

B28559

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

CITY OF SCOTTSBURG

SCOTT COUNTY, INDIANA



FILED
10/30/2006

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kelly Neuhauser	01-01-04 to 12-31-07
Mayor	William H. Graham	01-01-04 to 12-31-07
President of the Board of Public Works	William H. Graham	01-01-04 to 12-31-07
President of the Common Council	William H. Graham	01-01-04 to 12-31-07
Superintendent of Water Utility	Lance Hounshell	01-01-05 to 12-31-06
Superintendent of Wastewater Utility	Millard Moore	01-01-05 to 12-31-06
Superintendent of Electric Utility	James Binkley	01-01-05 to 12-31-06



STATE OF INDIANA
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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

TO: THE OFFICIALS OF THE CITY OF SCOTTSBURG, SCOTT COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scottsburg (City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note I, the financial statements referred to above do not include a component unit of the City which should have been included to fairly present the financial position of the City.

In our opinion, except that the omission of the component unit of the City referred to in the preceding paragraph results in incomplete presentation, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2005, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated September 1, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Funding Progress and the Schedule of Contributions From the Employer and Other Contributing Entities as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the table of contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Combining Schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 12, 2006



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

TO: THE OFFICIALS OF THE CITY OF SCOTTSBURG, SCOTT COUNTY, INDIANA

We have audited the financial statements of the City of Scottsburg (City), as of and for the year ended December 31, 2005, and have issued our report thereon dated October 12, 2006. The opinion to the financial statements was qualified due to the omission of a component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-1, 2005-2, 2005-3, and 2005-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider items 2005-1, 2005-2, 2005-3, and 2005-4 to be material weaknesses.

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

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

October 12, 2006

CITY OF SCOTTSBURG
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2005

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 380,986	\$ 34,724	\$ 662,387	\$ -	\$ 316,125	\$ -	\$ 316,125
Public safety	1,529,533	6,108	212,603	4,839	(1,305,983)	-	(1,305,983)
Highways and streets	277,472	1,620	245,826	-	(30,026)	-	(30,026)
Sanitation	413,348	182,041	7,422	-	(223,885)	-	(223,885)
Economic development	463,832	397,311	-	1,495,951	1,429,430	-	1,429,430
Culture and recreation	340,565	26,775	-	51,504	(262,286)	-	(262,286)
Health and welfare	147,923	119,096	25,189	-	(3,638)	-	(3,638)
Capital outlay	713,792	-	-	32,421	(681,371)	-	(681,371)
Interest on long-term debt	198,500	-	-	-	(198,500)	-	(198,500)
Total governmental activities	4,465,951	767,675	1,153,427	1,584,715	(960,134)	-	(960,134)
Business-type activities:							
Water	2,123,041	1,609,792	-	522,700	-	9,451	9,451
Wastewater	1,376,852	1,208,651	12,000	-	-	(156,201)	(156,201)
Electric	12,921,722	12,834,576	-	-	-	(87,146)	(87,146)
Total business-type activities	16,421,615	15,653,019	12,000	522,700	-	(233,896)	(233,896)
Total primary government	\$ 20,887,566	\$ 16,420,694	\$ 1,165,427	\$ 2,107,415	(960,134)	(233,896)	(1,194,030)
General receipts:							
Property taxes					1,728,443	-	1,728,443
Unrestricted intergovernmental receipts					111,828	-	111,828
Riverboat revenue sharing					38,087	-	38,087
Proceeds from sale of assets					250	-	250
Insurance proceeds					10,715	-	10,715
Intergovernmental disbursements					(32,918)	-	(32,918)
Other receipts					16,497	-	16,497
Bonds and loans					-	36,537	36,537
Unrestricted investment earnings					68,549	45,709	114,258
Special items:							
Hurricane relief donations					-	38,232	38,232
Hurricane relief expenditures					-	(68,030)	(68,030)
Total general receipts and special items					1,941,451	52,448	1,993,899
Change in net assets					981,317	(181,448)	799,869
Net assets - beginning					3,496,076	1,508,388	5,004,464
Net assets - ending					\$ 4,477,393	\$ 1,326,940	\$ 5,804,333
<u>Assets</u>							
Cash and investments					\$ 1,879,228	\$ 333,283	\$ 2,212,511
Restricted assets:							
Cash and investments					2,598,165	993,657	3,591,822
Total assets					\$ 4,477,393	\$ 1,326,940	\$ 5,804,333
<u>Net Assets</u>							
Restricted for:							
Public safety					\$ 389,619	\$ -	\$ 389,619
Highways and streets					523,319	-	523,319
Health and welfare					12	-	12
Culture and recreation					26,177	-	26,177
Economic development					1,295,381	-	1,295,381
Debt service					-	714,985	714,985
Capital outlay					363,657	160,166	523,823
Customer deposits					-	118,506	118,506
Unrestricted					1,879,228	333,283	2,212,511
Total net assets					\$ 4,477,393	\$ 1,326,940	\$ 5,804,333

