



H. J. Umbaugh & Associates  
Certified Public Accountants, LLP  
8365 Keystone Crossing  
Suite 300  
PO. Box 40458  
Indianapolis, IN 46240-0458  
Phone: 317-465-1500  
Fax: 317-465-1550  
[www.umbbaugh.com](http://www.umbbaugh.com)

February 13, 2012

Ms. Fonda Owens, Director  
La Porte County Public Library  
904 Indiana Avenue  
La Porte, Indiana 46350

Re: Financial Management Report

Dear Ms. Owens:

The attached schedules (listed below) present unaudited and limited information for the purpose of discussion and consideration in the preliminary financial analysis by the appropriate officers, officials and advisors of the La Porte County Public Library (the "Library"). The use of these schedules should be restricted to this purpose, for internal use only, as the information is subject to future revision and final report.

Page

3	Executive Summary
4 – 7	General Comments
8 – 9	Analysis and Recommendations

**PRO FORMA FINANCIAL INFORMATION**

10	Comparison of 2011 Budget to Actual
11	Schedule of Pro Forma Receipts and Disbursements – General Fund

**ACTUAL AND ESTIMATED CASH FLOWS – SELECTED FUNDS: SCENARIO #1**

12	Assumptions for Estimated Cash Flows (2011 – 2014)
13	General Fund (#1)
14	Lease Rental Payment Fund (#2)
15	Library Improvement Reserve Fund (#3)
16	Capital Projects Fund (#11)
17	Rainy Day Fund (#12)
18	Other Special Revenue Funds (Donations, Endowment, Levy Excess and Investment Funds)

Ms. Fonda Owens, Director  
La Porte County Public Library  
February 13, 2012  
Page 2

**ACTUAL AND ESTIMATED CASH FLOWS – SELECTED FUNDS: SCENARIO #1 (CONT'D)**

- 19      Summary of Estimated Final Settlement
- 20 – 21    Calculation of Estimated Final Settlement – General Fund
- 22      Calculation of Estimated Final Settlement – Lease Rental Payment Fund

**ACTUAL AND ESTIMATED CASH FLOWS – SELECTED FUNDS: SCENARIO #2**

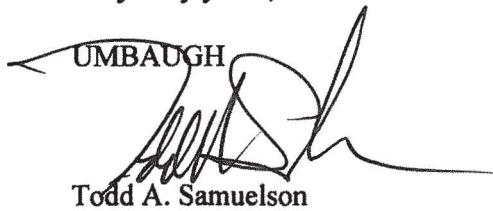
- 23      Assumptions for Estimated Cash Flows (2011 – 2014)
- 24      General Fund (#1)
- 25      Lease Rental Payment Fund (#2)
- 26      Library Improvement Reserve Fund (#3)
- 27      Capital Projects Fund (#11)
- 28      Rainy Day Fund (#12)
- 29      Other Special Revenue Funds (Donations, Endowment, Levy Excess and Investment Funds)
- 30      Summary of Estimated Final Settlement
- 31 – 32    Calculation of Estimated Final Settlement – General Fund
- 33      Calculation of Estimated Final Settlement – Lease Rental Payment Fund

**SUPPLEMENTAL INFORMATION**

- 34      Schedule of Amortization of \$655,000 Principal Amount of Outstanding First Mortgage Refunding Bonds, Series 1994
- 35      Estimated Debt Limitation Analysis

We would appreciate your questions or comments on this information and would provide additional information upon request.

Very truly yours,



The signature is handwritten in black ink. It includes the name "UMBAUGH" above a stylized, cursive signature. Below the signature, the name "Todd A. Samuelson" is printed in a smaller, sans-serif font.

## **LA PORTE COUNTY (INDIANA) PUBLIC LIBRARY**

### **EXECUTIVE SUMMARY**

Not unlike many taxing units in the State of Indiana, the La Porte County Public Library (the “Library”) is currently experiencing financial hardship. The major factors that have led to the current financial state of the Library are outside of its control. As is explained in greater detail in this document, one of the factors is Public Law 1001-2008, enacted by the Indiana General Assembly in 2008, which expanded property tax caps to all types of taxpayers and all types of taxable property. The resulting estimated Circuit Breaker Tax Credits will reduce the available property tax revenues available to fund the Library’s current operations.

