

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF HOBART
LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
07/03/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Longer	01-01-12 to 12-31-15
Mayor	Brian Snedecor	01-01-12 to 12-31-15
President of the Common Council	David R. Vinzant Jerry Herzog	01-01-12 to 12-31-12 01-01-13 to 12-31-13
City Judge	William J. Longer	01-01-12 to 12-31-15



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF HOBART, LAKE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Hobart (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such

INDEPENDENT AUDITOR'S REPORT
(Continued)

information is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

The City's 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 City's response and, accordingly, we express no opinion on it.



Bruce Hartman
State Examiner

April 10, 2013



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF HOBART, LAKE COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the City of Hobart (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated April 10, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

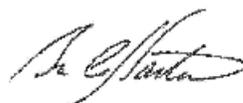
provisions were not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Hobart's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

April 10, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF HOBART
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 759,739	\$ 25,354,745	\$ 26,025,634	\$ 88,850
Motor Vehicle Highway	1,052,058	1,316,092	1,345,493	1,022,657
Local Road And Street	(676,353)	317,529	-	(358,824)
Law Enforcement Continuing Education	33,668	52,244	45,955	39,957
Riverboat	283,524	615,274	448,796	450,002
Parks And Recreation	12,319	584,489	523,334	73,474
Cumulative Capital Improvement	(178,460)	77,072	-	(101,388)
Cumulative Capital Development	1,047,545	825,232	1,139,899	732,878
Police Pension	706,907	521,966	517,180	711,693
Fire Pension	379,075	382,300	384,358	377,017
HMS Police Court Bond B Debt Service	14,961	168,576	129,785	53,752
Redevelopment RZ TIF Bond A & B Debt Service	205,993	363,004	355,096	213,901
Maria Reiner Senior Center	37,113	171,372	126,568	81,917
Domestic Highway Enforcement	-	17,511	22,102	(4,591)
Liberty Heights Account	-	36,036	36,036	-
Health Insurance Bank Account	87,867	2,343,115	2,313,837	117,145
City Court Bank Account	252,018	1,414,132	1,345,849	320,301
Fire Donation	2,560	4,265	2,985	3,840
Park Donation	3,950	3,880	7,767	63
Trust	46,424	-	5,450	40,974
Dare	1,682	8,323	6,427	3,578
Police Donation	3,348	22,390	21,090	4,648
County Share Court Costs	(449)	317,493	317,044	-
Court Records Perpetuation	32,838	5,442	1,136	37,144
Innkeeper's Tax	6,807	9,450	7,385	8,872
Police Seizure	25,085	50,776	39,609	36,252
Drug Task Force (HIDTA)	8,725	19,728	19,643	8,810
Drug Free Communities	-	17,600	17,600	-
911 Dispatch Center	(28,600)	30,000	1,400	-
County Juvenile Night Light	1,286	-	-	1,286
Park Improvement	39,488	1,800	25,662	15,626
Park & Rec Non-Reverting	2,235	-	-	2,235
Arbor Lane Park Donation	2,150	-	-	2,150
Enhancement & Improvement	149,242	38,228	62,548	124,922
Pennsy Depot Donation	12,611	-	-	12,611
Lakefront Festival	7,914	21,113	17,635	11,392
Barrington Ridge Park Donation	93,745	-	8,390	85,355
Pleak Fund	35,079	-	-	35,079
Water Lines	11,596	-	-	11,596
DUI Overtime Grant	(1,528)	39,358	39,697	(1,867)
Court Public Defender	5,678	5,523	9,000	2,201
Adult Probation	135,312	30,712	28,353	137,671
Park District Program	954	42,686	43,408	232

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

CITY OF HOBART
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
Hobart Entryway Triangle	6,689	-	-	6,689
Fire Dept EMS Education	1,375	-	-	1,375
Cops To School	(25,083)	15,009	-	(10,074)
Operation Pull Over	21,195	9,521	12,963	17,753
Tax Abatement	23,640	1,267	3,614	21,293
Scout Cabin	720	-	-	720
Redevelopment	1,554,140	348,065	175,365	1,726,840
Special Events	16,536	39,068	50,516	5,088
Public Works Donation	312	250	250	312
Assistance To Firefighters Grant	6,019	-	400	5,619
2008 Recycling Grants	8,845	-	-	8,845
Employee Health Benefits	123,562	214,998	270,466	68,094
Redevelopment 61St Avenue	1,974,430	1,541,013	633,291	2,882,152
Reimburse Professional Fees	796	25,542	11,326	15,012
Park Bond 6 Project Debt Service	391,491	743,808	772,098	363,201
2006 Go Bond Paving Debt Service	266,381	290,283	376,563	180,101
2007 61St Avenue Debt Service	75,929	165,356	151,106	90,179
HMS Police Court Bond A Debt Service	35,530	337,506	259,843	113,193
61St Ave Series B Debt Service	25,477	49,954	50,454	24,977
Park Bond Proceeds 6 Projects	1,073,053	993,063	1,275,526	790,590
2007 61St Ave Bond Proceeds	63,858	180,576	244,434	-
61St Avenue Reserve Fund	930,000	-	-	930,000
Police Court Complex Bond Proceeds	43,314	-	18,863	24,451
Redev Rz TIF Bond Proceeds	2,870,136	171,310	324,055	2,717,391
Fire Pension 1977	33,332	144,999	178,331	-
Police Pension 1977	40,266	166,455	206,721	-
Payroll	4,401	11,397,212	11,399,754	1,859
Water Escrow	33,320	389,899	385,663	37,556
Nipsco Escrow	451	1,112,967	1,113,107	311
Cable Escrow	100,000	-	-	100,000
Civilian PERF	34,456	126,079	160,535	-
Investments	31,715	3,979	-	35,694
HSD Stormwater	721,476	1,772,986	983,736	1,510,726
SRF Construction HSD	-	105,236	105,236	-
SRF Bond and Interest HSD	-	47,101	-	47,101
SRF Debt Service Reserve HSD	-	11,793	-	11,793
Wastewater Operating	736,275	4,456,939	4,905,380	287,834
Wastewater Improvement	5,245,619	1,355,972	474,542	6,127,049
Wastewater Revenue	229,493	6,543,032	6,344,844	427,681
Totals	<u>\$ 21,315,255</u>	<u>\$ 67,990,694</u>	<u>\$ 66,331,133</u>	<u>\$ 22,974,816</u>

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

CITY OF HOBART
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF HOBART
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

CITY OF HOBART
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

CITY OF HOBART
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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 statutes authorize 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.