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

CITY OF SCOTTSBURG
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2005

	General	Redevelopment Commission District Capital	Certified Technology Park	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 889,980	\$ 457,927	\$ -	\$ 380,536	\$ 1,728,443
Intergovernmental	819,924	6,491	886,037	984,859	2,697,311
Charges for services	336,061	-	1,713	429,901	767,675
Other	54,259	27,906	-	204,592	286,757
Total receipts	2,100,224	492,324	887,750	1,999,888	5,480,186
Disbursements:					
General government	380,986	-	-	-	380,986
Public safety	1,437,226	-	-	92,307	1,529,533
Highways and streets	-	-	-	277,472	277,472
Sanitation	413,348	-	-	-	413,348
Health and welfare	147,923	-	-	-	147,923
Culture and recreation	-	-	-	340,565	340,565
Economic development	53,000	27,563	278,724	104,545	463,832
Debt service:					
Principal	70,761	70,791	-	-	141,552
Interest	27,739	29,209	-	-	56,948
Capital outlay	-	-	-	713,792	713,792
Total disbursements	2,530,983	127,563	278,724	1,528,681	4,465,951
Excess (deficiency) of receipts over disbursements	(430,759)	364,761	609,026	471,207	1,014,235
Other financing sources (uses)					
Intergovernmental disbursement	-	(32,918)	-	-	(32,918)
Transfers in	148,500	-	-	169,664	318,164
Transfers out	-	(131,706)	(29,179)	(157,279)	(318,164)
Total other financing sources (uses)	148,500	(164,624)	(29,179)	12,385	(32,918)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(282,259)	200,137	579,847	483,592	981,317
Cash and investment fund balance - beginning	141,320	1,783,192	-	1,571,564	3,496,076
Cash and investment fund balance - ending	\$ (140,939)	\$ 1,983,329	\$ 579,847	\$ 2,055,156	\$ 4,477,393
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ (140,939)	\$ 1,983,329	\$ -	\$ 36,838	\$ 1,879,228
Restricted assets:					
Cash and investments	-	-	579,847	2,018,318	2,598,165
Total cash and investment assets - December 31	\$ (140,939)	\$ 1,983,329	\$ 579,847	\$ 2,055,156	\$ 4,477,393
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ 389,619	\$ 389,619
Highways and streets	-	-	-	523,319	523,319
Health and welfare	-	-	-	12	12
Culture and recreation	-	-	-	26,177	26,177
Economic development	-	-	579,847	715,534	1,295,381
Capital outlay	-	-	-	363,657	363,657
Unrestricted	(140,939)	1,983,329	-	36,838	1,879,228
Total cash and investment fund balance - December 31	\$ (140,939)	\$ 1,983,329	\$ 579,847	\$ 2,055,156	\$ 4,477,393