The historical primary source of revenues to fund Library operations has been property taxes. Estimates from the Legislative Services Agency (“LSA”) dated December 31, 2011, put the loss to the Library at \$141,976 for 2011 pay 2012. This represents 4.0% of the Library’s primary source of revenue that cannot be recaptured. Future estimates provided by LSA show these credits growing. One remedy for partially replacing this revenue is through the implementation of Local Option Income Taxes. Implementation of Local Option Income Taxes rests solely with La Porte County. The Library has no authority to impose an income tax. To date, La Porte County officials have denied any request to pursue additional Local Option Income Taxes.

In addition to the permanent loss in revenue from the Circuit Breaker Tax Credits, the Library is experiencing temporary funding problems due to ongoing problems at the County with certifying Net Assessed Values, the related issuance of property tax bills, and collection of revenues and subsequent distributions to the Library and other government units. This is explained in greater detail in the General Comments section of this report. While it can be expected that most of these distributions will be received over time, the Library is expected to experience operational difficulties in dealing with these shortfalls. Additionally, the Library has no control as to when the issues at the County level will be resolved. The Library relies upon County Adjusted Gross Income Taxes and other miscellaneous state taxes and distributions to supplement its budget. Economic conditions outside of the Library’s control have led to a reduction in these sources of revenues as well. Furthermore, economic conditions have led to an increase in the amount of appeals to property tax bills and delinquencies in payments which have further reduced the amount of revenues available to the Library.

This report analyzes all funds of the Library to determine what recommended actions the Library can take in response to the factors explained above. Cuts in existing budgets will have to be made in order to continue to stay solvent and still provide adequate services to the public.

## **LA PORTE COUNTY (INDIANA) PUBLIC LIBRARY**

### **GENERAL COMMENTS**

#### ***PROPERTY TAX DISTRIBUTION ANALYSIS***

#### **BACKGROUND AND OVERVIEW**

In 2007, the Department of Local Government Finance (“DLGF”) reexamined all counties’ 2006 real property assessments (for pay 2007) after a reassessment order was issued to Marion County. In September of 2007 after a second review, the DLGF approved La Porte County’s 2006 assessments for pay 2007. (The assessments were initially approved in March of 2007.) In October of 2007, the same month that the DLGF issued the first 2007 Budget Order for La Porte County, a Long Beach homeowner requested that the DLGF initiate a reassessment because the 2007 ratio study was found to be non-compliant with IAAO standards according to an independent consultant. The DLGF subsequently started a review of La Porte County’s 2006 assessments for pay 2007.

In 2008, the DLGF held public hearings in March, April, and May on the accuracy, uniformity, and equity of La Porte County’s assessments for taxes payable in 2007. In May of 2008, the DLGF issued a La Porte County reassessment order finding sufficient cause to believe it necessary to reassess all or a portion of real property in La Porte County.

In January of 2009, the DLGF approved La Porte County’s ratio study for taxes payable in 2007. In April of 2009, the La Porte County Assessor certified trended 2006 assessed values to the County Auditor for the pay 2007 tax bills. The County Auditor believed that the trended assessed values were incorrect; therefore, he proceeded to certify 2005 assessed values for pay 2007 in July 2009 (despite objections from the DLGF). In August 2009 before issuing the 2007 1782 Notice, the DLGF changed the County Auditor certified assessed values of the cross county units to reflect the assessed values as originally certified in October of 2007. At the end of August 2009, the DLGF issued a revised 2007 Budget Order for La Porte County. In September of 2009, the DLGF approved the 2007 ratio study for taxes payable in 2008.

In May 2010, the Indiana Tax Court approved a settlement to use 2006 retrended assessed values for taxes payable in 2007. The settlement was the culmination of two lawsuits. One lawsuit was filed by the La Porte County Assessor against the La Porte County Auditor, the DLGF, the La Porte County Treasurer, the La Porte County Council, and the La Porte County Commissioners. The other lawsuit was filed by the Michigan City Area School Corporation, the City of Michigan City, and the Town of Long Beach against the DLGF, the La Porte County Auditor, and William Wendt (Long Beach homeowner). The DLGF issued a revised 2007 Budget Order on November 3, 2010. The most recent budget order was issued on November 2, 2011 and it is for the tax year 2008.

(Continued on next page)

## LA PORTE COUNTY (INDIANA) PUBLIC LIBRARY

(Cont'd)

### GENERAL COMMENTS

#### **PROPERTY TAX DISTRIBUTION ANALYSIS**

##### **PROVISIONAL TAX BILLS AND PROPERTY TAX DISTRIBUTIONS**

In 2007, La Porte County issued tax bills based on an approved abstract. After the final settlement, a ruling was established that requires a reconciliation billing for taxes payable in 2007. In 2008, 2009, 2010 and 2011, provisional bills were issued each year in two installments. It is assumed that provisional bills will also be issued in 2012, 2013 and 2014.