Note 5. Risk Management

The City may be 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.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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 Indiana Public Retirement System (INPRS) 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 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF HOBART
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

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

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan 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.

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan 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

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

CITY OF HOBART
NOTES TO FINANCIAL STATEMENT
(Continued)

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) 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 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of some funds being set up for reimbursable grants. The reimbursement for expenditures made by the City of Hobart was not received by December 31, 2012.

Note 8. Subsequent Events

Hobart Sanitary District 2012 Sanitary Sewage Revenue Bonds (SRF)

On November 7, 2012, the Hobart Sanitary District closed on the Hobart Sanitary District Sewage Works Revenue Bonds of 2012 via the State Revolving Fund (SRF). The purpose of this bond is for Wastewater Treatment System projects and the total project cost is anticipated to be \$4,137,000. Construction for the projects is scheduled to begin in January 2013 and will be completed by November 2014. The 2012 Debt Schedule shows the entire debt obligation as anticipated. At the end of 2012, the only funds expended as part of this project totaled: \$105,236.

CITY OF HOBART
NOTES TO FINANCIAL STATEMENT
(Continued)

2013 Tax Anticipation Warrants

Through the Indiana Bond Bank Advanced Funding Program, the City issued 2013 Tax Anticipation Warrants for the General Fund on January 31, 2013, in the total amount of \$6,420,991 at an interest rate of 0.85 percent. Council Ordinance #2012-44, adopted December 5, 2012, approved this action. These warrants are used for operating expenses until the June 31st and December 31st tax distributions are received from the County. The payment schedule coincides with the receipt of the property taxes and will be completely repaid by the end of 2013.

Lease/Purchase of Public Safety Equipment

The City entered into a Lease/Purchase agreement in December 2012 for the purchase of 10 police squad cars and 1 fire department staff vehicle for a total amount of \$257,592, payable over the next four years beginning in March 2013. These vehicles will replace other vehicles that are beyond their expected life-cycle and the financial impact is minimized by another lease agreement being paid off in early 2013.

Note 9. Other Postemployment Benefits

The City offers retirees who have a total of 70 points (comprised of age plus 20 years of consecutive service) and retirees who have a total of 80 points (comprised of age plus 30 years of service with at least 5 years of current consecutive services) continuation of existing coverage under the City medical and hospitalization insurance plan with premiums paid by the City for a period of 5 years, or until Medicare coverage is available. These benefits pose a liability to the City for this year and in future years. Information regarding the benefits can be obtained by contacting the City.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Education	Riverboat	Parks And Recreation	Cumulative Capital Improvement
Cash and investments - beginning	\$ 759,739	\$ 1,052,058	\$ (676,353)	\$ 33,668	\$ 283,524	\$ 12,319	\$ (178,460)
Receipts:							
Taxes	11,612,518	529,816	-	-	-	466,342	-
Licenses and permits	728,827	-	-	17,850	-	-	-
Intergovernmental	911,746	784,607	317,529	-	365,063	26,063	77,072
Charges for services	871,836	1,491	-	27,326	250,211	70,757	-
Fines and forfeits	121,607	-	-	7,063	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	11,108,211	178	-	5	-	21,327	-
Total receipts	<u>25,354,745</u>	<u>1,316,092</u>	<u>317,529</u>	<u>52,244</u>	<u>615,274</u>	<u>584,489</u>	<u>77,072</u>
Disbursements:							
Personal services	12,236,906	890,607	-	-	-	353,816	-
Supplies	738,592	273,838	-	9,372	-	49,687	-
Other services and charges	2,634,130	81,560	-	36,413	-	73,988	-
Debt service - principal and interest	9,685,897	-	-	-	-	-	-
Capital outlay	702,275	99,488	-	140	448,796	26,448	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	27,834	-	-	30	-	19,395	-
Total disbursements	<u>26,025,634</u>	<u>1,345,493</u>	<u>-</u>	<u>45,955</u>	<u>448,796</u>	<u>523,334</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(670,889)</u>	<u>(29,401)</u>	<u>317,529</u>	<u>6,289</u>	<u>166,478</u>	<u>61,155</u>	<u>77,072</u>
Cash and investments - ending	<u>\$ 88,850</u>	<u>\$ 1,022,657</u>	<u>\$ (358,824)</u>	<u>\$ 39,957</u>	<u>\$ 450,002</u>	<u>\$ 73,474</u>	<u>\$ (101,388)</u>

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Cumulative Capital Development	Police Pension	Fire Pension	HMS Police Court Bond B Debt Service	Redevelopment RZ TIF Bond A & B Debt Service	Maria Reiner Senior Center	Domestic Highway Enforcement
Cash and investments - beginning	\$ 1,047,545	\$ 706,907	\$ 379,075	\$ 14,961	\$ 205,993	\$ 37,113	\$ -
Receipts:							
Taxes	497,431	-	-	159,653	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	27,801	-	-	8,923	-	-	-
Charges for services	-	-	-	-	-	82,490	17,511
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	300,000	521,966	382,300	-	363,004	88,882	-
Total receipts	825,232	521,966	382,300	168,576	363,004	171,372	17,511
Disbursements:							
Personal services	-	1,427	1,427	-	-	56,225	22,102
Supplies	-	-	200	-	-	14,942	-
Other services and charges	-	-	274	-	1,800	23,226	-
Debt service - principal and interest	-	-	-	129,785	353,296	-	-
Capital outlay	1,139,899	-	-	-	-	20,440	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	515,753	382,457	-	-	11,735	-
Total disbursements	1,139,899	517,180	384,358	129,785	355,096	126,568	22,102
Excess (deficiency) of receipts over disbursements	(314,667)	4,786	(2,058)	38,791	7,908	44,804	(4,591)
Cash and investments - ending	\$ 732,878	\$ 711,693	\$ 377,017	\$ 53,752	\$ 213,901	\$ 81,917	\$ (4,591)

