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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

CITY OF ELWOOD

MADISON COUNTY, INDIANA

January 1, 2012 to December 31, 2012

FILED
12/23/2013

TABLE OF CONTENTS

SCHEDULE OF OFFICIALS

Office	Official	Term
Clerk-Treasurer	Allison M. Atwood	01-01-12 to 12-31-15
Mayor	Honorable Ronald E. Arnold	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Honorable Ronald E. Arnold	01-01-12 to 12-31-15
President of the Common Council	Timothy A. Roby	01-01-12 to 12-31-13
Utility Office Manager	Lenora R. Frye	01-01-12 to 12-31-13

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF ELWOOD, MADISON COUNTY, INDIANA

We have examined the accompanying financial statement of the City of Elwood (City), for the year ended December 31, 2012. The financial statement is the responsibility of the City's management. Our responsibility is to express an opinion on the financial statement based on our examination.

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

As discussed in Note 1, 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 comprehensive 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 these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity 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.

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, on the basis of accounting described in Note 1.

Our examination 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 examination procedures applied to the financial statement and, accordingly, we express no opinion on them.

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

Paul D. Joyce, CPA
State Examiner

November 14, 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 ELWOOD
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 Fund	$ 793,076	$ 4,343,071	$ 4,229,988	$ 906,159
Motor Vehicles Highway Fund	538,758	675,614	914,589	299,783
Local Road & Street Fund	6	81,660	81,666	-
Sanitation User Fee Fund	173,421	485,552	346,242	312,731
Local Law Enforcement Training	30,100	8,446	22,782	15,764
Clerks Record Perpetuation Fnd	116,888	20,860	24,908	112,840
Riverboat Wagering Tax Rev Sha	114,776	51,029	4,500	161,305
Park & Recreation (Pool) Fund	59,712	77,615	133,099	4,228
User Fee-Law Enf Cont Education	4,817	6,982	7,069	4,730
Rainy Day Fund	75,288	-	-	75,288
K-9 Restricted Donation Fund	2,734	11,499	-	14,233
Economic Development Project	136,032	-	70,592	65,440
Slot Machine Wagering Fee Fund	246,433	422,497	529,876	139,054
Cumulative Capital Improvement	14,438	22,847	-	37,285
Cumulative Capital Development	12,677	75,370	39,643	48,404
Economic Dev Income Tax Fund	14,565	1,864	-	16,429
Economic Redevelopment Commission Fund	-	33,082	13,016	20,066
Non-Reverting Insurance Fund	168,356	1,610,820	982,452	796,724
Police Pension Fund	192,835	309,123	312,347	189,611
Fire Pension Fund	178,963	266,382	254,830	190,515
Court Costs Due County Fund	-	34,689	34,689	-
Program Income Fund	227,907	245,041	19,492	453,456
Ambulance Fees Non-Reverting	119,240	210,568	108,817	220,991
City Court	102,883	575,821	621,872	56,832
Self Insurance Reserve	10,910	903,151	761,653	152,408
2012 Capital Projects Fund	-	900,160	208,481	691,679
Police Gasoline Fund	-	6,237	4,165	2,072
Adult Probation Services Fund	7,112	107,547	108,541	6,118
Fire Dept Restricted Donations	1,294	-	-	1,294
Park Dept Restricted Donations	4,134	87,188	70,925	20,397
Dog Pound Restricted Donations	77	120	-	197
Elwood Grant Fund	20	-	-	20
Mccasa/Substance Abuse Grant	220	6,500	6,407	313
In Criminal Justice Inst Grant	45	-	-	45
Voca Grant 2008 In Crim Jus In	528	20,408	20,408	528
Traffic Enforcement	2,226	623	623	2,226
Supplmntal Pub Def Services Fd	10,032	4,225	4,000	10,257
Police Dept Restricted Donatio	1,331	671	1,251	751
Loit Public Safety	165,029	375,124	292,863	247,290
Non-Reverting Ins Pensioners	50,631	-	4,073	46,558
Municipal Complex Lease Fund	17,352	548,874	555,030	11,196
Payroll Fund	51,162	1,231,245	1,258,087	24,320
Wastewater Revenue Fund	490,153	1,644,771	1,914,143	220,781
Wastewater Bond & Interest Fnd	1,375	72,782	72,782	1,375
Wastewater Construction Fund	41,554	-	5,654	35,900
Wastewater Debt Reserve Fund	55,285	12,351	-	67,636
Water Operating Fund	1,753,154	1,082,548	1,328,552	1,507,150
Water Bond & Interest Fund	65,405	96,243	71,251	90,397
Water Depreciation Fund	243,469	-	-	243,469
Water Meter Deposit Fund	144,977	22,371	18,590	148,758
Water Cash Reserve Fund	150,000	-	-	150,000
Water Debt Service Reserve	48,248	36,186	-	84,434
Totals	$ 6,639,628	$ 16,729,757	$ 15,459,948	$ 7,909,437

The notes to the financial statement are an integral part of this 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, electric, gas, 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 Indiana 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, 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 and includes fees received for late payments.

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.

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.

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

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.

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.

The City also contributes to additional pension plans unique to the City. Information regarding these plans may be obtained from the City.

Note 7. Holding Corporation

The City has entered into a capital lease with Elwood Public Building Corporation. The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during the year 2012 totaled $555,030.

Note 8. Other Postemployment Benefits

The City provides to eligible retirees and their spouses medical benefits. The City of Elwood pays for 50 percent of their monthly health insurance premium. 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 Reports for years prior to 2011 can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the City's Annual Report information for years 2011 and later 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 examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

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

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

	General Fund	Motor Vehicles Highway Fund	Local Road & Street Fund	Sanitation User Fee Fund	Local Law Enforcement Training	Clerks Record Perpetuation Fnd	Riverboat Wagering Tax Rev Sha
Cash and investments - beginning	$ 793,076	$ 538,758	$ 6	$ 173,421	$ 30,100	$ 116,888	$ 114,776
Receipts:							
Taxes	2,177,279	396,796	-	-	-	-	-
Licenses and permits	76,619	-	-	-	6,185	-	-
Intergovernmental	1,558,969	269,568	81,660	-	-	-	51,029
Charges for services	58,706	2,430	-	485,552	515	-	-
Fines and forfeits	81,014	-	-	-	-	20,860	-
Utility fees	-	-	-	-	-	-	-
Other receipts	390,484	6,820	-	-	1,746	-	-
Total receipts	4,343,071	675,614	81,660	485,552	8,446	20,860	51,029
Disbursements:							
Personal services	3,066,619	607,119	-	-	-	-	-
Supplies	142,589	82,493	-	-	15,887	2,775	-
Other services and charges	980,321	224,977	81,666	-	5,577	15,728	4,500
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	20,796	-	-	-	1,318	6,405	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	19,663	-	-	346,242	-	-	-
Total disbursements	4,229,988	914,589	81,666	346,242	22,782	24,908	4,500
Excess (deficiency) of receipts over disbursements	113,083	(238,975)	(6)	139,310	(14,336)	(4,048)	46,529
Cash and investments - ending	$ 906,159	$ 299,783	$ -	$ 312,731	$ 15,764	$ 112,840	$ 161,305

