utility's capital assets are incomplete.

The Water Utility has not accurately capitalized material costs related to preliminary design and engineering fees incurred in accordance with generally accepted accounting principles.

The Water and Wastewater Utilities have not completed a Statement of Cash Flows which is required by generally accepted accounting principles to present a complete set of financial statements.

As discussed in Note I, the financial statements of the Water and Wastewater Utilities, City of LaPorte, 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 Utilities. They do not purport to, and do not, present fairly the financial position of the City of LaPorte as of December 31, 2010, 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.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

In our opinion, except for the effects, if any, of incomplete capital asset records referred to in the third paragraph, the inaccurate capitalization of engineering costs referred to in the fourth paragraph, and the non-inclusion of a Statement of Cash Flows as referred to in the fifth paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water and Wastewater Utilities, as of December 31, 2010, 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 Utilities have not presented Management's Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Utilities' response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the Utilities' response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

April 19, 2011

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
STATEMENT OF NET ASSETS  
December 31, 2010

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:		
Cash and cash equivalents	\$ 753,829	\$ 581,035
Accounts receivable	129,128	152,960
Inventories	129,757	21,450
Accounts receivable other	20,210	-
Restricted:		
Collections held for other government	<u>15,585</u>	<u>9,830</u>
Total current assets	<u>1,048,509</u>	<u>765,275</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Construction cash and investments	-	263,056
Bond and interest cash and investments	14,272	1,042,917
Revenue bond covenant cash	328,500	906,002
Depreciation cash	37,301	215,418
Customer deposits	244,237	-
Depreciation system development	<u>126,830</u>	<u>-</u>
Total noncurrent, restricted assets	<u>751,140</u>	<u>2,427,393</u>
Deferred charges	<u>12,135</u>	<u>162,225</u>
Capital assets:		
Land, improvements to land and construction in progress	294,056	467,039
Other capital assets (net of accumulated depreciation)	<u>11,485,794</u>	<u>27,568,176</u>
Total capital assets	<u>11,779,850</u>	<u>28,035,215</u>
Total noncurrent assets	<u>12,543,125</u>	<u>30,624,833</u>
Total assets	<u>13,591,634</u>	<u>31,390,108</u>
<u>Liabilities</u>		
Current liabilities:		
Unrestricted:		
Accounts payable	-	-
Accrued wages payable	36,459	37,005
Other payable	600	-
Accrued interest payable	-	137,716
Taxes payable	3,613	-
Restricted:		
Customer deposits	244,237	-
Collections held for other government	15,585	9,830
Revenue bonds payable	475,000	150,000
State revolving loan payable	<u>-</u>	<u>390,000</u>
Total current liabilities	<u>775,494</u>	<u>724,551</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	188,732	6,465,457
State revolving fund loans payable	<u>-</u>	<u>4,402,273</u>
Total noncurrent liabilities	<u>188,732</u>	<u>10,867,730</u>
Total liabilities	<u>964,226</u>	<u>11,592,281</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	11,116,118	16,627,485
Restricted for debt service	342,772	1,948,919
Restricted for capital improvements	164,131	478,474
Restricted for customer deposits	244,237	-
Unrestricted	<u>760,150</u>	<u>742,949</u>
Total net assets	<u>\$ 12,627,408</u>	<u>\$ 19,797,827</u>

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

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2010

	<u>Water Utility</u>	<u>Wastewater Utility</u>
Operating revenues:		
Metered revenue	\$ 2,400,362	\$ -
Measured revenue	-	3,606,255
Fire protection revenue	374,549	-
System development revenue	48,025	-
Penalties	15,442	56,112
Other	<u>42,504</u>	<u>152,351</u>
 Total operating revenues	 <u>2,880,882</u>	 <u>3,814,718</u>
Operating expenses:		
Source of supply	661,080	-
Water treatment	140,753	-
Transmission and distribution	528,837	-
Customer accounts	110,134	-
Administration and general	789,821	366,884
Plant operation	-	1,766,760
Plant maintenance	-	293,013
In lieu of tax & utility receipt tax	151,914	263,905
Employee pension and benefits	153,912	-
City hall utilities	9,609	-
Depreciation	<u>238,888</u>	<u>972,699</u>
 Total operating expenses	 <u>2,784,948</u>	 <u>3,663,261</u>
 Operating income	 <u>95,934</u>	 <u>151,457</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	5,761	5,611
Miscellaneous revenue	48,521	-
Interest expense	(62,859)	(433,996)
Amortization expense	<u>(6,090)</u>	<u>(11,529)</u>
 Total nonoperating revenues (expenses)	 <u>(14,667)</u>	 <u>(439,914)</u>
 Change in net assets	 81,267	 (288,457)
Total net assets - beginning	<u>12,546,141</u>	<u>20,086,284</u>
Total net assets - ending	<u>\$ 12,627,408</u>	<u>\$ 19,797,827</u>