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Liberty Heights Account	Health Insurance Bank Account	City Court Bank Account	Fire Donation	Park Donation	Trust	Dare
Cash and investments - beginning	\$ -	\$ 87,867	\$ 252,018	\$ 2,560	\$ 3,950	\$ 46,424	\$ 1,682
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	1,025	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	36,036	2,343,115	1,414,132	4,265	2,855	-	8,323
Total receipts	<u>36,036</u>	<u>2,343,115</u>	<u>1,414,132</u>	<u>4,265</u>	<u>3,880</u>	<u>-</u>	<u>8,323</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	2,985	930	5,450	2,924
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	6,837	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	36,036	2,313,837	1,345,849	-	-	-	3,503
Total disbursements	<u>36,036</u>	<u>2,313,837</u>	<u>1,345,849</u>	<u>2,985</u>	<u>7,767</u>	<u>5,450</u>	<u>6,427</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>29,278</u>	<u>68,283</u>	<u>1,280</u>	<u>(3,887)</u>	<u>(5,450)</u>	<u>1,896</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 117,145</u>	<u>\$ 320,301</u>	<u>\$ 3,840</u>	<u>\$ 63</u>	<u>\$ 40,974</u>	<u>\$ 3,578</u>

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Police Donation	County Share Court Costs	Court Records Perpetuation	Innkeeper's Tax	Police Seizure	Drug Task Force (HIDTA)	Drug Free Communities
Cash and investments - beginning	\$ 3,348	\$ (449)	\$ 32,838	\$ 6,807	\$ 25,085	\$ 8,725	\$ -
Receipts:							
Taxes	-	-	-	9,450	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	19,728	-
Fines and forfeits	-	317,493	5,442	-	-	-	17,600
Utility fees	-	-	-	-	-	-	-
Other receipts	22,390	-	-	-	50,776	-	-
Total receipts	<u>22,390</u>	<u>317,493</u>	<u>5,442</u>	<u>9,450</u>	<u>50,776</u>	<u>19,728</u>	<u>17,600</u>
Disbursements:							
Personal services	-	-	-	-	-	17,502	-
Supplies	-	-	-	-	-	2,141	-
Other services and charges	21,090	-	1,136	3,844	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	39,609	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	317,044	-	3,541	-	-	17,600
Total disbursements	<u>21,090</u>	<u>317,044</u>	<u>1,136</u>	<u>7,385</u>	<u>39,609</u>	<u>19,643</u>	<u>17,600</u>
Excess (deficiency) of receipts over disbursements	<u>1,300</u>	<u>449</u>	<u>4,306</u>	<u>2,065</u>	<u>11,167</u>	<u>85</u>	<u>-</u>
Cash and investments - ending	<u>\$ 4,648</u>	<u>\$ -</u>	<u>\$ 37,144</u>	<u>\$ 8,872</u>	<u>\$ 36,252</u>	<u>\$ 8,810</u>	<u>\$ -</u>

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	911 Dispatch Center	County Juvenile Night Light	Park Improvement	Park & Rec Non-Reverting	Arbor Lane Park Donation	Enhancement & Improvement	Pennsy Depot Donation
Cash and investments - beginning	\$ (28,600)	\$ 1,286	\$ 39,488	\$ 2,235	\$ 2,150	\$ 149,242	\$ 12,611
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	30,000	-	1,800	-	-	38,228	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-
Total receipts	<u>30,000</u>	<u>-</u>	<u>1,800</u>	<u>-</u>	<u>-</u>	<u>38,228</u>	<u>-</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	21,503	-	-	62,548	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,400	-	4,159	-	-	-	-
Total disbursements	<u>1,400</u>	<u>-</u>	<u>25,662</u>	<u>-</u>	<u>-</u>	<u>62,548</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>28,600</u>	<u>-</u>	<u>(23,862)</u>	<u>-</u>	<u>-</u>	<u>(24,320)</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 1,286</u>	<u>\$ 15,626</u>	<u>\$ 2,235</u>	<u>\$ 2,150</u>	<u>\$ 124,922</u>	<u>\$ 12,611</u>

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Lakefront Festival	Barrington Ridge Park Donation	Pleak Fund	Water Lines	DUI Overtime Grant	Court Public Defender
Cash and investments - beginning	\$ 7,914	\$ 93,745	\$ 35,079	\$ 11,596	\$ (1,528)	\$ 5,678
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	14,113	-	-	-	39,358	-
Fines and forfeits	-	-	-	-	-	5,523
Utility fees	-	-	-	-	-	-
Other receipts	7,000	-	-	-	-	-
Total receipts	<u>21,113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,358</u>	<u>5,523</u>
Disbursements:						
Personal services	3,780	-	-	-	37,965	-
Supplies	-	-	-	-	-	-
Other services and charges	13,855	8,390	-	-	-	9,000
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	1,732	-
Total disbursements	<u>17,635</u>	<u>8,390</u>	<u>-</u>	<u>-</u>	<u>39,697</u>	<u>9,000</u>
Excess (deficiency) of receipts over disbursements	<u>3,478</u>	<u>(8,390)</u>	<u>-</u>	<u>-</u>	<u>(339)</u>	<u>(3,477)</u>
Cash and investments - ending	<u>\$ 11,392</u>	<u>\$ 85,355</u>	<u>\$ 35,079</u>	<u>\$ 11,596</u>	<u>\$ (1,867)</u>	<u>\$ 2,201</u>

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Adult Probation	Park District Program	Hobart Entryway Triangle	Fire Dept EMS Education	Cops To School	Operation Pull Over
Cash and investments - beginning	\$ 135,312	\$ 954	\$ 6,689	\$ 1,375	\$ (25,083)	\$ 21,195
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	29,821	-	-	-	9,521
Fines and forfeits	30,712	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	12,865	-	-	15,009	-
Total receipts	30,712	42,686	-	-	15,009	9,521
Disbursements:						
Personal services	26,837	-	-	-	-	12,963
Supplies	30	-	-	-	-	-
Other services and charges	298	43,408	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	1,188	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	28,353	43,408	-	-	-	12,963
Excess (deficiency) of receipts over disbursements	2,359	(722)	-	-	15,009	(3,442)
Cash and investments - ending	<u>\$ 137,671</u>	<u>\$ 232</u>	<u>\$ 6,689</u>	<u>\$ 1,375</u>	<u>\$ (10,074)</u>	<u>\$ 17,753</u>

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Tax Abatement	Scout Cabin	Redevelopment	Special Events	Public Works Donation	Assistance To Firefighters Grant
Cash and investments - beginning	\$ 23,640	\$ 720	\$ 1,554,140	\$ 16,536	\$ 312	\$ 6,019
Receipts:						
Taxes	-	-	327,065	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	21,000	-	-	-
Charges for services	1,267	-	-	39,068	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	250	-
Total receipts	<u>1,267</u>	<u>-</u>	<u>348,065</u>	<u>39,068</u>	<u>250</u>	<u>-</u>
Disbursements:						
Personal services	-	-	17,207	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	3,614	-	114,191	50,516	250	400
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	43,967	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>3,614</u>	<u>-</u>	<u>175,365</u>	<u>50,516</u>	<u>250</u>	<u>400</u>
Excess (deficiency) of receipts over disbursements	<u>(2,347)</u>	<u>-</u>	<u>172,700</u>	<u>(11,448)</u>	<u>-</u>	<u>(400)</u>
Cash and investments - ending	<u>\$ 21,293</u>	<u>\$ 720</u>	<u>\$ 1,726,840</u>	<u>\$ 5,088</u>	<u>\$ 312</u>	<u>\$ 5,619</u>