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

	Park & Recreation (Pool) Fund	User Fee-Law Enf Cont Education	Rainy Day Fund	K-9 Restricted Donation Fund	Economic Development Project	Slot Machine Wagering Fee Fund	Cumulative Capital Improvement
Cash and investments - beginning	$ 59,712	$ 4,817	$ 75,288	$ 2,734	$ 136,032	$ 246,433	$ 14,438
Receipts:							
Taxes	67,009	-	-	-	-	422,497	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	8,842	-	-	-	-	-	22,847
Charges for services	1,550	-	-	-	-	-	-
Fines and forfeits	-	6,982	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	214	-	-	11,499	-	-	-
Total receipts	77,615	6,982	-	11,499	-	422,497	22,847
Disbursements:							
Personal services	74,298	-	-	-	-	529,876	-
Supplies	27,135	-	-	-	-	-	-
Other services and charges	31,647	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	19	7,069	-	-	70,592	-	-
Total disbursements	133,099	7,069	-	-	70,592	529,876	-
Excess (deficiency) of receipts over disbursements	(55,484)	(87)	-	11,499	(70,592)	(107,379)	22,847
Cash and investments - ending	$ 4,228	$ 4,730	$ 75,288	$ 14,233	$ 65,440	$ 139,054	$ 37,285

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

	Cumulative Capital Development	Economic Dev Income Tax Fund	Economic Redevelopment Commission Fund	Non-Reverting Insurance Fund	Police Pension Fund	Fire Pension Fund	Court Costs Due County Fund
Cash and investments - beginning	$ 12,677	$ 14,565	$ -	$ 168,356	$ 192,835	$ 178,963	$ -
Receipts:							
Taxes	66,262	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	9,108	1,864	-	-	308,948	266,382	-
Charges for services	-	-	10,000	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	34,689
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	23,082	1,610,820	175	-	-
Total receipts	75,370	1,864	33,082	1,610,820	309,123	266,382	34,689
Disbursements:							
Personal services	-	-	-	-	312,193	254,676	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	13,016	-	154	154	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	39,643	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	982,452	-	-	34,689
Total disbursements	39,643	-	13,016	982,452	312,347	254,830	34,689
Excess (deficiency) of receipts over disbursements	35,727	1,864	20,066	628,368	(3,224)	11,552	-
Cash and investments - ending	$ 48,404	$ 16,429	$ 20,066	$ 796,724	$ 189,611	$ 190,515	$ -

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

	Program Income Fund	Ambulance Fees Non-Reverting	City Court	Self Insurance Reserve	2012 Capital Projects Fund	Police Gasoline Fund	Adult Probation Services Fund
Cash and investments - beginning	$ 227,907	$ 119,240	$ 102,883	$ 10,910	$ -	$ -	$ 7,112
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	245,041	-	-	-	-	-	-
Charges for services	-	210,568	-	-	-	6,237	-
Fines and forfeits	-	-	-	-	-	-	107,547
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	575,821	903,151	900,160	-	-
Total receipts	245,041	210,568	575,821	903,151	900,160	6,237	107,547
Disbursements:							
Personal services	-	42,350	-	-	-	-	78,640
Supplies	-	16,114	-	-	-	-	779
Other services and charges	-	24,699	-	-	-	-	28,570
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	25,654	-	-	208,481	-	212
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	19,492	-	621,872	761,653	-	4,165	340
Total disbursements	19,492	108,817	621,872	761,653	208,481	4,165	108,541
Excess (deficiency) of receipts over disbursements	225,549	101,751	(46,051)	141,498	691,679	2,072	(994)
Cash and investments - ending	$ 453,456	$ 220,991	$ 56,832	$ 152,408	$ 691,679	$ 2,072	$ 6,118

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

	Fire Dept Restricted Donations	Park Dept Restricted Donations	Dog Pound Restricted Donations	Elwood Grant Fund	Mccasa/Substance Abuse Grant	In Criminal Justice Inst Grant	Voca Grant 2008 In Crim Jus In
Cash and investments - beginning	$ 1,294	$ 4,134	$ 77	$ 20	$ 220	$ 45	$ 528
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	6,500	-	20,408
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	87,188	120	-	-	-	-
Total receipts	-	87,188	120	-	6,500	-	20,408
Disbursements:							
Personal services	-	-	-	-	6,407	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	70,925	-	-	-	-	20,408
Total disbursements	-	70,925	-	-	6,407	-	20,408
Excess (deficiency) of receipts over disbursements	-	16,263	120	-	93	-	-
Cash and investments - ending	$ 1,294	$ 20,397	$ 197	$ 20	$ 313	$ 45	$ 528

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

	Traffic Enforcement	Supplmntal Pub Def Services Fd	Police Dept Restricted Donatio	Loit Public Safety	Non-Reverting Ins Pensioners	Municipal Complex Lease Fund
Cash and investments - beginning	$ 2,226	$ 10,032	$ 1,331	$ 165,029	$ 50,631	$ 17,352
Receipts:						
Taxes	-	-	-	-	-	384,836
Licenses and permits	-	-	-	-	-	-
Intergovernmental	525	-	-	375,124	-	64,038
Charges for services	-	-	-	-	-	100,000
Fines and forfeits	98	4,225	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	671	-	-	-
Total receipts	623	4,225	671	375,124	-	548,874
Disbursements:						
Personal services	623	-	-	292,863	-	-
Supplies	-	-	-	-	-	5,000
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	550,030
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	4,000	1,251	-	4,073	-
Total disbursements	623	4,000	1,251	292,863	4,073	555,030
Excess (deficiency) of receipts over disbursements	-	225	(580)	82,261	(4,073)	(6,156)
Cash and investments - ending	$ 2,226	$ 10,257	$ 751	$ 247,290	$ 46,558	$ 11,196

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

	Payroll Fund	Wastewater Revenue Fund	Wastewater Bond & Interest Fnd	Wastewater Construction Fund	Wastewater Debt Reserve Fund	Water Operating Fund
Cash and investments - beginning	$ 51,162	$ 490,153	$ 1,375	$ 41,554	$ 55,285	$ 1,753,154
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	1,637,890	-	-	-	1,073,461
Other receipts	1,231,245	6,881	72,782	-	12,351	9,087
Total receipts	1,231,245	1,644,771	72,782	-	12,351	1,082,548
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	122,485	-	-	-	41,023
Utility operating expenses	-	1,626,525	-	5,654	-	1,130,100
Other disbursements	1,258,087	165,133	72,782	-	-	157,429
Total disbursements	1,258,087	1,914,143	72,782	5,654	-	1,328,552
Excess (deficiency) of receipts over disbursements	(26,842)	(269,372)	-	(5,654)	12,351	(246,004)
Cash and investments - ending	$ 24,320	$ 220,781	$ 1,375	$ 35,900	$ 67,636	$ 1,507,150