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

CITY OF SCOTTSBURG
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Electric Utility	Total
Operating receipts:				
Metered water receipts	\$ 1,244,879	\$ -	\$ -	\$ 1,244,879
Residential sales	-	-	12,161,050	12,161,050
Broadband service	-	-	464,225	464,225
Fire protection receipts	320,713	-	-	320,713
Other water receipts	32,643	-	-	32,643
Flat rate receipts	-	20,920	-	20,920
Measured revenue:				
Residential	-	1,168,658	-	1,168,658
Other	-	16,673	170,750	187,423
Total operating receipts	1,598,235	1,206,251	12,796,025	15,600,511
Operating disbursements:				
Equipment and capital improvements	500,849	126,577	409,503	1,036,929
Source of supply and disbursements - operations and maintenance	264,115	-	-	264,115
Water treatment disbursements - operations and maintenance	244,450	-	-	244,450
Power production	-	-	10,278,241	10,278,241
Transmission and distribution	128,387	-	204,220	332,607
Collection system - operations and maintenance	-	118,661	-	118,661
Broadband expense	-	-	563,607	563,607
Treatment and disposal disbursements - operations and maintenance	-	563,210	-	563,210
Customer accounts	108,068	-	194,779	302,847
Administration and general	559,630	390,138	1,180,777	2,130,545
Total operating disbursements	1,805,499	1,198,586	12,831,127	15,835,212
Excess (deficiency) of operating receipts over operating disbursements	(207,264)	7,665	(35,102)	(234,701)
Nonoperating receipts (disbursements):				
Loan proceeds	36,537	-	-	36,537
Interest and investment receipts	8,580	4,144	32,985	45,709
Hurricane relief donations	-	-	38,233	38,233
Miscellaneous receipts	11,557	14,400	38,550	64,507
Hurricane relief disbursements	-	-	(68,030)	(68,030)
Debt service of principal	(154,413)	(150,000)	(50,000)	(354,413)
Interest disbursement	(158,063)	(28,266)	(22,204)	(208,533)
Miscellaneous disbursements	(5,066)	-	(18,391)	(23,457)
Total nonoperating receipts (disbursements)	(260,868)	(159,722)	(48,857)	(469,447)
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(468,132)	(152,057)	(83,959)	(704,148)
Capital contributions				
Transfers in	522,700	-	-	522,700
Transfers out	-	-	80,657	80,657
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	54,568	(152,057)	(83,959)	(181,448)
Cash and investment fund balance - beginning	685,339	454,135	368,914	1,508,388
Cash and investment fund balance - ending	<u>\$ 739,907</u>	<u>\$ 302,078</u>	<u>\$ 284,955</u>	<u>\$ 1,326,940</u>
Cash and Investment Assets - December 31				
Cash and investments	\$ 67,514	\$ 69,562	\$ 196,207	\$ 333,283
Restricted assets:				
Cash and investments	672,393	232,516	88,748	993,657
Total cash and investment assets - December 31	\$ 739,907	\$ 302,078	\$ 284,955	\$ 1,326,940
Cash and Investment Fund Balance - December 31				
Restricted for:				
Debt service	\$ 489,551	\$ 225,434	\$ -	\$ 714,985
Capital outlay	153,084	7,082	-	160,166
Customer deposits	29,758	-	88,748	118,506
Unrestricted	67,514	69,562	196,207	333,283
Total cash and investment fund balance - December 31	\$ 739,907	\$ 302,078	\$ 284,955	\$ 1,326,940

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

CITY OF SCOTTSBURG
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2005

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
Additions:		
Contributions:		
Employer	\$ 135,472	\$ -
Investment earnings:		
Interest	9,890	-
Agency fund additions	<u>-</u>	<u>3,929,958</u>
Total additions	<u>145,362</u>	<u>3,929,958</u>
Deductions:		
Benefits		
Administrative and general	145,448	-
Agency fund deductions	800	-
	<u>-</u>	<u>3,878,273</u>
Total deductions	<u>146,248</u>	<u>3,878,273</u>
Excess (deficiency) of total additions over total deductions	(886)	51,685
Cash and investment fund balance - beginning	<u>572,761</u>	<u>9,697</u>
Cash and investment fund balance - ending	<u>\$ 571,875</u>	<u>\$ 61,382</u>

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

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS

I. 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 the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, electric, wireless broadband internet service, water, wastewater, and economic development.