The 2008 provisional bills were based on the 2007 tax liability for each taxpayer multiplied by a scaling factor (for homesteads only) specific to each taxing district as determined by the DLGF. The scaling factor was developed to adjust for 2008 legislative changes. The average scaling factor of the 46 taxing districts is negative 37.8%. The 2009 provisional bills were based on the 2008 tax liability adjusted for the circuit breaker credit on homesteads only. The 2009 provisional bills were not adjusted for supplemental homestead credits because it was assumed the affects of the credits were included in the scaling factor.

The 2010 provisional bills were based on the 2009 tax liability adjusted for the circuit breaker credit (on homesteads only) unless the property had deductions in 2010 that it did not have in 2007. The tax liability on properties with 2010 deductions (not present in 2007) were recalculated by using the 2007 tax rate to refigure the 2007, 2008, and 2009 base tax liability. The new base tax liability was then used as a basis for the 2010 provisional bill. As was the case in 2009, the 2010 and 2011 provisional bills were not adjusted for the supplemental homestead credits. Future provisional bills will be based on the most recently certified tax rates and there will be no adjustments for new or increased levies (such as debt service).

The County was given direction from the DLGF on how to distribute auto excise, financial institutions tax ("FIT"), commercial vehicle excise tax ("CVET"), State Property Tax Replacement Credit ("SPTRC") and state homestead credit. This was confirmed through discussions with the DLGF. The County Auditor distributed 80% of auto excise tax to taxing units in 2007, 2008, 2009, 2010 and 2011 and no financial institutions tax ("FIT") or commercial vehicle excise tax ("CVET") has been distributed to taxing units since 2007. In 2008, the County Auditor distributed 80% of SPTRC and homestead credits to taxing units of La Porte County. The State did not distribute supplemental homestead credits to La Porte County in 2009 or 2010 because the County was behind in tax billings for those years.

##### **RECONCILIATION**

The reconciliation for each taxing year stands alone because of different tax rates and assessed values. La Porte County reconciled pay 2007 in May of 2011. In 2011, La Porte County issued reconciliation bills for 2008. It is assumed that the County Auditor will certify net assessed values for 2009 in 2012 (as shown in Scenario #1). Upon receipt of certified assessed values, the DLGF will issue a budget order for 2009 and the County will then proceed to issue reconciliation tax bills for taxes payable in 2009 (assumed to be in 2012 for Scenario #1).

(Continued on next page)

## **LA PORTE COUNTY (INDIANA) PUBLIC LIBRARY**

**(Cont'd)**

### **GENERAL COMMENTS**

#### ***PROPERTY TAX DISTRIBUTION ANALYSIS***

This process will be repeated for pay 2010, pay 2011, and so on. The timeline for reconciliation depends upon the County, as there is work required at the County level before the DLGF can issue budget orders for each year. As of the date of this report, it is unknown as to whether La Porte County has determined a timeline for completion of reconciliation.

If the County does not have an abstract for the current tax billing year to the Treasurer by April 1 of each year, the County is required to send provisional tax bills which is likely to occur for taxes payable in 2012, 2013 and 2014. Indiana Law requires that taxpayers receive at least fifteen days notice to pay their tax bill. If tax bill due dates are outside the statutory dates of May 10 and November 10, the county must submit a request to the DLGF for approval. However, the DLGF typically defers to the county judgment on the timing of tax bill due dates in these cases. Indiana Law is silent on the number of tax bills that may be mailed or issued in one year.

#### **SUMMARY OF PROPERTY TAX DISTRIBUTION ANALYSIS**

We analyzed 2007 through 2011 property tax distributions for La Porte County Public Library (the “Library”) by comparing the property taxes actually received by the Library to the certified and estimated levies.

Property tax shortfalls may be recovered through reconciliation bills. Factors that may affect recovery of the estimated property tax shortfall include circuit breaker credits, property assessment appeals, trending of assessed values, farmland assessments, and final certification of tax rates. The Library may be eligible for a property tax shortfall levy appeal. This type of appeal is only applicable to shortfalls incurred because of errors in assessed values or refunds issued as a result of property assessment appeals. The deadline to file shortfall appeals with the DLGF is December 31.

#### ***FUND DESCRIPTIONS AND USES***

General (Operating) Fund – The purpose of this fund is to pay for the management, maintenance and operating costs of the library facility and to pay for the costs associated with providing library services.