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	2008 Recycling Grants	Employee Health Benefits	Redevelopment 61St Avenue	Reimburse Professional Fees	Park Bond 6 Project Debt Service	2006 Go Bond Paving Debt Service
Cash and investments - beginning	\$ 8,845	\$ 123,562	\$ 1,974,430	\$ 796	\$ 391,491	\$ 266,381
Receipts:						
Taxes	-	-	1,260,223	-	705,220	275,224
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	38,588	15,059
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	214,998	280,790	25,542	-	-
Total receipts	-	214,998	1,541,013	25,542	743,808	290,283
Disbursements:						
Personal services	-	269,958	17,207	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	37,770	11,326	500	-
Debt service - principal and interest	-	-	-	-	771,598	376,563
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	508	578,314	-	-	-
Total disbursements	-	270,466	633,291	11,326	772,098	376,563
Excess (deficiency) of receipts over disbursements	-	(55,468)	907,722	14,216	(28,290)	(86,280)
Cash and investments - ending	\$ 8,845	\$ 68,094	\$ 2,882,152	\$ 15,012	\$ 363,201	\$ 180,101

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	2007 61St Avenue Debt Service	HMS Police Court Bond A Debt Service	61St Ave Series B Debt Service	Park Bond Proceeds 6 Projects	2007 61St Ave Bond Proceeds	61St Avenue Reserve Fund
Cash and investments - beginning	\$ 75,929	\$ 35,530	\$ 25,477	\$ 1,073,053	\$ 63,858	\$ 930,000
Receipts:						
Taxes	-	319,642	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	17,864	-	-	-	-
Charges for services	-	-	-	993,063	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	165,356	-	49,954	-	180,576	-
Total receipts	<u>165,356</u>	<u>337,506</u>	<u>49,954</u>	<u>993,063</u>	<u>180,576</u>	<u>-</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	750	-	500	-	-	-
Debt service - principal and interest	150,356	259,843	49,954	-	-	-
Capital outlay	-	-	-	1,275,526	244,434	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>151,106</u>	<u>259,843</u>	<u>50,454</u>	<u>1,275,526</u>	<u>244,434</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>14,250</u>	<u>77,663</u>	<u>(500)</u>	<u>(282,463)</u>	<u>(63,858)</u>	<u>-</u>
Cash and investments - ending	<u>\$ 90,179</u>	<u>\$ 113,193</u>	<u>\$ 24,977</u>	<u>\$ 790,590</u>	<u>\$ -</u>	<u>\$ 930,000</u>

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Police Court Complex Bond Proceeds	Redev Rz TIF Bond Proceeds	Fire Pension 1977	Police Pension 1977	Payroll	Water Escrow
Cash and investments - beginning	\$ 43,314	\$ 2,870,136	\$ 33,332	\$ 40,266	\$ 4,401	\$ 33,320
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	171,310	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	144,999	166,455	11,397,212	389,899
Total receipts	-	171,310	144,999	166,455	11,397,212	389,899
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	3,585	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	18,863	320,470	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	178,331	206,721	11,399,754	385,663
Total disbursements	18,863	324,055	178,331	206,721	11,399,754	385,663
Excess (deficiency) of receipts over disbursements	(18,863)	(152,745)	(33,332)	(40,266)	(2,542)	4,236
Cash and investments - ending	<u>\$ 24,451</u>	<u>\$ 2,717,391</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,859</u>	<u>\$ 37,556</u>

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Nipsco Escrow	Cable Escrow	Civilian PERF	Investments	HSD Stormwater	SRF Construction HSD
Cash and investments - beginning	\$ 451	\$ 100,000	\$ 34,456	\$ 31,715	\$ 721,476	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	1,753,988	-
Other receipts	1,112,967	-	126,079	3,979	18,998	105,236
Total receipts	1,112,967	-	126,079	3,979	1,772,986	105,236
Disbursements:						
Personal services	-	-	160,535	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	2,070	105,236
Utility operating expenses	-	-	-	-	481,495	-
Other disbursements	1,113,107	-	-	-	500,171	-
Total disbursements	1,113,107	-	160,535	-	983,736	105,236
Excess (deficiency) of receipts over disbursements	(140)	-	(34,456)	3,979	789,250	-
Cash and investments - ending	\$ 311	\$ 100,000	\$ -	\$ 35,694	\$ 1,510,726	\$ -

CITY OF HOBART
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	SRF Bond and Interest HSD	SRF Debt Service Reserve HSD	Wastewater Operating	Wastewater Improvement	Wastewater Revenue	Totals
Cash and investments - beginning	\$ -	\$ -	\$ 736,275	\$ 5,245,619	\$ 229,493	\$ 21,315,255
Receipts:						
Taxes	-	-	-	-	-	16,162,584
Licenses and permits	-	-	-	-	-	746,677
Intergovernmental	-	-	-	-	-	2,611,315
Charges for services	-	-	-	-	-	2,709,924
Fines and forfeits	-	-	-	-	-	505,440
Utility fees	-	-	4,400	-	6,543,032	8,301,420
Other receipts	47,101	11,793	4,452,539	1,355,972	-	36,953,334
Total receipts	47,101	11,793	4,456,939	1,355,972	6,543,032	67,990,694
Disbursements:						
Personal services	-	-	-	-	-	14,126,464
Supplies	-	-	-	-	-	1,088,802
Other services and charges	-	-	-	-	-	3,188,103
Debt service - principal and interest	-	-	-	-	-	11,777,292
Capital outlay	-	-	95,077	802	-	4,675,616
Utility operating expenses	-	-	4,679,140	-	-	5,160,635
Other disbursements	-	-	131,163	473,740	6,344,844	26,314,221
Total disbursements	-	-	4,905,380	474,542	6,344,844	66,331,133
Excess (deficiency) of receipts over disbursements	47,101	11,793	(448,441)	881,430	198,188	1,659,561
Cash and investments - ending	\$ 47,101	\$ 11,793	\$ 287,834	\$ 6,127,049	\$ 427,681	\$ 22,974,816