The City's financial reporting entity is composed of the primary government.

A component unit has been omitted from these financial statements. Accordingly, the financial statements do not include the data of all of the City's component units necessary to fairly present the financial position of the City.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The redevelopment commission district capital fund accounts for taxes received from tax incremental finance (TIF) districts used for the acquisition and redevelopment of property located in the TIF districts.

The certified technology park fund accounts for funds used for the establishment of a technology park.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations and collection systems.

The electric utility fund accounts for the operation of the electric distribution system and wireless broadband internet service.

Additionally, the City reports the following fund types:

The pension trust fund accounts for the activities of the 1925 police officer's pension fund, which accumulates resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for employees and outside parties and serve as control of accounts for certain cash transactions during the time they are a liability to the City.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, 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 cash and investment 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. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City and the utilities. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The City does not have any internal service funds.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The City does not have any internal service funds.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities – Cash and Investment Basis.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

On or before August 31, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2005, disbursements exceeded budgeted appropriations in the following fund by the amount below:

Fund	Amount
Cumulative Park and Recreation	\$ <u>51,740</u>

These disbursements were funded by available fund balance in the cumulative park and recreation fund.

C. Cash and Investment Balance Deficits

At December 31, 2005, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and State statute:

Fund	2005
General	\$ 140,939
Park and Recreation	34,163
Organized Crime Drug Enforcement Task Force	5,466
Indiana Housing Development	20,000
Historic Review Board	1,273
Rails to Trails Grant	29,609
Brownfield Grant	63,415
OVO Resource Center	8,489

CITY OF SCOTTSBURG
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the City had the following investments:

Investment Type	Primary Government Market Value
Repurchase agreements	\$ <u>2,931,688</u>

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of or interest in an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments. At December 31, 2005, the City held investments in repurchase agreements in the amount of \$2,931,688. Of these investments \$2,931,688 were held by Counterparty.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City must follow state statute and limit the stated final maturities of the investments to no more than two years.

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>		
	<u>Less Than 1</u>	<u>1-2</u>	<u>More Than 2</u>
Repurchase Agreements	\$ 2,931,688	\$ -	\$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is not associated with United States of America governmental agency securities. At December 31, 2005, the investments held by the City are not exposed to any credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The City does not have a formal policy in regards to foreign currency risk. The City does not have any investments related to foreign currency.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, were as follows:

Transfer From	Transfer To	2005
Redevelopment commission district capital	General fund	\$ 98,500
Redevelopment commission district capital	Other governmental	33,206
Certified technology park	Other governmental	29,179
Other governmental	General fund	50,000
Other governmental	Other governmental	107,279
Total		<u>\$ 318,164</u>

The City typically uses transfers to fund ongoing operating subsidies.

IV. Other Information

A. Risk Management

The City is 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; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Job Related Illnesses or Injuries to Employees

During 1995, the City joined with other governmental entities in the Indiana Public Employer's Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of worker's compensation claims. The City pays an annual premium to the risk pool for its worker's compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Loans Receivable – Indiana Department of Commerce

The City accounts for the repayment of principal and interest received on loans made to local industries in the governmental funds. These loans to local industries were primarily financed with grants from federal and state governments. The grants allow the City to use the proceeds from the loan repayments, including interest, for additional economic and industrial development projects.

CITY OF SCOTTSBURG
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

The following is a summary of loans receivable transactions during 2005:

Loans receivable, January 1, 2005	\$	619,722
Additions		60,000
Reductions		<u>367,142</u>
Loans receivable, December 31, 2005	\$	<u><u>312,580</u></u>

C. Rate Structure – Enterprise Funds

Water Utility

On August 17, 1989, the City Council adopted Ordinance 14 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on December 30, 2003.

Wastewater Utility

The current rate structure was approved by the City Council on September 17, 2001.

Electric Utility

The current rate structure was approved by the Council on August 15, 2005.