Capital Projects Fund (CPF) – This fund may be used for the following: planned construction, repair, replacement or remodeling; site acquisition; site development; repair, replacement or site acquisition that is necessitated by an emergency; and the purchase, lease, upgrading, maintenance or repair of computer hardware or software. This fund may not be used to purchase books. The Library declared the Capital Projects Fund dormant on January 1, 2011.

(Continued on next page)

## LA PORTE COUNTY (INDIANA) PUBLIC LIBRARY

(Cont'd)

### GENERAL COMMENTS

#### **FUND DESCRIPTIONS AND USES**

Lease Rental Payment Fund – This fund was used solely for the repayment of the First Mortgage Refunding Bonds, Series 1994 (the “Lease Rental Bonds”) and was primarily funded by property tax. The Lease Rental Bonds were paid off early on January 1, 2009. Pursuant to the Board of Trustees Resolution on May 27, 2010, the name of the Lease Rental Payment Fund was changed to the Debt Service Fund and the fund was declared dormant. The remaining fund balance was transferred to the Rainy Day Fund in 2011.

Library Improvement Reserve Fund (LIRF) – Money may be transferred from the General Fund or received from donations or gifts and accumulated in this fund for the purpose of paying for future capital expenditures such as the purchase of land, the purchase and construction or buildings or structures, the construction of additions or improvements to existing structures, the purchase of equipment, and all repairs or replacements of building or equipment. LIRF may also be used to purchase books.

Rainy Day Fund – This fund is used to support Library operations and can be used for any legal purpose of the Library upon approval of the Board.

#### **Other Special Revenue Funds:**

Donation Funds – These funds are unrestricted and may be used for any purpose of the Library. Receipts are derived from various donors.

Endowment Funds – These funds are restricted by the terms of the applicable gift.

Memorial Funds – These funds are unrestricted; however, once in place, the Library pays this money to a Community Foundation as specified by the donor.

## LA PORTE COUNTY (INDIANA) PUBLIC LIBRARY

### ANALYSIS AND RECOMMENDATIONS

The financial section of this report takes a long-term look into the Library's future cash flows. This section compares receipts, disbursements and fund balances of the various funds over the past two years with projections of what may happen over the next four years. In the future, as discussed below, the Library officials will need to be proactive in managing costs or in developing new revenues to maintain sound financial reserves.

Our recommendation is that the Library operate under Scenario #2 (pages 23 to 33 of this report). To summarize, this scenario assumes one final reconciliation and one provisional bill will be distributed each year beginning with 2012 until the County has resolved the issues described above. Based on historical years and actions taken by the County, this scenario is more realistic than the alternative under Scenario #1. However, it is recommended that the Library continue to maintain and update this report as net assessed values are certified and property taxes are settled.

Since the most recent certification is for pay 2008, the Library is still receiving provisional property tax bills in relation to the Lease Rental, which was paid off on January 1, 2009. It is not known at this time how this situation will be handled once the final reconciliations are settled. However, it is assumed the General Fund distributions will be reduced by the amount overpaid to the Lease Rental Fund. As a precaution, the Library has held money in its Rainy Day Fund as a reserve in the event the County requests the full payment. It is recommended that the Library maintain this reserve in its Rainy Day Fund as a cushion until these funds have been paid back.

Another recommendation is that the Library maintain adequate reserves in its General Fund. Due to the current situation with delays in property tax distributions, it is recommended that the Library achieve and maintain an operating balance of approximately 20% - 25%. This would be for a temporary period of time until the property tax distributions are back on schedule. Once this issue is settled, it would be recommended that the Library maintain an average cash balance of approximately 16.67%, or two months of operating disbursements. In order to achieve the suggested operating balance, based on Scenario #2, budget adjustments for the General Fund are needed as follows:

<u>Year</u>	<u>Operating Balance</u>		
	<u>16.67%</u>	<u>20.0%</u>	<u>25.0%</u>
2012	(\$413,750)	(\$517,000)	(\$661,500)
2013	(\$549,000)	(\$565,000)	(\$596,250)
2014	(\$308,000)	(\$320,500)	(\$340,500)