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

	Water Bond & Interest Fund	Water Depreciation Fund	Water Meter Deposit Fund	Water Cash Reserve Fund	Water Debt Service Reserve	Totals
Cash and investments - beginning	$ 65,405	$ 243,469	$ 144,977	$ 150,000	$ 48,248	$ 6,639,628
Receipts:						
Taxes	-	-	-	-	-	3,514,679
Licenses and permits	-	-	-	-	-	82,804
Intergovernmental	-	-	-	-	-	3,290,853
Charges for services	-	-	-	-	-	875,558
Fines and forfeits	-	-	-	-	-	255,415
Utility fees	-	-	22,148	-	-	2,733,499
Other receipts	96,243	-	223	-	36,186	5,976,949
Total receipts	96,243	-	22,371	-	36,186	16,729,757
Disbursements:						
Personal services	-	-	-	-	-	5,265,664
Supplies	-	-	-	-	-	292,772
Other services and charges	-	-	-	-	-	1,411,009
Debt service - principal and interest	-	-	-	-	-	550,030
Capital outlay	-	-	-	-	-	466,017
Utility operating expenses	-	-	18,590	-	-	2,780,869
Other disbursements	71,251	-	-	-	-	4,693,587
Total disbursements	71,251	-	18,590	-	-	15,459,948
Excess (deficiency) of receipts over disbursements	24,992	-	3,781	-	36,186	1,269,809
Cash and investments - ending	$ 90,397	$ 243,469	$ 148,758	$ 150,000	$ 84,434	$ 7,909,437

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

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	$ 82,735	$ 239,016
Water	32,321	122,897
Governmental activities	95,224	123,348
Totals	$ 210,280	$ 485,261

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

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Elwood Public Building Corporation	First Mortgage Refunding Bonds Series 2011 - Municipal Complex Lease	$ 555,030	10-06-11	02-01-26
Total of annual lease payments		$ 555,030		

Description of Debt			
Type	Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	General Obligation Bond Series 2012 - Capital Improvement Bond	$ 900,000	$ 148,284
Wastewater:			
Revenue bonds	Sewage Works Revenue Bonds of 2005	115,000	15,185
Revenue bonds	Sewage Works Revenue Bonds of 2008	454,000	56,700
Total Wastewater		569,000	71,885
Water:			
Revenue bonds	Waterworks Revenue Bonds Series 2009	1,227,000	96,350
Totals		$ 2,696,000	$ 316,519

CITY OF ELWOOD
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	$ 742,960
Infrastructure	12,683,771
Buildings	8,245,653
Improvements other than buildings	775,351
Machinery, equipment, and vehicles	2,775,021
Total governmental activities	25,222,756
Wastewater:	
Land	2,698
Infrastructure	8,883,063
Buildings	7,130,000
Machinery, equipment, and vehicles	279,642
Construction in progress	70,000
Total Wastewater	16,365,403
Water:	
Land	86,904
Infrastructure	8,699,765
Buildings	5,202,127
Machinery, equipment, and vehicles	623,631
Total Water	14,612,427
Total capital assets	$ 56,200,586

CITY OF ELWOOD
OTHER REPORT

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

City Court

FUND SOURCES AND USES

Disbursements were made from the Water and Wastewater Utility Funds for expenses that were not directly related to the operations of the Utilities or were not based on reasonable allocation methods as described below:

- Payments for contractual services totaling $48,300 made to Alan Moore, LLC, for economic development purposes were paid completely from Water (50 percent) and Wastewater (50 percent) Funds. Payments to this contractor began in June 2012. Invoices presented for payment indicated the following services were provided: general economic development, grant consulting, inspect and manage tax properties, neighborhood revitalization consulting, and manage Elwood redevelopment.

- Payments for contractual services of $250 a month, totaling $1,500, made to Master Productions/Jeff Howe for the monthly City newsletter were paid completely from Water (50 percent) and Wastewater (50 percent) Funds. Payments to this contractor began in July 2012. The newsletter contains general information about the City, community activities, and contact information for various departments.

- Payments for contractual services totaling $60,808 made to Beam, Longest, and Neff for sanitary sewer study analysis were paid from the Water Utility Fund, but should have been paid from the Wastewater Utility Fund. Payments to this contractor began in August 2012. Invoices presented for payment stated "as needed engineering services" for "sanitary sewer study analysis."

- Payments for contractual services totaling $30,975 made to Wabash Scientific/Michael Shaver for economic development and various other services were paid entirely from Water and Wastewater Funds. Payments to this contractor were made in August and September 2012. Invoices presented for payment indicated the following services were provided: economic development, TIF, tax abatements, CSO, vacant properties, U.S. census, household median income, and neighborhood stabilization.

- Payments for contractual services totaling $10,000 made to Ingraham & Associates, Inc., for economic development purposes related to Asian marketing were paid entirely from Water (50 percent) and Wastewater (50 percent) Funds. Payments to this contractor began in September 2012. Invoices presented for payment of these services simply stated that they were for "Asian marketing." In addition to the Asian marketing services, the Utilities also paid a portion of the airfare for a trip to Japan in 2012 for the Mayor and the Asian marketing consultant. The Water and Wastewater Funds each paid $902, which was approximately 33 percent of the cost allocated to each Utility.

- Two payments for financial consulting services totaling $3,000 were paid to Reedy Financial Group from Water (50 percent) and Wastewater (50 percent) Funds. Invoices presented for payment indicated the following services were provided: budget, financial analysis, administrative, tax impact, economic development, TIF expansion, property taxation, and analysis of TIF funding.

- During 2012, the City had two maintenance personnel that perform job duties for the City and Utilities based on repairs and maintenance as needed. The salary for one of the employees was not reasonably prorated between funds. The maintenance supervisor's salary was prorated to the City, Water, and Wastewater evenly. However, the other maintenance employee was paid from only Water (50 percent) and Wastewater (50 percent) Funds.

- Payments totaling $1,506 in 2012 were made from the Water and Wastewater Utilities to refurbish and purchase a new "Welcome to Elwood" and "Mayor" signs to be posted near City limits. This represents a 33 percent allocation to each Utility for the cost of the City signs.

- A computer, printer, software, and accessories totaling $3,450 were purchased for the Mayor's office and paid for with only Water (50 percent) and Wastewater (50 percent) Funds.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 8-1.5-3-8 governing water utilities states:

"(b) The rates and charges made by a municipality for a service rendered or to be rendered, either directly or in connection therewith, must be nondiscriminatory, reasonable, and just.

(c) Reasonable and just rates and charges for services" means rates and charges that produce sufficient revenue to:

(1) pay all the legal and other necessary expenses incident to the operation of the utility . . ."

Indiana Code 36-9-23-25 governing wastewater utilities states:

"(b) Just and equitable fees are the fees required to maintain the sewage works in sound physical and financial condition necessary to render adequate and efficient service. The fees must be sufficient to:

(1) pay all expenses incident to the operation of the works . . ."

SUPPORTING DOCUMENTATION - TRAVEL EXPENSES

On December 27, 2012, the City reimbursed the Elwood Community Development Corporation $7,000 for a cash advance that was provided to the Mayor for a trip to Japan. The Mayor provided travel expense reports for himself and the Asian marketing consultant who accompanied him on the trip for examination. The reports included expenses totaling $7,543.36. However, numerous items that appeared on the travel expense reports were not reimbursable according to the travel policy or were not supported by original receipts. According to the City's travel policy, only those expenses detailed within the travel policy will be reimbursed and receipts for each expense on the travel report should be attached. The chart below provides information regarding the questionable travel items. Most expenses were paid in Japanese currency (yen) and required conversion to U.S. dollars.