CITY OF HOBART
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Storm Water	\$ -	\$ -
Wastewater	-	615,659
Governmental activities	204,010	595,886
Totals	\$ 204,010	\$ 1,211,545

CITY OF HOBART
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Lyons Bank	Squad Cars (10)	\$ 62,993	07-02-10	07-02-13
PNCEF LLC	Ambulances (2)	61,092	03-01-08	04-01-12
PNCEF LLC	Bunker Gear	12,344	03-01-08	03-01-12
TCF Equipment Finance	Garbage Packer	31,768	10-21-11	10-21-15
U S Bank	Ambulances (2)	69,529	01-25-12	01-25-16
U S Bank	Squad Cars (6)	37,956	09-19-09	09-19-12
U S Bank	Squad Cars (10)	57,573	12-02-11	12-02-14
U S Bank	Garbage Trucks (2)	62,429	12-01-12	12-01-16
U S Bank	Fire Truck	48,591	12-21-12	12-21-15
Univest Capital	Phone System / PCC	9,360	03-15-11	02-15-16
US Bank	Police Car	5,585	02-17-09	02-17-12
Wells Fargo Bank	Brush Chipper	9,122	02-17-10	02-17-14
Total governmental activities		<u>468,342</u>		
Total of annual lease payments		<u>\$ 468,342</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	2006 GO Bond: Street Improvements (Fund 323)	\$ 720,000	\$ 378,719
General obligation bonds	2007 Redevelopment Bond: 61st Ave. Series A (Fund 324)	3,400,000	205,056
General obligation bonds	2009 Redevelopment Bond: 61st Ave. Series B (Fund 313)	1,100,000	54,954
General obligation bonds	2009 Police Court Reconstruction Bond A (Fund 314)	5,270,000	253,763
General obligation bonds	2005 Park District Bond (Fund 322)	3,200,000	773,634
General obligation bonds	2010 Police Court Reconstruction Bond B (Fund 315)	1,930,000	129,235
General obligation bonds	2010 Redevelopment Bond: 61st Ave TIF Series A (Fund 325)	1,375,000	148,460
General obligation bonds	2010 Redevelopment Bond: 61st Ave RZ Series B (Fund 325)	3,090,000	278,124
Total governmental activities		<u>20,085,000</u>	<u>2,221,945</u>
Wastewater:			
General obligation bonds	Municipal Sewage Works to Gary Sanitary District (GSD)	693,271	195,728
Revenue bonds	2012 HSD Sanitary Sewage Revenue Bonds (SRF)	4,136,000	127,326
Total Wastewater		<u>4,829,271</u>	<u>323,054</u>
Totals		<u>\$ 24,914,271</u>	<u>\$ 2,544,999</u>

CITY OF HOBART
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

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.

	Ending Balance
Governmental activities:	
Land	\$ 1,590,069
Infrastructure	94,829,669
Buildings	30,870,713
Improvements other than buildings	2,025,287
Machinery, equipment, and vehicles	11,173,515
Books and other	89,356
Total governmental activities	140,578,609
Storm Water:	
Infrastructure	8,484,456
Wastewater:	
Land	1,018,567
Infrastructure	18,084,101
Buildings	15,662,269
Machinery, equipment, and vehicles	906,067
Construction in progress	105,236
Total Wastewater	35,776,240
Total capital assets	\$ 184,839,305

CITY OF HOBART
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

We noted deficiencies in the internal control system of the City of Hobart related to financial transactions. We believe the following deficiencies constitute material weaknesses:

Deleted Receipts

Effective internal control over financial transactions requires management to monitor and assess the quality of the computer system's internal control. The computer system allows for deletion of a receipt after it is printed but before it is posted, so that it does not appear in the ledger. A report titled "History Audit Report of Deleted Transactions" lists all deleted receipt numbers, but it could not be established that all the deleted receipts were invalid transactions. There is no approval or oversight by management for the deleted receipt numbers to substantiate the validity of the deleted transactions.

Sanitary Adjustments

Effective internal control over financial transactions requires management to monitor and assess the quality of the process of the internal controls. Adjustments are made to utility bills without any oversight or approval by upper management or the Sanitary Board. Penalties and interest fees are being waived on some utility bills. An ordinance allows for the fees to be charged but does not allow for any instances of waiving the fees. The fees are adjusted by the utility department without any approval or oversight. The utility department will on occasion make adjustments on utility bill usage if the usage amount appears to be unusually high. The adjustment will be made to the account to coincide with the "normal" usage. This is also done without any approval or oversight.

The failure to exercise oversight responsibility on deleted receipts and sanitary adjustments places the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner.

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

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

OVERDRAWN CASH BALANCES

The following table presents the funds with overdrawn cash balances at December 31, 2012:

CITY OF HOBART
 AUDIT RESULTS AND COMMENTS
 (Continued)

Fund	Amount
Local Road and Street (202)	\$ 358,854
Cumulative Capital Improvement (401)	101,388
Cops to School (284)	10,074

The funds have been overdrawn continuously for four or more years.

The cash 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)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
Cumulative Capital Development	2012	\$ 539,899
General Fund	2012	36,649

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

TEMPORARY TRANSFER OF FUNDS – SANITARY DISTRICT

Temporary transfers (loans), in the amounts of \$800,000 and \$300,000, were made in 2010 from the Wastewater Improvement Fund to the HSD Stormwater Fund. The loans were not repaid by the end of the year, and no emergency was declared by the Sanitary Board to extend the loans, as required by Indiana Code 36-1-8-4. The Sanitary Board adopted Resolution 2011-01 on May 19th, 2011, which authorized the Stormwater Fund to repay the loan semiannually, in amounts of \$100,000 starting in 2011 and through 2016. The semiannual payments were made for \$100,000 each on June 28, 2012, and December 27, 2012.

The Sanitary District operates under Indiana Code 36-9-25. Indiana Code 36-9-25-33 only permits the Sanitary District to make temporary transfers (loans) in accordance with Indiana Code 36-1-8-4.

A similar comment appears in Report numbers B40011 and B41144.

Indiana Code 36-9-25-33 states:

"(a) All money remaining in a fund to the credit of the board at the end of the calendar year belongs to the fund for use by the board for the purposes for which the fund was created. In addition, all money raised under this section shall be deposited at interest with the depository of other public funds of the municipality, with all interest collected on the fund belonging to the fund.