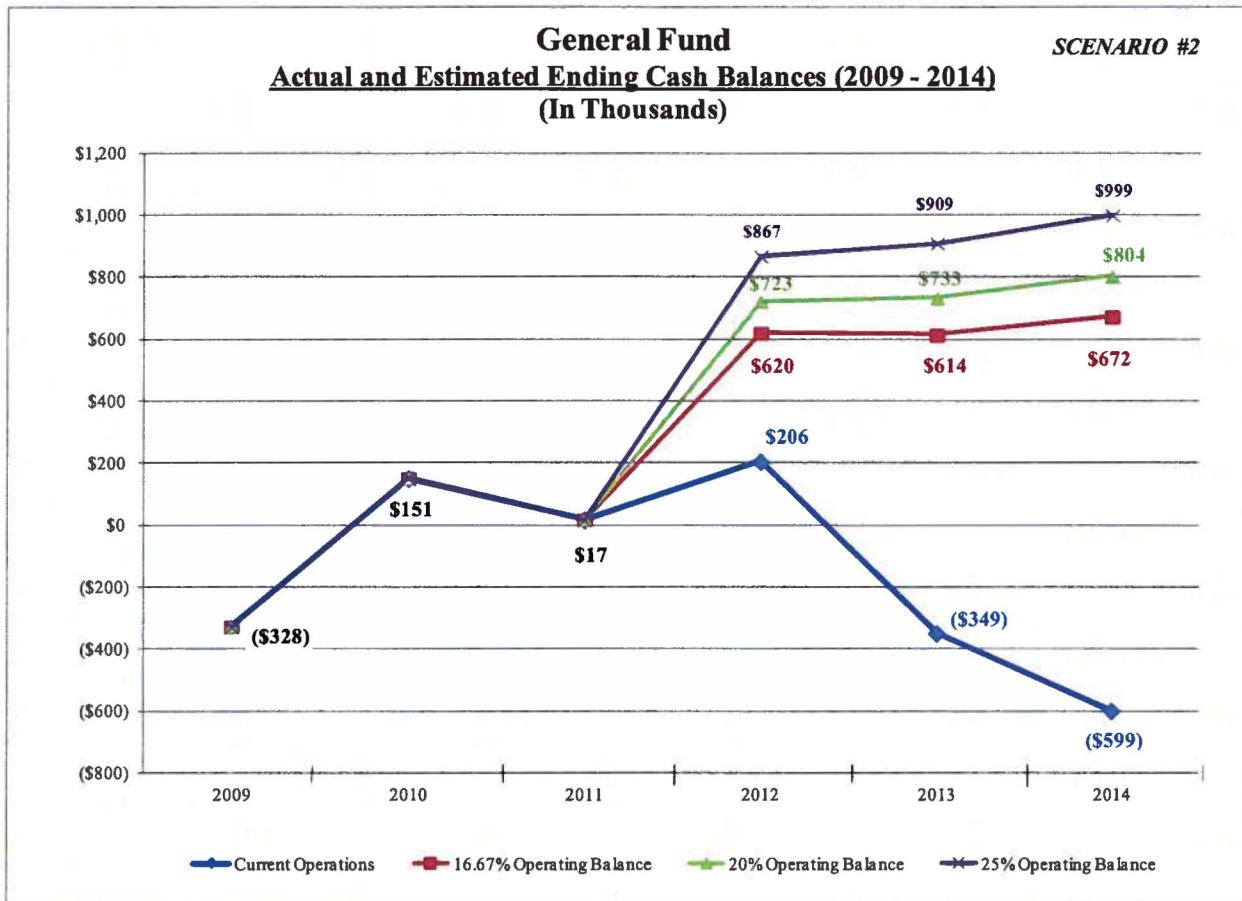
As shown in the chart below, based on current operations the Library will spend down significant cash reserves and experience estimated negative cash balances of (\$348,563) and (\$598,960) in 2013 and 2014, respectively.

(Continued on next page)

## LA PORTE COUNTY (INDIANA) PUBLIC LIBRARY

(Cont'd)

### ANALYSIS AND RECOMMENDATIONS



As the Library experiences shortfalls in revenue collections, an option is to issue a tax anticipation warrant ("TAW"). This consists of a one year loan from a financial institution up to the lesser of the greatest deficit of revenues or 80% of the total levy. One of the downsides to issuing a TAW is the associated interest costs with this type of borrowing. Due to delays in property taxes, many taxing units have "rolled" loans (meaning they continue to pay interest until they have the money to repay the loan). As per Library officials, the local bank which had previously issued the Library a TAW denied their request for future TAW's.

It is important that the Library incorporate the effects of tax caps and potential shortfalls in its financial planning in the coming years. Continued planning and evaluation will allow the Library to be in a position to manage its finances into the future.