Wireless Broadband Internet Service

The current rate structure was approved by the Council on March 30, 2004.

D. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>
Annual required contribution	\$ 106,778	\$ 280,800
Interest on net pension obligation	(10,509)	53,300
Adjustment to annual required contribution	<u>11,976</u>	<u>(88,900)</u>
Annual pension cost	108,245	245,200
Contributions made	<u>132,551</u>	<u>120,124</u>
Increase (decrease) in net pension obligation	(24,306)	125,076
Net pension obligation, beginning of year	<u>(144,956)</u>	<u>789,407</u>
Net pension obligation, end of year	<u>\$ (169,262)</u>	<u>\$ 914,483</u>
Contribution rates:		
City	5.25%	733%
Plan members	3%	6%
Actuarial valuation date	07-01-05	01-01-04
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	30 years
Amortization period (from date)	07-01-97	01-01-05
Asset valuation method	75% of expected Actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital

Actuarial Assumptions

Investment rate of return	7.25%	6%
Projected future salary increases:		
Total	5%	4%
Attributed to inflation	4%	4%
Attributed to merit/seniority	1%	0%
Cost-of-living adjustments	2%	2.75/4%*

* 2.75% converted members; 4% nonconverted members

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 118,308	108%	\$ (95,959)
	06-30-04	86,514	157%	(144,956)
	06-30-05	108,245	153%	(169,262)
1925 Police Officers' Pension Plan	12-31-01	243,000	40%	790,824
	12-31-02	227,000	101%	789,407
	12-31-03	245,200	49%	914,483

Membership in the 1925 Police Officers' Pension Plan at January 1, 2005, was comprised of the following:

	1925 Police Officers' Pension
Retires and beneficiaries currently receiving benefits	6
Terminated employees entitled to but not yet receiving benefits	-
Current active employees	-

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

CITY OF SCOTTSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2005, 2004, and 2003, were \$100,412, \$93,153, and \$109,306, respectively, equal to the required contributions for each year.

E. Jointly Governed Organization

The City's Electric Utility (Enterprise Fund) is a member of the Indiana Municipal Power Agency (IMPA). IMPA is an incorporated political subdivision of the State of Indiana pursuant to Indiana Code 8-1-2.2 and serves as a supplier of electric power to 31 municipalities in Indiana. The Electric Utility purchased all of its power from IMPA in 2005.

F. Major Utility Customer

The Electric Utility has two major customers, Genpak and American Steele, whose billings are approximately 12% and 16%, respectively, of the total electric service billings for the Utility.

CITY OF SCOTTSBURG
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,622,419	\$ 1,670,847	\$ (48,428)	97%	\$ 1,857,606	(3%)
07-01-04	1,688,568	1,826,557	(137,989)	92%	2,147,875	(6%)
07-01-05	1,793,602	2,207,931	(414,329)	81%	2,156,531	(19%)

1925 Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ *	\$ 2,321,000	\$ *	*	\$ 31,900	\$ *
01-01-00	379,257	2,270,400	(1,891,143)	17%	31,900	(5,928%)
01-01-01	404,088	2,564,600	(2,160,512)	16%	35,400	(6,103%)
01-01-02	418,202	2,402,100	(1,983,898)	17%	35,400	(5,604%)
01-01-03	553,243	1,783,900	(1,230,657)	31%	37,600	(3,273%)
01-01-04	572,461	2,461,000	(1,888,539)	23%	38,300	(4,931%)

* Information not available

CITY OF SCOTTSBURG
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan				
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed		
		City	State	
1925 Police Officers' Pension Plan	12-31-98	\$ 213,900	37%	0%
	12-31-99	227,800	44%	0%
	12-31-00	229,400	46%	0%
	12-31-01	266,600	37%	0%
	12-31-02	259,100	88%	0%
	12-31-03	280,800	43%	0%