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

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of LaPorte (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represent 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' 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 Utilities 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.

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

2. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories are recorded in inventory asset accounts when purchased and then adjusted to actual cost through expense accounts at year end.

3. 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 bond covenants. In addition, customer deposits are classified as restricted assets on the Statement of Net Assets because the assets on hand are refundable to the customer upon termination of services.

The financial statements report \$766,725 of restricted net assets in the Water Utility, and \$2,437,223 of restricted net assets in the Wastewater Utility.

4. 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	Estimated Useful Life
Water Utility:			
Buildings	\$ 5,000	Composite rate	1.50%
Improvements other than buildings	5,000	Composite rate	1.50%
Machinery and equipment	5,000	Composite rate	1.50%
Transportation equipment	5,000	Composite rate	1.50%
	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Wastewater Utility:			
Buildings	\$ 5,000	Straight-line	3 to 99 years
Improvements other than buildings	5,000	Straight-line	3 to 99 years
Machinery and equipment	5,000	Straight-line	3 to 99 years

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of six days per year. Unused sick leave may be accumulated to a maximum of sixty days. Accumulated sick leave is not paid to employees upon termination or retirement.
- b. Vacation/Personal Leave – Utility employees earn vacation/personal leave at rates from twelve days to twenty-eight days per year based upon the number of years of service. Vacation/personal leave does not accumulate from year to year.

No liability is reported for sick or vacation/personal leave.

6. 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.

II. Detailed Notes on All Funds

A. Deposits and Investments

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 Utilities do not have a deposit policy for custodial credit risk. At December 31, 2010, the Utilities had deposit balances in the amount of \$4,538,812.

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 balances for December 31, 2010, are as follows:

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Water Utility:

Capital assets, not being depreciated:	
Land	\$ 185,484
Intangible assets	<u>108,572</u>
Total capital assets, not being depreciated	<u>294,056</u>
Capital assets, being depreciated:	
Buildings	4,717,340
Improvements other than buildings	7,653,477
Machinery and equipment	<u>3,584,059</u>
Totals	<u>15,954,876</u>
Less accumulated depreciation for:	
Buildings	1,466,375
Improvements other than buildings	1,893,018
Machinery and equipment	<u>1,109,689</u>
Totals	<u>4,469,082</u>
Total capital assets, being depreciated, net	<u>11,485,794</u>
Total water utility capital assets, net	<u>\$ 11,779,850</u>

Wastewater Utility:

Capital assets, not being depreciated:	
Land	\$ 155,887
Construction in progress	<u>311,152</u>
Total capital assets, not being depreciated	<u>467,039</u>
Capital assets, being depreciated:	
Buildings	4,837,678
Improvements other than buildings	36,851,092
Machinery and equipment	<u>2,616,036</u>
Totals	<u>44,304,806</u>
Less accumulated depreciation for:	
Buildings	3,105,761
Improvements other than buildings	12,147,534
Machinery and equipment	<u>1,483,335</u>
Totals	<u>16,736,630</u>
Total capital assets, being depreciated, net	<u>27,568,176</u>
Total wastewater utility capital assets, net	<u>\$ 28,035,215</u>

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Water	\$ 238,888
Wastewater	<u>972,699</u>
 Total depreciation expense	 <u><u>\$ 1,211,587</u></u>

C. Construction Work In Progress

Construction work in progress for the wastewater utility is composed of the following:

<u>Project</u>	<u>Expended to December 31,</u>
EECBG Tower Pumps	\$ 252,459
Lakeside Street	27,858
Pine Lake Lift Station	19,447
Lift Station Emergency Plan	6,340
Brighton/Rush Drain	<u>5,048</u>
 Total	 <u><u>\$ 311,152</u></u>

D. Long-Term Liabilities

1. Revenue Bonds

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Balance at December 31</u>	<u>Less: Unamortized Discount</u>	<u>Less: Deferral on Refunding</u>	<u>Amount</u>
Water Utility:					
2005 Waterworks refunding revenue bonds for waterworks system improvements	3.10% to 3.3%	\$ 705,000	\$ 2,902	\$ 38,366	\$ 663,732
Wastewater Utility:					
2006 Wastewater revenue bonds for system improvements	4%	4,500,000	54,482	-	4,445,518
2007 Wastewater revenue bonds for system improvements	3.75% to 3.9%	<u>2,190,000</u>	<u>20,061</u>	<u>-</u>	<u>2,169,939</u>
Totals		<u><u>\$ 7,395,000</u></u>	<u><u>\$ 77,445</u></u>	<u><u>\$ 38,366</u></u>	<u><u>\$ 7,279,189</u></u>

Revenue bonds debt service requirements to maturity are as follows:

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2011	\$ 475,000	\$ 19,033	\$ 150,000	\$ 263,874
2012	230,000	3,795	155,000	258,249
2013	-	-	160,000	252,436
2014	-	-	165,000	246,436
2015	-	-	175,000	240,248
2016-2020	-	-	990,000	1,095,540
2021-2025	-	-	3,260,000	749,805
2026-2029	-	-	1,635,000	98,800
Totals	<u>\$ 705,000</u>	<u>\$ 22,828</u>	<u>\$ 6,690,000</u>	<u>\$ 3,205,388</u>

2. State Revolving Fund Loans Payable

The Wastewater Utility has entered into various loans. Annual debt service requirements to maturity for the loans are as follows:

	Principal	Interest
2011	\$ 390,000	\$ 167,730
2012	402,500	154,080
2013	413,500	139,992
2014	426,000	125,520
2015	437,500	110,610
2016-2020	2,377,500	267,892
2021-2024	<u>345,273</u>	<u>12,084</u>
Totals	<u>\$ 4,792,273</u>	<u>\$ 977,908</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 1,170,000	\$ -	\$ 465,000	\$ 705,000	\$ 475,000
Wastewater Utility	6,830,000	-	140,000	6,690,000	150,000
Less deferred amount on refunding	<u>(63,943)</u>	<u>-</u>	<u>(25,577)</u>	<u>(38,366)</u>	<u>(25,577)</u>
Total revenue bonds payable	8,063,943	-	630,577	7,433,366	599,423
State revolving fund loans payable:					
Wastewater Utility	<u>3,986,000</u>	<u>1,357,322</u>	<u>551,049</u>	<u>4,792,273</u>	<u>390,000</u>
Total long-term liabilities	<u>\$ 12,049,943</u>	<u>\$ 1,357,322</u>	<u>\$ 1,181,626</u>	<u>\$ 19,582,273</u>	<u>\$ 989,423</u>

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Other Information

A. Risk Management

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

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. Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

During 2003, the City, including Utilities, joined with other governmental entities in the Indiana Public Employers' Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for approximately 700 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 job related illnesses or injuries to employees. The City pays an annual premium to the risk pool for its job related illnesses or injuries to employees 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.

The City, including Utilities, has chosen to establish a risk financing fund for risks associated with Medical Benefits to Employees, Retirees, and Dependents. This risk financing is accounted for in the City's Insurance Fund an internal service fund, where assets are set aside for claim settlements. The City purchases commercial insurance for claims in excess of the \$85,000 per individual annual coverage provided by the fund. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon a family and single plan monthly rate determined annually by the insurance company multiplied by the number of employees each department has enrolled in the plan and are reported as quasi-external interfund transactions.