Date	Amount		Payee	Description of Purchase (if any)
Items Not Listed in Travel Policy:				
Mayor's Expense Report:				
11-07-12 to 11-16-12	$ 257.04		Various	Personal care items, Internet, Laundry
Consultant's Expense Report:				
11-10-12 to 11-15-12	235.14	*	Hotel New Otani	Internet, Laundry
Totals	$ 492.18			
Items Without Supporting Documentation or Original Receipts:				
Mayor's Expense Report:				
11-10-12 to 11-17-12	$ 1,154.63	*	Unidentified	Meals (breakfast, lunch, dinner)
11-10-12 to 11-17-12	373.31	*	Unidentified	Transportation (taxis, buses, etc.)
11-10-12 to 11-17-12	385.00	*	Unidentified	Tips and Gratuities
11-10-12 to 11-17-12	164.56		Unidentified	Post trip meeting expenses
11-10-12 to 11-17-12	150.00		Verizon	Data charges
Totals	$ 2,227.50			

*Paid for with Japanese currency (yen), amount converted to US dollars.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (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)

INADEQUATE SUPPORTING DOCUMENTATION

A test of claims identified deficiencies in supporting documentation for several claims. Of the claims tested for 2012, 8 percent did not have adequate supporting documentation. Several claims included invoices that only had vague or generic descriptions of services or goods purchased on the invoice and did not include an itemization of the actual services performed or goods received. The following is a description of the disbursements that did not have adequate supporting documentation:

- Monthly invoices presented for payment of contractual services from Master Productions/Jeff Howe and Alan Moore, LLC contained the same generalized language on each monthly invoice and did not detail the services actually provided. Payments to these contractors during 2012 totaled $30,250 and $48,345, respectively.

- A reimbursement to a council member for travel expenses was based on the personal credit card statement and not original itemized receipts. Receipts were only presented for travel expenses paid with cash. Travel expenses not supported by original itemized receipts totaled $1,705.

- An invoice from Renewed Performance for $9,592 was not itemized and simply stated "equip one command truck per proposal."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANNUAL REPORT

The Annual Report submitted by the City contained errors and did not properly reflect the financial activity of the City. The City sends money to their health administrator to pay medical claims on behalf of the City. The City changed health administrators during 2012. The City reported the activity and cash balance of the previous health administrator for 2012, but did not report the activity and cash balance of the new health administrator. Management of the City accepted adjustments to include this activity in the receipts, disbursements, and cash balances of the Health Insurance Reserve Fund. The receipts were increased $371,966; disbursements increased $302,167; and the ending cash balance increased $69,799 in the financial statement presented.

Indiana Code 5-11-1-4(a) states:

> "The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted monthly; however, the reconciliations for November and December did not balance by $533. The bank had $533 more than the Funds Ledger. The same unidentified variance of $533 is being carried in the 2013 reconciliations.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

APPROPRIATIONS

The records presented for examination indicated that disbursements for the Municipal Complex Lease Rental Fund were in excess of budgeted appropriations by $4,945. The approved budgeted for 2012 was not adequate to cover the required debt payments due in 2012.

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."

COMPENSATION AND BENEFITS - PAID TIME OFF

An employee received "paid time off" that was not authorized by salary ordinance or resolution. During 2012, the Mayor's office was closed, for reasons other than adopted holidays, on May 1, July 2, July 3, July 5, July 6, December 27, and December 28. The employee did not work on those days and received full payment without using any leave time. At the time of these occurrences, the employee only had accumulated sick leave and did not have any other type of leave available. The seven days of "paid time off" in 2012 amounted to a total of $637.07. The City has indicated that the employee will begin paying back this amount.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All types of employee benefits should be detailed in a written policy. Payments for expenses not authorized in a written policy cannot be allowed.

The board should adopt policies governing sick leave, vacation leave, and any other type of special leave. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECORD OF HOURS WORKED

The Police Department did not present time records for officers and dispatchers for January through June 2012. Therefore, we could not verify the hours reported and amounts paid for overtime and shift premiums for police officers tested during that period of time.

The Fire Department presented time records that were maintained on a monthly basis and included all firefighters and the days and hours each employee worked. The monthly record also included documentation for overtime and shift premiums. However, the time records were not certified by the employee or supervisor.

The time records presented for the Mayor's secretary for March through December 2012 were all signed and dated by the employee and Mayor on February 8, 2013. This indicates that the time records were not submitted to the Payroll Clerk at the time end of each pay (work) period.

A similar comment also appeared in prior Report B40821.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-11-9-4 requires that records be maintained showing which hours are worked each day for employees employed by more than one political subdivision or in more than one position by the same public agency. This requirement can be met by indicating the number of hours worked on each Employee's Service Record, General Form No. 99A and/or General Form No. 99B.

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form No. 99A, Employees' Service Record
General Form No. 99B, Employee's Earnings Record
General Form No. 99C, Employee's Weekly (work period) Earnings Record

General Form No. 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

CITY OF ELWOOD
EXIT CONFERENCE

The contents of this report were discussed on November 14, 2013, with Allison M. Atwood, Clerk-Treasurer; Honorable Ronald E. Arnold, Mayor; Timothy A. Roby, President of the Common Council; and Jim Wilson, City Attorney. The Official Response has been made a part of this report and may be found on pages 33 through 54.

City of Elwood

1505 South B Street • Elwood, Indiana 46036-2020
(765) 552-5076 • (765) 552-5718 Fax

November 25, 2013

State Board of Accounts

Indiana Government Center South

302 W. Washington Street, Room E418

Indianapolis, Indiana 46204-2765

RE: 2012 Audit Response

Dear Ladies/Gentlemen:

This document contains RESPONSES and a CORRECTIVE ACTION PLAN to the audit for The City of Elwood in 2012.

A. Regarding Supporting Documentation – Travel Expenses

The Board of Works reviewed and approved all of the 2012 Japan trip expenses and found all to be reasonable and necessary to carry out the goals, functions, and expectations of said trip for the City of Elwood. This includes all receipted and non-recited expenses.

The City of Elwood now has the complete itemized bill from Renewed Performance.

B. Regarding Fund Sources and Uses-

Please include City Attorney's July 25, 2013, responses to Interim Audit to this final 2012 audit.

C. Bank Account Reconciliations

City of Elwood

1505 South B Street • Elwood, Indiana 46036-2020
(765) 552-5076 • (765) 552-5718 Fax

The City of Elwood has made adjustments to fix this reconciliation problem with a receipt entry into the general fund.

D. Compensation and Benefits – Paid Time Off

The employees that received "paid time off" while office was closed will begin paying back the city what they had received.

E. Records of Time Off

Every department has been updating policies/contracts/ordinances to abide with the State Board of Accounts recommendations regarding time record keeping.