CITY OF HOBART
AUDIT RESULTS AND COMMENTS
(Continued)

(b) Notwithstanding the provisions of any other statute, money collected for or belonging to a sanitary district belongs to the sanitary district, and not to any city or town in the sanitary district. This money shall be deposited in an interest bearing account, and all interest earned from this deposit shall belong to the sanitary district. If no statutory provision exists to require the crediting or deposit of this interest to a specific fund of the sanitary district, the interest shall be deposited in the sanitary district's sanitary maintenance and general expense fund.

(c) Notwithstanding subsections (a) through (b), money may be transferred from the fund as provided in IC 36-1-8-4."

Indiana Code 36-1-8-4 concerning temporary transfer states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

TRUST ITEMS OUTSTANDING FOR FIVE YEARS OR MORE – COURT

The City Court's Trust Register includes restitution and cash bonds which have been unclaimed in excess of five years. The Trust Register contains bonds dating back to 1983 and restitution back to 1998.

Bonds are used to ensure a person's appearance at the appropriate legal proceeding, after being arrested. If an individual appears in court and the case settled, the bonds should either be applied to costs or refunded in accordance with the court's ruling. If an individual fails to appear in court, the bond should be forfeited in accordance with statutory requirements. Therefore, the bonds should be paid out within a reasonable amount of time and not retained for a number of years. A similar comment appeared in prior reports.

All items that can be legally disbursed should be paid immediately to the person or persons entitled thereto. All fees and funds five or more years old, including old outstanding checks, should be scheduled on forms provided by the Attorney General and paid over to the Attorney General as required by IC 32-34-1-20(c)(7). Items should not be allowed to accumulate beyond the five year anniversary date. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

Indiana Code 35-33-8-7 states in part:

"(a) if a defendant;

(1) was admitted to bail under section 3.2(a)(2) of this chapter; and

CITY OF HOBART
AUDIT RESULTS AND COMMENTS
(Continued)

(2) has failed to appear before the court as ordered; the court shall, except as provided in subsection (b) or section 8(b) of this chapter, declare the bond forfeited not earlier than one hundred twenty (120) days after the defendant's failure to appear and issue a warrant for the defendant's arrest.

(b) In a criminal case, if the court having jurisdiction over the criminal case receives written notice of a pending civil action or unsatisfied judgment against the criminal defendant arising out of the same transaction or occurrence forming the basis of the criminal case, funds deposited with the clerk of the court under section 3.2(a) (2) of this chapter may not be declared forfeited by the court, and the court shall order the deposited funds to be held by the clerk. If there is an entry of final judgment in favor of the plaintiff in the civil action, and if the deposit and the bond are subject to forfeiture, the criminal court shall order payment of all or any part of the deposit to the plaintiff in the action, as is necessary to satisfy the judgment. The court shall then order the remainder of the deposit, if any, and the bond forfeited.

(c) Any proceedings concerning the bond, or its forfeiture, judgment, or execution of judgment, shall be held in the court that admitted the defendant to bail.

(d) After a bond has been forfeited under subsection (a) or (b), the clerk shall mail notice of forfeiture to the defendant. In addition, unless the court finds that there was a justification for the defendant's failure to appear, the court shall immediately enter judgment, without pleadings and without change of judge or change of venue, against the defendant for the amount of the bail bond, and the clerk shall record the judgment.

(e) If a bond is forfeited and the court has entered a judgment under subsection (d), the clerk shall transfer to the state common school fund:

(1) any amount remaining on deposit with the court (less the fees retained by the clerk);
and

(2) any amount collected in satisfaction of the judgment."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE CITY OF HOBART, LAKE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the City of Hobart's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2012. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A - 133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-02. Our opinion on the major federal program is not modified with respect to this matter.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-02 to be a material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

April 10, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were prepared and approved by management of the City. The schedule and note are presented as intended by the City.

CITY OF HOBART
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF COMMERCE</u>				
Coastal Zone Management Administration Awards Downtown Comprehensive Plan	Indiana DNR	11.419	NA10NOS4190187	\$ 21,000
Total - U.S. Department of Commerce				<u>21,000</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
CDBG - State Administered CDBG Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Lake George Dam	Indiana Office of Community & Rural Affairs	14.228	DR2-09-136	<u>993,063</u>
Total - U.S. Department of Housing and Urban Development				<u>993,063</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Bulletproof Vest Partnership Program Bullet Proof Vests	Direct Grant	16.607	OMB1121-0235	<u>8,597</u>
Total - U.S. Department of Justice				<u>8,597</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Highway Planning and Construction Cluster Highway Planning and Construction E-85 Police Fuel 61st Avenue	INDOT	20.205	Des: 1173714 STP-N606(001)	<u>16,003</u> <u>677,487</u>
Total - Highway Planning and Construction Cluster				<u>693,490</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Capitalization Grants for Clean Water State Revolving Funds	Indiana Finance Authority	66.458		<u>52,618</u>
Total - U.S. Environmental Protection Agency				<u>52,618</u>
Total federal awards expended				<u>\$ 1,768,768</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards

CITY OF HOBART
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Hobart and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF HOBART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unqualified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

_____ Name of Federal Cluster
CDBG - State Administered CDBG Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-01 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

We noted deficiencies in the internal control system of the City of Hobart related to financial transactions. We believe the following deficiencies constitute material weaknesses:

Deleted Receipts

Effective internal control over financial transactions requires management to monitor and assess the quality of the computer system's internal control. The computer system allows for deletion of a receipt after it is printed but before it is posted, so that it does not appear in the ledger. This causes gaps in the receipt numbering in the ledger. A report titled "History Audit Report of Deleted Transactions" lists all the deleted receipts, but it could not be established that all the deleted receipts were invalid transactions. There is no approval or oversight by management for the deleted receipt to substantiate the validity of the deleted transactions.

CITY OF HOBART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Sanitary Adjustments

Effective internal control over financial transactions requires management to monitor and assess the quality of the procedures of the internal controls. The procedures for adjustments permit changes to be made to utility bills without any oversight or approval by upper management or the Sanitary Board. Penalties and interest fees are being waived on various utility bills. An ordinance allows for the fees to be charged but does not allow for any instances of waiving the fees. The fees are adjusted by the utility department without any consent or oversight. The utility department will on occasion make adjustments on utility bill usage if the usage amount appears to be unusually high. The adjustment will be made to the account to coincide with the "normal" usage. This is also done without any approval or oversight.

The failure to exercise oversight responsibility on deleted receipts and sanitary adjustments places the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner.