CITY OF SCOTTSBURG
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005

	Motor Vehicle Highway	Local Road and Street	Police Donations	Law Enforcement Continuing Education	Park and Recreation	Economic Industrial Development	Revolving Loan EDA
Receipts:							
Taxes	\$ 66,933	\$ -	\$ -	\$ -	\$ 188,220	\$ -	\$ -
Intergovernmental	209,201	36,625	1,000	-	25,189	-	-
Charges for services	1,620	-	-	5,908	17,575	55,325	271,092
Other	5,365	-	-	-	1,241	4,922	328
Total receipts	283,119	36,625	1,000	5,908	232,225	60,247	271,420
Disbursements:							
Public safety	-	-	1,153	7,953	-	-	-
Highways and streets	242,591	34,881	-	-	-	-	-
Culture and recreation	-	-	-	-	239,088	-	-
Economic development	-	-	-	-	-	-	62,500
Capital outlay	-	-	-	-	-	-	-
Total disbursements	242,591	34,881	1,153	7,953	239,088	-	62,500
Excess (deficiency) of receipts over disbursements	40,528	1,744	(153)	(2,045)	(6,863)	60,247	208,920
Other financing sources (uses)							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	(18,386)	-	-
Total other financing sources (uses)	-	-	-	-	(18,386)	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	40,528	1,744	(153)	(2,045)	(25,249)	60,247	208,920
Cash and investment fund balance - beginning	195,530	285,517	11,600	31,423	(8,914)	301,567	41,988
Cash and investment fund balance - ending	<u>\$ 236,058</u>	<u>\$ 287,261</u>	<u>\$ 11,447</u>	<u>\$ 29,378</u>	<u>\$ (34,163)</u>	<u>\$ 361,814</u>	<u>\$ 250,908</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ (34,163)	\$ -	\$ -
Restricted assets:							
Cash and investments	236,058	287,261	11,447	29,378	-	361,814	250,908
Total cash and investment assets - December 31	<u>\$ 236,058</u>	<u>\$ 287,261</u>	<u>\$ 11,447</u>	<u>\$ 29,378</u>	<u>\$ (34,163)</u>	<u>\$ 361,814</u>	<u>\$ 250,908</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
Public safety	\$ -	\$ -	\$ 11,447	\$ 29,378	\$ -	\$ -	\$ -
Highways and streets	236,058	287,261	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	361,814	250,908
Capital outlay	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	(34,163)	-	-
Total cash and investment fund balance - December 31	<u>\$ 236,058</u>	<u>\$ 287,261</u>	<u>\$ 11,447</u>	<u>\$ 29,378</u>	<u>\$ (34,163)</u>	<u>\$ 361,814</u>	<u>\$ 250,908</u>

CITY OF SCOTTSBURG
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31,
 (Continued)

	Federal Asset Forfeiture	Operation Pullover	Scottsburg Heritage Station	Historic Preservation	Affordable Housing	Citizens Against Substance Abuse	Park Donations
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	199,363	2,100	-	-	-	3,000	-
Charges for services	-	-	9,200	-	-	-	-
Other	-	-	-	-	-	-	-
Total receipts	199,363	2,100	9,200	-	-	3,000	-
Disbursements:							
Public safety	50,154	1,929	-	-	-	2,968	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	9,120	-	-	-	-
Economic development	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total disbursements	50,154	1,929	9,120	-	-	2,968	-
Excess (deficiency) of receipts over disbursements	149,209	171	80	-	-	32	-
Other financing sources (uses)							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	149,209	171	80	-	-	32	-
Cash and investment fund balance - beginning	27,486	(152)	13,726	2,541	1,569	3,472	8,000
Cash and investment fund balance - ending	<u>\$ 176,695</u>	<u>\$ 19</u>	<u>\$ 13,806</u>	<u>\$ 2,541</u>	<u>\$ 1,569</u>	<u>\$ 3,504</u>	<u>\$ 8,000</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ -	\$ -	\$ 13,806	\$ 2,541	\$ 1,569	\$ -	\$ -
Restricted assets:							
Cash and investments	176,695	19	-	-	-	3,504	8,000
Total cash and investment assets - December 31	<u>\$ 176,695</u>	<u>\$ 19</u>	<u>\$ 13,806</u>	<u>\$ 2,541</u>	<u>\$ 1,569</u>	<u>\$ 3,504</u>	<u>\$ 8,000</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Public safety	\$ 176,695	\$ 19	\$ -	\$ -	\$ -	\$ 3,504	\$ -
Highways and streets	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	8,000
Economic development	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	-	-	13,806	2,541	1,569	-	-
Total cash and investment fund balance - December 31	<u>\$ 176,695</u>	<u>\$ 19</u>	<u>\$ 13,806</u>	<u>\$ 2,541</u>	<u>\$ 1,569</u>	<u>\$ 3,504</u>	<u>\$ 8,000</u>