Sincerely,

Ron E. Arnold, Mayor

Allison M. Atwood, Clerk-Treasurer

BINGHAM, FARRER & WILSON
A PROFESSIONAL CORPORATION
ATTORNEYS AT LAW
1601 SOUTH ANDERSON STREET
P.O. BOX 494
ELWOOD, INDIANA 46036
TELEPHONE 765-552-9878/FACSIMILE 765-552-5496

MICHAEL E. FARRER
JAMES W. WILSON

MARK R. REGNIER
JEFFREY K. GRAHAM
JUSTIN K. CLOUSER

July 25, 2013

State Board of Accounts
Indiana Government Center South
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

RE: Interim Audit Dated March 13, 2013

Dear Ladies/Gentlemen:

For response to your concerns in the above Interim Audit, please find the responses to the indicated paragraphs.

PARAGRAPH 1. You had indicated concern that the Behm, Longest & Neff bills were paid 50% out of Water and 50% of Wastewater. As a result of your concern, the amount paid by the water utility will be reimbursed in the year 2013, with our increased water rate.

PARAGRAPH 2. <u>Alan Moore, LLC.</u> I would address your concerns will Alan Moore, LLC and his services rendered relative to the Utilities. First of all, the City is reallocating the LLC's expenses to:

A. 50% Elwood Redevelopment Commission;

B. 25% Wastewater Department; and

C. 25% Water Department.

Additionally, Mr. Moore has been directed to submit itemized statements for his activities. Alan Moore himself is not a related party to the Mayor or any other individuals in the City Administration. His work services to the City included the following:

A. Compiled a list of Tax B properties from records at the Courthouse;

B. Calculated the lost revenue for all Elwood related utilities and taxing units;

C. Built a spread sheet with the data;

D. Developed a presentation for public meetings that included staff from utilities and Elwood Redevelopment Commission;

E. Looked at commissioner owned properties which were not paying utilities and rated the properties based on condition and future utility revenue and city benefits;

F. Complied a new list of tax B properties from records at the court house;

G. Evaluated and ranked approximately 200 tax B properties on which many were not paying utilities;

H. Attended a meeting with the Madison County Commissioners and made a presentation to the Madison County Commissioners that the properties should be deeded to the City of Elwood. He was successful in assuring the Madison County Commissioners of the economic benefit to the City of Elwood and to the Elwood Utilities of transferring the properties directly to the Elwood Redevelopment Commission; and,

I. Supervised the process of deeding over $2,000,000 in property (based on assessed value) of which a high percentage were not paying utilities.

Mr. Moore also developed strategies to stabilize to ultimately increase the number of utility customers, as well as, decrease the amount of fees/rate delinquencies.

A. NEIGHBORHOOD/HOUSING/RESIDENTIAL REVITALIZATION INCREASING UTILITY REVENUES & CUSTOMERS

1. On a community-wide basis the number of wastewater utility customers was declining.

a. Further analysis determined that Elwood has an extraordinary number of tax delinquent parcels.

- Generally speaking, Elwood's population is roughly 8,500, with approximately 4,500-5,000 households.

- During 2012, the Madison County Auditor's office indicated that more than 1,500 parcels were tax delinquent at some level (25% to 35% of total);

- During 2012, the Madison County Auditor's office indicated that 578 parcels were chronically tax delinquent, owing more than $700,000 in property taxes (12%-15% of the total).

b. Analysis indicated a high correlation between tax delinquent parcels and parcels with unpaid sewer/water utility fees.

c. It was clear that tax delinquency and utility fee delinquency were closely correlated.

2. Analysis also suggested that properties purchased as part of the County's tax sale process were highly likely to become rental housing, and to again become delinquent in paying utility fees and property taxes.

3. The secondary impact of these tax delinquent properties was an expanding negative impact on the assessed property values of neighborhoods.

B. Consultants Shaver & Moore worked to develop a Neighborhood Revitalization Strategy with the following goals:

1. Generate greater control over the buyers/owners of tax delinquent properties.

2. Encourage more owner-occupied housing (reduce the incidence of rentals);

3. Create criteria for prospective owners to reduce the rate of tax and utility fee delinquency;

4. The negative impact of neighborhood blighting conditions also resulted in reduced neighborhood assessed values, further eroding the fiscal health of Elwood;

5. Implementation of this strategy was estimated to generate ~$1,000/year in new property taxes, as well as $800-$950/year in utility fees for each household restored;

6. In addition, by removing blighting conditions, neighborhood assessed values were enabled to stabilize (as well as property tax revenues to the City).

7. In 2012/13, the ERC was awarded ownership of 40+ parcels within the City for Neighborhood Revitalization (Alan Moore was specifically responsible for this initiative).

   a. If/when those 40+ parcels are restored to full neighborhood participation, the ERC projects that property tax revenues are estimated to increase by $50,000-$55,000/per year (some houses in excess of $100,000 in AV).

   b. If/when those 40+ parcels are restored to full neighborhood participation, the ERC projects that utility revenues are estimated to increase by $32,000-$40,000/per year.

8. Served as a liaison for the Elwood Utilities at the Elwood Redevelopment Commission Meetings.
9. Attended Elwood Board of Works meetings as required

10. Presented regular updates effecting the Elwood City Utilities at the meetings of the ERC, and Board of Works Regarding:

    - Flood Control
    - Non-paying customers
    - Utility Grant Opportunities

C. CSO Problem

1. Attended meetings with consultants and engineers to discuss options to solve the CSO problem as outlined in the agreed order

2. Visited potential CSO problem areas with the Utility Director, Engineers, and Consultants

3. Developed a plan with engineers, consultants and utility personnel to identified unauthorized storm water entry points

4. Identify grant opportunities to fund utility studies, and methods to confirm unauthorized entry points

- Consultants Shaver & Moore worked with City utility staff to find a number of specific problems which were not identified in the LTMP and which contributed disproportionately to the severity (and cost) of the LTMP recommendations related to sewer system improvements

    - Consultants Shaver & Moore, in cooperation with utility staff, identified undocumented sewer connections from the unincorporated area of West Elwood.

    - West Elwood sewer connections were physically visible in manholes along 1st Street.

    - Elwood utility records show no customers located in West Elwood.

    - Undocumented utility customers present a series of problems for the Elwood Utilities:

        - Construction of the undocumented sewer connections were not inspected and there is no certification of having met standards;

        - Undocumented connections generate no utility fees, while at the same time, consuming the sewer utility service and contributing to CSO violations;

        - Potentially as many as 100+ customers could feasibly have connected to the Elwood sewer system.

- Although a specific number of undocumented connections in West Elwood has not been established, yet, estimates of lost utility revenues run from $500 to $5,000 per month, or $6,000 to $60,000 per year, when this problem is rectified.

- Consultants Shaver & Moore recommended and developed an OCRA Planning Grant application to obtain additional engineering information related to the CSO flow contribution of the West Elwood undocumented connections.

- If the undocumented West Elwood connections are simply removed from the Elwood sewer system, the severity of the CSO problem would be reduced (as well as reducing the $25 million estimated cost of LTMP compliance).

D. Plastech

1. Identified potential revenue producing equipment in the building

2. Hired auction company to sell assets

3. Managed the packing and moving of assets which produced $43,000 in gross revenue for the Elwood Redevelopment Commission

   - In addition, consultants Moore & Shaver identified separate utility strategies focusing on short-term and long-term industrial development.