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

We recommended that the City's management establish controls over the deleted receipt numbers and adjustments on utilities bills that could have a direct and material effect on the financial statement.

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-02 - REPORTING (COMPLIANCE AND INTERNAL CONTROLS), MATCHING (INTERNAL CONTROLS)

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grants/State's

Program and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): DR2-09-136

Pass-Through Entity: Indiana Office of Community & Rural Affairs

As part of the reporting requirements for the grant between the City of Hobart (City) and the Indiana Office of Community & Rural Affairs (OCRA), the City was required to submit quarterly performance reports to OCRA. The reports were to include the amounts of federal dollars spent, local dollars spent, and the federal funds remaining on the grant.

Another requirement of the grant was that the City enters into a contract with a certified grant administrator. Among other duties, the grant administrator was to fill out the quarterly performance reports. The quarterly reports were to reflect activity within the City's Park Bond Proceeds Fund. The Fund was divided

CITY OF HOBART
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

into subaccounts for the City to track revenue and expenditures associated with this Grant. Since the grant was closed out in 2012, only two quarterly reports and a final closeout report were submitted. The Mayor was to certify that the reports had been reviewed and was accurate.

In testing internal controls over the matching requirement, we reviewed that the reports indicating the amount the City matched were not accurate when compared to the City's detailed records. In order to compare the reports to the City's detailed records, we abstracted all disbursements posted to the sub-accounts associated with this Grant within the Park Bond Proceeds Fund. When compared to the City's detailed records, the federal dollars spent were reported correctly, however, the local matching dollars spent were inaccurate as detailed in the following table:

Report	Local Funds Per Report	Local Funds Per Records	Difference
1st Quarter	\$ 210,339.50	\$ 232,528.50	\$ (22,189.00)
2nd Quarter	257,566.04	285,418.54	(27,852.50)
Final	300,243.39	302,916.89	(2,673.50)

The City was not in compliance with the reporting requirements for this program. Additionally, the City lacked the necessary internal controls to identify any discrepancies with the reporting or matching requirements. Failure to comply with these requirements could result in a loss of future funding.

2 CFR §215.21(b) States: "Recipients' financial management systems shall provide for the following. (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in § 215.52."

OMB Circular A-133 subpart C, Section .300(b) states:

"(The auditee shall) maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

We recommended the City develop and implement controls to ensure compliance with federal program requirements.

Deborah A. Longer
Clerk-Treasurer

"The Friendly City"

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The City of Hobart

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CORRECTIVE ACTION PLAN

Section II – Financial Statement Findings

FINDING 2012 – 1 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

Deleted Receipts:

The computer software used for financial transactions does allow for the deletion of receipts after a receipt is printed but before it is posted to allow for possible human errors when issuing receipts. The policy of the Clerk-Treasurer's office has been to account for those deleted receipts by keeping a file copy of each receipt, initialed by the issuing Clerk, in numerical order to account for each receipt. A "History Audit Report of Deleted Transactions" is to be printed each day to account for any variation. This was an internal control policy of the Clerk-Treasurer's office since the financial software was installed in 2006. The auditor's findings of gaps in the ledger pointed out the lack of oversight of staff activities to assure for proper explanations of invalid transactions that had been deleted.

Effective immediately, each deleted transaction must have either a copy of the deleted receipt with a written explanation as to why the transaction was invalid, initialed for oversight by both the Clerk deleting the receipt and either the Deputy Clerk or the Clerk-Treasurer, or a printed "Audit Report of Deleted Transactions" with the specific invalid transaction highlighted and a written explanation along with the oversight initials as described above. These steps are to be taken at the time the transaction is deleted and written explanations are to be placed into the file ledger of daily receipts in numerical order. The Accounts Receivable Clerk will verify the transactions are all present and accounted for as part of the daily duties to assure accountability of each numbered receipt. More direct oversight by the Clerk-Treasurer to assure that internal control policies are being followed by all staff will be instituted immediately.

Sanitary Adjustments:

The monthly sanitary sewer utility bills, based upon water usage information provided by the Indiana American Water Company and billed two months in arrears, have periodically required adjustments when water usage is inaccurate or excessive, resulting in overcharges or automatic penalties and interest being applied to the billing. The utility billing clerk makes the adjustments without oversight or approval once verifying the inaccuracy of the bill. On a case-by-case basis, the Clerk-Treasurer has presented specific requests to the Sanitary Board to waive or adjust bills if the customer dispute with the bill cannot be verified as incorrect.

Effective immediately, the utility billing clerk shall periodically provide the Hobart Sanitary Board with a list of all adjustments for consideration to allow for the Board's oversight in the monthly billing operations of the utility.

Signed: _____

Deborah A. Longer, Clerk-Treasurer

Date: _____

4/10/2013

Deborah A. Longer
Clerk-Treasurer

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CORRECTIVE ACTION PLAN

Section III – Federal Award Findings and Questioned Costs

FINDING 2012 – 2 – REPORTING (COMPLIANCE AND INTERNAL CONTROLS), MATCHING (INTERNAL CONTROLS)

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): DR2-09-136
Pass-Through Entity: Indiana Office of Community & Rural Affairs

As stated the certified grant administrator prepared the quarterly reports for review by the City Executive. The local matching funds were disbursed and recorded accurately in the detailed records of the fund, but not always shown on the quarterly reports during the correct quarter expensed. Additional local funds used for this project were also expended beyond the requirements of the matching funds and were not reported in the quarterly and close-out documents but were accurately reflected in the financial records of the City maintained by the Clerk-Treasurer.

To assure accurate current and complete disclosure of the financial results of each federally-sponsored project or program, the Clerk-Treasurer will request that the City Executive issue a directive to his Department Heads to provide to the Clerk-Treasurer a copy of any and all grant applications and related documents at the time of their submission for consideration to the federal programs; and to provide any and all required financial reports to the Clerk-Treasurer to allow review for accuracy prior to submittal to the federal program or agency under the requirements of the federal award.

Signed: 
Deborah A. Longer, Clerk-Treasurer

Date: 4/10/2013

CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on April 10, 2013, with Brian Snedecor, Mayor; Deborah Longer, Clerk-Treasurer; Jerry Herzog, President of the Common Council; and Susan Laba, Chief Deputy. The Official Response has been made a part of this report and may be found on pages 54 through 56.

The contents of this report were discussed on April 10, 2013, with William J. Longer, City Judge, and Holly Graham, Court Clerk. The Official Response has been made a part of this report and may be found on page 57.