CITY OF SCOTTSBURG
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31,
 (Continued)

	Rails to Trails Grant	Lake IOLA Tree Planting	Lake IOLA II Improvements	Organized Crime Drug Enforcement Task Force	Local Asset Forfeiture	Tobacco Grant	Rural Development Revolving
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	5,506	1,434	-	-
Charges for services	-	-	-	-	-	-	69,181
Other	-	-	-	-	-	-	230
Total receipts	-	-	-	5,506	1,434	-	69,411
Disbursements:							
Public safety	-	-	-	10,750	14,308	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total disbursements	-	-	-	10,750	14,308	-	-
Excess (deficiency) of receipts over disbursements	-	-	-	(5,244)	(12,874)	-	69,411
Other financing sources (uses)							
Transfers in	-	2,000	105,279	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	2,000	105,279	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	2,000	105,279	(5,244)	(12,874)	-	69,411
Cash and investment fund balance - beginning	(29,609)	(2,000)	(105,279)	(222)	13,430	12	33,401
Cash and investment fund balance - ending	<u>\$ (29,609)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,466)</u>	<u>\$ 556</u>	<u>\$ 12</u>	<u>\$ 102,812</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ (29,609)	\$ -	\$ -	\$ (5,466)	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	-	-	-	-	556	12	102,812
Total cash and investment assets - December 31	<u>\$ (29,609)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,466)</u>	<u>\$ 556</u>	<u>\$ 12</u>	<u>\$ 102,812</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 556	\$ -	\$ -
Highways and streets	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	12	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	102,812
Capital outlay	-	-	-	-	-	-	-
Unrestricted	(29,609)	-	-	(5,466)	-	-	-
Total cash and investment fund balance - December 31	<u>\$ (29,609)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,466)</u>	<u>\$ 556</u>	<u>\$ 12</u>	<u>\$ 102,812</u>

CITY OF SCOTTSBURG
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31,
 (Continued)

	Indiana Housing Development	Historic Review Board	Technology Center Grant	Brownfield Grant	Water Park	Cumulative Capital Improvement	Cumulative Building and Firefighting Equipment
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,153
Intergovernmental	-	-	-	-	-	18,671	4,839
Charges for services	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	250
Total receipts	-	-	-	-	-	18,671	55,242
Disbursements:							
Public safety	-	-	-	-	-	-	3,092
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	-	-	42,045	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total disbursements	-	-	-	42,045	-	-	3,092
Excess (deficiency) of receipts over disbursements	-	-	-	(42,045)	-	18,671	52,150
Other financing sources (uses)							
Transfers in	-	-	29,179	-	-	-	-
Transfers out	-	-	-	-	-	(50,000)	-
Total other financing sources (uses)	-	-	29,179	-	-	(50,000)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	29,179	(42,045)	-	(31,329)	52,150
Cash and investment fund balance - beginning	(20,000)	(1,273)	(29,179)	(21,370)	452	55,113	115,870
Cash and investment fund balance - ending	\$ (20,000)	\$ (1,273)	\$ -	\$ (63,415)	\$ 452	\$ 23,784	\$ 168,020
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ (20,000)	\$ (1,273)	\$ -	\$ (63,415)	\$ 452	\$ -	\$ -
Restricted assets:							
Cash and investments	-	-	-	-	-	23,784	168,020
Total cash and investment assets - December 31	\$ (20,000)	\$ (1,273)	\$ -	\$ (63,415)	\$ 452	\$ 23,784	\$ 168,020
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 168,020
Highways and streets	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	23,784	-
Unrestricted	(20,000)	(1,273)	-	(63,415)	452	-	-
Total cash and investment fund balance - December 31	\$ (20,000)	\$ (1,273)	\$ -	\$ (63,415)	\$ 452	\$ 23,784	\$ 168,020