B. Subsequent Events

During 2010, the Water Utility began the planning and engineering design phases of an estimated \$5,523,300 worth of projects that include improvements to two of their existing plants, water main improvements and a new water supply source. Funding for these projects will be provided by an estimated \$3,440,000 State Revolving Loan and a \$1,611,500 Forgivable Bond Anticipation Note. Closing on these loans is anticipated by June 30, 2011, with the construction phase of the projects set to begin during the summer of 2011.

C. Rate Structure

The current rate structure for the Water and Wastewater Utilities was approved by the Council on November 15, 2004.

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Pension Plan

Agent Multiple-Employer Defined Benefit 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 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  
One North Capitol, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The total contributions made to PERF by the City, including Utility funds, during the period were \$291,122.

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
AUDIT RESULTS AND COMMENTS

CAPITAL ASSET RECORDS - WATER UTILITY

The Water Utility does not maintain sufficient detailed records of capital assets for its Utility Plant in Service accounts. Upon purchase, the costs of the capital assets are added to a general ledger in subsidiary accounts for land, buildings, etc., but no historical records of the assets are maintained. Without this detailed record it is impossible for the Utility to substantiate the accuracy of the Utility Plant in Service value on their financial statements. Consequently, the amount reported on the financial statements for depreciation expense is very rough estimate that cannot be verified. Recent years have shown little or no deletion or disposal of capital assets from the general ledger.

In 2010, the Water Utility incurred over \$125,000 related to preliminary design and engineering fees for projects that will be funded and constructed in 2011 and 2012. These costs were expensed on the 2010 general ledger. Subsequent review by an outside accounting firm noted these costs and recommended adjusting journal entries to correct in 2011 that moved these costs to Work-in-Progress Accounts.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable 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)

Accurate records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers or rate payers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CASH FLOW STATEMENTS

Cash Flow Statements for the Water and Wastewater Utilities for the year 2010 were not completed for audit. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditor's Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
EXIT CONFERENCE

The contents of this report were discussed on April 19, 2011, with Teresa L. Ludlow, Clerk-Treasurer; Kathleen A. Chroback, Mayor; Todd A. Taylor, Superintendent of the Water Utility; Jerry P. Jackson, Superintendent of the Wastewater Utility; David K. Schmitt, President Pro-Tem of the Common Council; Donald Baugher, City Attorney; Joanne Layman, Deputy Clerk-Treasurer; and Linda Howell, Utility Bookkeeper. The official response has been made a part of this report and may be found on pages 17 and 18.



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April 20, 2011

State Board of Accounts  
302 W. Washington St.  
Room E-418  
Indianapolis, IN 46204

*RE: Response to audit results and comments*

Gentlemen:

The City substantially agrees with the audit results of the State Board of Accounts, however, wishes to make some comments.

As pertains to the capital asset records, the City has made progress in establishing fixed asset inventory records, and it is committed to additional progress through the year 2011. To that end, the City is seeking quotes from an outside consultant to assist in assembling the asset inventory records. Once completed, the City is committed to update the detailed fixed asset records not less than annually and to reconcile detailed records with the utility general ledger at the end of each calendar year.

As pertains to wastewater assets acquired by Federal grants, the Wastewater Department has put in place a program for recording fixed assets acquired through Federal Funds. Said program will be reviewed annually by an independent outside certified public accountant.

As pertains to the Water Utilities Anticipated Indiana Finance Authority Loan, in anticipation thereof, the Water Department has retained an outside independent certified public accountant to assist in tracking capital assets acquired with Federal grant funds.

If the City is able to retain the services of an outside consultant to assist in establishing the asset inventory records as reflected in Paragraph 2, the consultant will also assist the Wastewater and Water Utilities.

April 20, 2011

RE: Response to audit results and comments

As pertains to the comments concerning overdrawn cash balances, I wish to note as stated in the State Board of Accounts report a great deal of the overdraft was a direct result of the County of LaPorte's inability and failure to properly and timely bill and collect real estate taxes. This unprecedented situation is totally out of the control of the City of LaPorte.

We also believe that the Transit Fund should have been listed under those cash balances that are subject to reimbursement by Local, State and Federal grants. Transit Funds are reimbursed by Federal and State grant monies and anticipated revenue from those sources would cover the overdrawn balances in the Transit Fund.

Very truly yours,



Teresa L. Ludlow  
Clerk-Treasurer