   - Elwood utilities had lost a significant number of large industrial utility customers, resulting in severe revenue constraints.

     - While there was a broad focus on industrial development and redevelopment, the abandoned Plas-tech facility was delinquent in both utility fees and property taxes.

     - Until Mayor Arnold made Plas-Tech a top priority for industrial redevelopment, the most viable 'plan' for the site was to donate the building and property to someone for use as a warehouse.

     - Consultants Shaver & Moore were assigned to develop a specific strategy related to redevelopment of the Plas-Tech site.

       - The goal was to attract skilled jobs with substantial wages/salaries.
       - To restore the site to the property tax rolls.
       - To re-establish the parcel as a major utility customer providing revenue to Elwood Utilities.

- In 2012-13, Elwood executed a deal to bring a major manufacturer to the Plas-Tech site;
    - as many as 150 employees;
    - more than half are skilled jobs;
    - a base AV of ~$900,000;
    - new investment of $2-$5 million;
    - producing custom utility truck bodies/panels.
    - although estimates vary, Plas-Tech is expected to generate $50,000 to $100,000 per year in utility consumption when the plant becomes fully productive.

E. Consulting with City Staff

1. Had weekly meetings with Elwood Economic Development Director on behalf of the utility department

2. Updated Utility Director on Economic Development issues that could impact the city

F. Housing Donations

1. Worked with financial institutions to obtain foreclosed non-utility properties, deeding the properties to the City of Elwood

2. Inspected potential properties and identified problems needing repaired.

3. Worked with potential investors who have an interest in purchasing the properties.

G. Flood Relief

1. Consulted with the Mayor and City Department Heads regarding the Flood relief efforts in the City of Elwood.

2. Met with the Long Term Recovery Team and assisted in developing a long term disaster plan to find areas to mitigate future flood disasters.

3. Met with representative from the Indiana Governor's Office to implement plans for a assistance and disaster relief for the victims of the flood.

Alan Moore brings vast experience in the public and private sector to both public and private section clients. Alan Moore, LLC provides marketing, planning, and other services to cities, counties, and other entities, to improve performance and boost revenue.

Alan Moore has extensive public service experience having worked as Operations Manager for David McIntosh which included media contacts, and managing the campaign budget. In 2000, Alan worked on the Congressional Campaign of Governor Mike Pence gaining valuable experience and contacts.

As Associate Project Director of the Governor's Strategic Skills Initiative (SSI) Alan Moore managed a 2 million dollar budget designed to create jobs through entrepreneurship. As part of SSI Mr. Moore managed projects including the following:

- Tech business plan writing to plant the seeds of entrepreneurship creating jobs and boosting Government revenue.
- Identify, support, and grow emerging industries such as Agri-Business.
- Target and provide financial support to emerging small-businesses for business planning and feasibility studying.

As a proven entrepreneur, Mr. Moore has help launch several companies including NOJAK Pumping solutions which manufactured pumps for the oil and gas industry. While at NOJAK Mr. Moore served as Business Development, Communications, and Marketing Director in addition to other duties. One of Mr. Moore's key roles was to position the product as a tool for removing water from gas and methane wells.

Mr. Alexander, as an employee of Alan Moore, LLC, brings with him a large volume of public sector knowledge. Mr. Alexander went to work for Alan Moore, LLC in March of 2012 as a Consultant specializing real estate and community development. He came to Alan Moore, LLC after having worked for the Small Business Administration as a Construction Analyst. During his tenure with the SBA, he worked in New York, Pennsylvania and Virginia assisting individuals, communities and businesses with SBA Construction Loans in response to major disasters.

Mr. Alexander is a business owner and real estate developer in Madison County. He is the managing member of real estate and land development companies; Alexander Bickel LLC, Job Development, and PAC Development He has been the project manager/developer of several projects in Madison County. He has worked with the Madison County Council of Government, and the State of Indiana with several rehab projects totaling of $3,000,000.00 , He is a former real estate appraiser, elected assessor and consultant for several business and elected officials.

From 2001 to 2007 Mr. Alexander worked on the staff of former Congressman and current Governor of Indiana Mike Pence. He served as the 6th Congressional District Director of Community Relations and spent most of his time consulting with elected officials and state legislators concerning community issues.

Mr. Alexander has over 37 years of business experience in the service and construction industry with includes ten years as an insurance agency owner and manager for Farmers Insurance Group and American National Insurance. In his management position he recruited trained and supervised 21 agents and 5 licensed investment advisors.

Mr. Alexander is a graduate of Indiana Wesleyan University earning a degree in Christian Ministries and Business Administration. He attended the Anderson University School of Theology and has taken several business and accounting related classes at IVY Tech. He continues to retain an insurance license as well as a securities license.

Wabash Scientific, Inc. The Water Department and Wastewater Department have directly ans substantially benefitted by the work and efforts of Wabash Scientific, Inc. Mike Shaver was the contact person with Wabash Scientific, Inc. Mr. Shaver is extensively recognized as an expert in Indiana on water, wastewater collection, wastewater treatment.

Upon inauguration, Mayor Arnold found the Agreed Order sitting on his desk. Soon afterward, IDEM began calling to determine whether the City would sign the Agreed Order. In consultation with Consultants Shaver & Moore, Mayor Arnold determined that there was a clear need for additional information to be developed on several levels, generally outline as follows:

A. STRATEGIES WERE NEEDED TO STABILIZE & ULTIMATELY INCREASE THE NUMBER OF UTILITY CUSTOMERS, AS WELL AS TO DECREASE THE AMOUNT OF FEE/RATE DELINQUENCY.

  1. NEIGHBORHOOD/HOUSING/RESIDENTIAL REVITALIZATION INCREASING UTILITY REVENUES & CUSTOMERS

     - On a community-wide basis the number of wastewater utility customers was declining.

       - Further analysis determined that Elwood has an extraordinary number of tax delinquent parcels.

         - Generally speaking, Elwood's population is roughly 8,500, with approximately 4,500-5,000 households.

      - During 2012, the Madison County Auditor's office indicated that more than 1,500 parcels were tax delinquent at some level (25% to 35% of total);

      - During 2012, the Madison County Auditor's office indicated that 578 parcels were **chronically** tax delinquent, owing more than $700,000 in property taxes (12%-15% of the total).

      - Analysis indicated a high correlation between tax delinquent parcels and parcels with unpaid sewer/water utility fees.

    - It was clear that tax delinquency and utility fee delinquency were closely correlated.

  - Analysis also suggested that properties purchased as part of the County's tax sale process were highly likely to become rental housing, and to again become delinquent in paying utility fees and property taxes.

  - The secondary impact of these tax delinquent properties was an expanding negative impact on the assessed property values of neighborhoods.