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Clerk-Treasurer

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April 15, 2013

Indiana State Board of Accounts
302 W. Washington Street, Room E418
Indianapolis, IN 46204-2765

RE: Official Response to City of Hobart 2012 Audit

Internal Controls over Financial Transactions:

The City of Hobart has filed with the State Board of Accounts, a Corrective Action Plan regarding each of the items commented on in the report and implemented each plan prior to the exit conference with the field examiners. Discussions with the field examiners as to the effectiveness of proposed Corrective Action Plans were held prior to their implementation and the City of Hobart maintains that the corrective actions taken provide reasonable assurance that these procedures will prevent or detect material misstatements and safeguard all assets with these proper internal controls in place.

Overdrawn Cash Balances:

The audit report lists three funds with overdrawn cash balances as of December 31, 2012 and all of these were shown to have been continuously overdrawn for four or more years. These funds were used in past years for expenses that were expected to be reimbursed over time and the overdrawn cash balances were a result of the reimbursements not taking place within the fiscal year of the items expended. The City of Hobart utilizes inter-fund borrowing as needed to meet the ongoing expenses in all funds. At the end of the fiscal year, the inter-fund borrowing is paid back to the appropriate funds as required which meant that certain fund ended the year with a negative cash balance, showing a true picture of funds not yet received. The City of Hobart uses a "pooled cash" approach so that it will not overdraw individual funds while waiting for reimbursements or tax distributions. The overdrawn funds noted in the audit are neither an indicator of serious financial problems nor of any inappropriate diversion of funds.

Appropriations:

The report indicates two funds in which expenditures exceeded the budgeted appropriations. Both of these are a result of outstanding bills processed from the prior year and thought to have been charged to the prior year appropriations through encumbrances which would not have impacted or exceeded the current year budgeted appropriations. Internal processes have been put into place to assure that encumbrances

are being handled properly so the current budgeted appropriations are not exceeded in future years.

Temporary Transfer of Funds – Sanitary District:

The report correctly states that \$1.1 Million Dollars in funds were transferred out of the Wastewater Improvement Fund to the Sanitary District's Stormwater Fund. The purpose of this transfer was to enable the Sanitary District to address a number of necessary stormwater projects in 2010 for which there were no stormwater funds available. The City of Hobart began collecting a stormwater fee, clearly listed on the property tax bills beginning in November 2010, and receives distribution of these fees semi-annually from the County. In accordance with the Hobart Sanitary/Stormwater Board Resolution 2011-01, adopted May 19, 2011, the City has made semi-annual loan repayments of \$100,000 as each of the stormwater fee distributions are received from the County. The Resolution authorizes these payments through 2016 when the original transfer will be repaid in full. In the interim, this temporary transfer has allowed for a clearer tracking of funds being used for stormwater projects while not having to engage in expensive borrowing with extended interest charges and issuance fees to return the money to the Improvement Fund. Had borrowing from outside sources occurred, an increase to the user rates would have been necessary. The District submits that this was not a responsible alternative when the Improvement Fund monies were available and would not be immediately required for improvements to the Sanitary District system in the near future. The long-term financial plan of the District includes a complete restoration of the Improvement Fund from the stormwater fees by 2016.

Dual Opinion Format:

It is unclear at the time of writing this audit response whether the audit report will clearly show the reasoning for the dual opinion format being used for 2012 audits by the State Board of Accounts. The following information is provided here for the general public to allow greater understanding of the audit opinions issued for the City of Hobart.

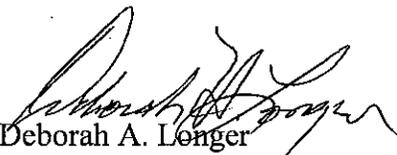
During the exit conference with the State Board of Accounts field examiners, it was noted that the State Board of Accounts is now issuing a GAAP (Generally Accepted Accounting Principles) opinion along with the (standard) regulatory opinion on the City's 2012 financial statements. This is a change from prior years and affects the City of Hobart in that we do not currently use a GASB 34 modified cash or accrual accounting method, which will automatically result in an adverse GAAP financial statement opinion to go with the normal regulatory opinion. It was explained that auditing standards require the State Board of Account to issue the dual opinion format.

The City of Hobart has consistently utilized a regulatory basis of accounting to comply with the requirements of financial reporting provisions of a governmental regulatory agency. For the State of Indiana, the governmental regulatory agency is the State Board of Accounts and the reporting entity is the local unit of government. The local units are required by law to submit through the Gateway System an annual financial report. Auditing standards do not allow for the entity auditing the financial statements to also be able to offer technical assistance in compiling or preparing the financial statements and

this system was instituted to allow for the State and the local units to compile financial statements and not affect the independence of the audit while meeting the regulatory requirements needed for an independent audit.

As a result of the differences between the regulatory basis of accounting as provided in the State's regulatory manual and Gateway System of reporting, and the GAAP accounting generally accepted throughout the United States, the adverse opinion is issued, showing the regulatory financial statements do not conform with GAAP. The use of the regulatory basis of accounting which are general purposes financials issued by local units through the Gateway System do not conform with the auditing standards required by GAAP. The State Board of Accounts will also be issuing a regulatory opinion that was communicated at the exit conference as "unqualified" (i.e. "clean") audit report. In this context "unqualified" means the auditor does not find it necessary to qualify his opinion about the fairness of the financial statements because the statements appear to be presented fairly and are free of material misstatements.

Conclusion: The administration of the City of Hobart continues to manage the fiscal responsibilities in an appropriate manner.



Deborah A. Linger
Clerk-Treasurer
City of Hobart, Indiana



HOBART CITY COURT
705 E. 4th Street, Suite C
HOBART, INDIANA 46342

William J. Longer, Judge

(219) 942-8218

April 17, 2013

Response to 2012 Audit Comments:

Hobart City Court has undertaken a thorough review of outstanding amounts reflected in the trust book, identifying disbursement entries that need to be made and funds which should be disbursed. Correcting entries and disbursement of funds will be made in 2013.

Funds held for over five years will be reviewed on a case by case basis in 2013 to determine which funds, if any, should be disbursed as abandoned or forfeited, or applied as ordered. Where appropriate, hearings will be scheduled. Docket entries will be made on those files where the Court determined that a legal justification exists not to treat the funds as forfeited or abandoned. Files where this determination has been made in the past have been assigned future court dates, to assure that the requirements of due process have been met.


William J. Longer
Judge, Hobart City Court