- Consultants Shaver & Moore worked to develop a Neighborhood Revitalization Strategy with the following goals:

  - Generate greater control over the buyers/owners of tax delinquent properties;

  - Encourage more owner-occupied housing (reduce the incidence of rentals);

  - Create criteria for prospective owners to reduce the rate of tax and utility fee delinquency;

  - The negative impact of neighborhood blighting conditions also resulted in reduced neighborhood assessed values, further eroding the fiscal health of Elwood;

- Implementation of this strategy was estimated to generate $1,000/year in new property taxes, as well as $800-$950/year in utility fees for each household restored;

- In addition, by removing blighting conditions, neighborhood assessed values were enabled to stabilize (as well as property tax revenues to the City); and,

- In 2012/13, the ERC was awarded ownership of 40+ parcels within the City for Neighborhood Revitalization (Alan Moore was specifically responsible for this initiative).

  - If/when those 40+ parcels are restored to full neighborhood participation, the ERC projects that property tax revenues are estimated to increase by $50,000-$55,000/per year (some houses in excess of $100,000 in AV);

  - If/when those 40+ parcels are restored to full neighborhood participation, the ERC projects that utility revenues are estimated to increase by $32,000-$40,000/per year.

2 INDUSTRIAL REVITALIZATION INCREASING UTILITY REVENUES & CUSTOMERS:

- In addition, consultants Moore & Shaver identified separate utility strategies focusing on short-term and long-term industrial development;

- Elwood utilities had lost a significant number of large industrial utility customers, resulting in severe revenue constraints.

  - While there was a broad focus on industrial development and redevelopment, the abandoned Plas-tech facility was delinquent in both utility fees and property taxes.

  - Until Mayor Arnold made Plas-Tech a top priority for industrial redevelopment, the most viable 'plan' for the site was to donate the building and property to someone for use as a warehouse.

  - Consultants Shaver & Moore were assigned to develop a specific strategy related to redevelopment of the Plas-Tech site.

- The goal was to attract skilled jobs with substantial wages/salaries.
- To restore the site to the property tax rolls.
- To re-establish the parcel as a major utility customer providing revenue to Elwood Utilities.
-

- In 2012-13, Elwood executed a deal to bring a major manufacturer to the Plas-Tech site;
  - as many as 150 employees;
  - more than half are skilled jobs;
  - a base AV of ~$900,000;
  - new investment of $2-$5 million;
  - producing custom utility truck bodies/panels;
  - although estimates vary, Plas-Tech is expected to generate $50,000 to $100,000 per year in utility consumption when the plant becomes fully productive.

3. ADDRESSING UTILITY FEE/RATE DELINQUENCY POLICIES

- As a result of the analytical work performed by consultants Moore & Shaver, it was found that Elwood's policies related to fee/rate delinquency were likely inadequate, compared to other communities.
  - Elwood's general policy with regard to delinquent fees was to forgive the fees (and lose the revenue)
  - In other communities, delinquent utility fees became a lien on the property, increasing the community's chances of recouping such fees.
  - The City is in the process of developing alternatives for more effective collection of delinquent utility fees.

- The fiscal impact of improved utility fee collections on the Elwood Utilities is not yet known.

4. ADDITIONAL STUDY OF CSO RECOMMENDATIONS AND ESTIMATED COSTS: WWTP

- Consultants Shaver & Moore, in cooperation with a broad range of city employees, elected officials and other professionals, determined that the LTMP was determined to be inadequate in its presentation of engineering evidence to substantiate the $35 million cost of the recommended alternative.

- The $35 recommended alternative was essentially divided into two distinct parts:

  - Upgrades to the WWTP totaling $10 million;

  - Upgrades to the sewer system totaling $25 million.

- After several months of data-gathering, Elwood hired Beam, Longest & Neff (BLN) engineers to study the WWTP and make recommendations to bring the WWTP into compliance with the Agreed Order.

  - As a result of BLN's studies, the WWTP was brought out of IDEM non-compliance and made fully operative;

  - As a result of BLN's studies, Elwood developed new alternatives for the WWTP which ranged in cost from $4 million to $7.5 million (a savings of $2.5 million to $6 million).

    - Elwood is now pursuing changes to the Agreed Order and amendment to the LTMP to reflect the reduced costs.

5. ADDITIONAL STUDY OF CSO RECOMMENDATIONS AND ESTIMATED COSTS: SEWER COLLECTION SYSTEM

- Consultants Shaver & Moore were assigned responsibility for developing additional information related to the LTMP recommendations for the Elwood sewer system.

- Consultants Shaver & Moore worked with City utility staff to find a number of specific problems which were not identified in the LTMP and which contributed disproportionately to the severity (and cost) of the LTMP recommendations related to sewer system improvements.

  - Consultants Shaver & Moore, in cooperation with utility staff, identified undocumented sewer connections from the unincorporated area of West Elwood;

  - West Elwood sewer connections were physically visible in manholes along 1st Street;

  - Elwood utility records show no customers located in West Elwood;

  - Undocumented utility customers present a series of problems for the Elwood Utilities:

    - Construction of the undocumented sewer connections were not inspected and there is no certification of having met standards;

    - Undocumented connections generate no utility fees, while at the same time, consuming the sewer utility service and contributing to CSO violations;

    - Potentially as many as 100+ customers could feasibly have connected to the Elwood sewer system.

  - Although a specific number of undocumented connections in West Elwood has not been established, yet, estimates of lost utility revenues run from $500 to $5,000 per month, or $6,000 to $60,000 per year, when this problem is rectified.

  - Consultants Shaver & Moore recommended and developed an OCRA Planning Grant application to obtain additional engineering information related to the CSO flow contribution of the West Elwood undocumented connections.

    - If the undocumented West Elwood connections are simply removed from the Elwood sewer system, the severity of the CSO problem would be reduced (as well as reducing the $25 million estimated cost of LTMP compliance).

- The West Elwood area was designated by consultants Shaver & Moore as a primary study target zone for the OCRA CFF Planning grant to remove/reduce stormwater impacts related to the $25 million commitment for sewer system improvements.

- Consultants Shaver & Moore also identified court records showing approximately 10+ extra-territorial sewer customers who objected to being removed/disconnected from the Elwood sewer system.

  - The court ordered the City to allow these undocumented connections to remain, but the City never moved to charge them user fees.

  - Those customers pay no sewer fees, thereby representing foregone utility revenues, despite consuming utility services and capacity.

  - The plaintiffs in this lawsuit admitted connecting to a field drainage tile along the back boundary of their property, which was also undocumented.

  - Connecting field drainage tiles to a municipal sewer system is believed to be illegal.

    - In addition to whatever sewage is contributed by the lawsuit plaintiffs, the undocumented connection of a field drainage tile to the Elwood sewer system contributed to the severity of the CSO problem and increases LTMP compliance costs.

- The research of consultants Shaver & Moore leaves Elwood with multiple alternatives related to this lawsuit and the undocumented sewer customers connected to this field tile:

  - Disconnect the field tile from the Elwood sewer system (this alternative was previously attempted and was lost in court, but the new case would be prosecuted under different law).

      - Demand that the farmer who owns the field tile as well as the residential customers connected to the field tile, replace the field tile with a sewer that meets requirements at the expense of those property owners, as well as making those landowners customers of the sewer utility.

        - If 'back fees' could be charged the city should consider making this request/demand.

    - Make the undocumented customers connected to this field tile customers of both the city sewer utility, as well as customers of its stormwater utility and charges them fees proportionate to their contribution to both the CSO and the stormwater problem.

      - This could include "outside city" utility surcharges.

    - Regardless of the alternative (above) selected, consultants Shaver & Moore factually demonstrated that utility fees were not charged, despite receiving the utility services.

      - Therefore, the implementation of any selected alternative (above) would result in either an increase in utility revenues, or a reduction in LTMP compliance costs.

- The service area of this lawsuit was designated by consultants Shaver & Moore as a primary study target zone for the OCRA CFF Planning grant to remove/reduce stormwater impacts related to the $25 million commitment for sewer system improvements.

- Consultants Shaver & Moore also worked with utility staff to identify the undocumented connection of an entire field (estimated 20-100 acres) connected to the Elwood sewer system in the Fairgrounds Road area.

    - This field is drained into the Elwood sewer system by installation of a culvert under Fairgrounds Road to a beehive connected to the Elwood system.

    - Engineers have preliminarily estimated that this single stormwater connection could be responsible for as much as 10% of the entire amount of CSO for the north side of Elwood.

    - Again, this undocumented connection pays no revenue to Elwood utilities, despite receiving services.

    - Again, the removal of this undocumented sewer connection clearly increases the severity of CSO and increases the cost of LTMP compliance.

    - Assuming a 5%-10% CSO impact (in accordance with preliminary engineering estimates), this single undocumented connection could save Elwood utilities (and its customers) $1 million to $2.5.

    - The Fairgrounds Road area was designated by consultants Shaver & Moore as a primary study target zone for the OCRA CFF Planning grant to remove/reduce stormwater impacts related to the $25 million commitment for sewer system improvements.

- Consultants Shaver & Moore undertook detailed review of current and historic sewer system maps to identify areas of inconsistency and stormwater intrusion in the Shafer Farms area.

    - The Shafer Farms area was initially identified by a City Councilor who cited the area as one where substantial stormwater impact was initiated.

    - Shafer Farms is a tract of land currently used for agricultural crops, which appears to have previously been platted as a residential subdivision.

    - The entire plot is underlain with sewers, but which has no documented sewer customers (thereby generating $0 in revenue, while requiring full annual maintenance).

    - The Shafer Farms area was designated by consultants Shaver & Moore as a primary study target zone for the OCRA CFF Planning grant to remove/reduce stormwater impacts related to the $25 million commitment for sewer system improvements.

- As a result of ongoing consultation with Elwood utility staff, consultants Shaver & Moore assisted the staff in increasing awareness of visual evidence of undocumented sewer connections which increase LTMP compliance costs.

  - As a result of recent floods, utility staff identified sinkholes in fields in the northeast extremities of the city, indicating that additional undocumented field tiles are connected to the Elwood sewer system.

  - The identified sinkhole areas are also anticipated to be a primary study target zone for the OCRA CFF Planning grant to remove/reduce stormwater impacts related to the $25 million commitment for sewer system improvements.

- While final estimates cannot be developed until the CFF Planning grant studies are completed, is has been suggested that the sum of the impact from the study target zones could result in a $5-$10 million reduction in the cost of sewer system improvements contained in the Agreed Order.

  - An impact of $5-$10 million in sewer system cost reduction as a result of a $50,000 CFF Planning grant represents a "Return on Investment" of $100-$200 for every study dollar invested.

6. ACCESSING GRANT FUNDS TO LEVERAGE CITY RESOURCES

- The City also set a goal of improving its capacity to leverage its own funds through acquisition of state and federal grants.

- Alan Moore completed training as an OCRA grant administrator and initiated the effort to qualify the City for an OCRA grant to study the CSO issue and reduce CSO compliance costs.

- After development of the detailed sewer system information related to undocumented sewer connections, Alan Moore developed a preliminary OCRA planning grant application and met with OCRA staff to discuss the planning The OCRA planning grant application.

  - As a result of those meetings, the OCRA application was revised.

  - The City is now considering allowing the OCRA grant to be finalized and administered by the Council of Governments.

  - The City will provide $5,000-$10,000 in matching funds, and received grant funds of $40,000-$50,000.

7. SUMMARY OF OUTCOMES RESULTING FROM THE UTILITY POLICY INVESTIGATION OF CONSULTANTS MOORE & SHAVER

- The Neighborhood Revitalization Strategy has resulted in a long-term program for increasing the number of utility customers and reducing the amount of utility revenues lost to delinquency.

- The redevelopment of the Plas-Tech site as a taxpaying and utility-paying corporate citizen of Elwood will ultimately provide Elwood with 150 new jobs, more than $2 million in new assessed value, and $50,000-$100,000 in new utility revenue.

- The coordinated effort to re-examine the CSO/LTMP compliance recommendations has saved Elwood taxpayers $2.5-$6 million in WWTP improvement costs.

- The coordinated effort to re-examine the CSO/LTMP compliance recommendations for the sewer system will be more fully quantified as a result of the OCRA CFF Planning Grant.

    - The CFF Planning grant, alone, saves the City $40,000-$50,000 in study costs.

    - The extent of undocumented sewer connections already discovered would be estimated to save Elwood's taxpayers $2-$5 million.

    - Additional discovery of undocumented sewer connections as a result of the CFF Planning work could easily represent multiples of the undocumented connections discovered through staff coordination and field examination.

PARAGRAPH 3. Concerning the business discussed about inservice days and employees being paid for not being at work. I am advised this was not the case at the time; however, the actual inservice policy was not in place when the interim audit was conducted. As such, the City has passed a policy which specifically discusses the nature of an "inservice day" and it clearly states that employees will still be at work during their inservice.

PARAGRAPH 4. The Mayor's fuel purchases are now being allocated as follows:

A. 25% to Street Department;

B. 25% to Police Department;

C. 25% to Water Department; and,

D. 25% to Wastewaster Department.

The Mayor goes out on all types of street department issues, police issues, water issues and wastewater issues. The City believes the above allocation is correct.

PARAGRAPH 5. Exception is taken to your determination of proper expense allocation of Wastewater and Water as it relates to the Mayor's Japanese Economic Development trip. First of all, the trip was funded as follows:

A. Elwood Redevelopment Commission...$7,000.00;

B. Wastewater....$5,901.77; and

C. Water Dept... $,5901.77.

This is a reasonable allocation of the expenses based on the purposes of the Japanese trip. Clearly, the City has suffered significant decline in jobs in the community and the closure of major factories here in the City. The closure of those factories without reinvestment has significantly and negatively impacted the Utility Department's income and has also caused increased unemployment, loss of asset base, and decreased spending in the City. Any money expended by the City or privately for the creation or retention of business will directly benefit the Wastewater Department and Water Department. There will also be benefit to the City in general. Therefore, the above allocation is deemed reasonable.

PARAGRAPH 6. The maintenance employees are part of the Utility Department. Any lack of previous documentation to that fact has now been corrected.

PARAGRAPH 7. The City has now passed a Vehicle and Fuel Card Use Policy, a Personal Use Ordinance, and a Cell Phone Policy. All of the policies properly contain language for personal use and the possible reporting thereof for income tax purposes.

Sincerely,

BINGHAM, FARRER & WILSON, P.C.

JAMES W. WILSON

JWW:sb