CITY OF SCOTTSBURG
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31,
 (Continued)

	Cumulative Park	Cumulative Capital Development	Recreational Trails	Rainy Day Fund	OVO Resource Center	Totals
Receipts:						
Taxes	\$ -	\$ 75,230	\$ -	\$ -	\$ -	\$ 380,536
Intergovernmental	51,504	7,259	-	-	419,168	984,859
Charges for services	-	-	-	-	-	429,901
Other	-	-	-	1,510	190,746	204,592
Total receipts	51,504	82,489	-	1,510	609,914	1,999,888
Disbursements:						
Public safety	-	-	-	-	-	92,307
Highways and streets	-	-	-	-	-	277,472
Culture and recreation	92,357	-	-	-	-	340,565
Economic development	-	-	-	-	-	104,545
Capital outlay	-	95,389	-	-	618,403	713,792
Total disbursements	92,357	95,389	-	-	618,403	1,528,681
Excess (deficiency) of receipts over disbursements	(40,853)	(12,900)	-	1,510	(8,489)	471,207
Other financing sources (uses)						
Transfers in	33,206	-	-	-	-	169,664
Transfers out	(88,893)	-	-	-	-	(157,279)
Total other financing sources (uses)	(55,687)	-	-	-	-	12,385
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(96,540)	(12,900)	-	1,510	(8,489)	483,592
Cash and investment fund balance - beginning	96,540	352,773	18,177	179,375	-	1,571,564
Cash and investment fund balance - ending	\$ -	\$ 339,873	\$ 18,177	\$ 180,885	\$ (8,489)	\$ 2,055,156
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ 180,885	\$ (8,489)	\$ 36,838
Restricted assets:						
Cash and investments	-	339,873	18,177	-	-	2,018,318
Total cash and investment assets - December 31	\$ -	\$ 339,873	\$ 18,177	\$ 180,885	\$ (8,489)	\$ 2,055,156
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 389,619
Highways and streets	-	-	-	-	-	523,319
Health and welfare	-	-	-	-	-	12
Culture and recreation	-	-	18,177	-	-	26,177
Economic development	-	-	-	-	-	715,534
Capital outlay	-	339,873	-	-	-	363,657
Unrestricted	-	-	-	180,885	(8,489)	36,838
Total cash and investment fund balance - December 31	\$ -	\$ 339,873	\$ 18,177	\$ 180,885	\$ (8,489)	\$ 2,055,156

CITY OF SCOTTSBURG
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2005

	Payroll	T & G Construction Retainage	Latco Retainage	OVO Resources Retainage	Total
Additions:					
Agency fund additions	<u>3,881,392</u>	<u>1</u>	<u>2,829</u>	<u>45,736</u>	<u>3,929,958</u>
Deductions:					
Agency fund deductions	<u>3,878,272</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>3,878,273</u>
Excess of total additions over total deductions	3,120	-	2,829	45,736	51,685
Cash and investment fund balance - beginning	<u>9,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,697</u>
Cash and investment fund balance - ending	<u>\$ 12,817</u>	<u>\$ -</u>	<u>\$ 2,829</u>	<u>\$ 45,736</u>	<u>\$ 61,382</u>

CITY OF SCOTTSBURG
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2005

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 3,098,318
Infrastructure	10,413,751
Buildings	5,306,647
Improvements other than buildings	1,213,753
Machinery and equipment	<u>3,039,662</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 23,072,131</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Buildings	\$ 183,036
Improvements other than buildings	8,197,480
Machinery and equipment	<u>1,036,181</u>
 Total Water Utility capital assets	 <u>9,416,697</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Buildings	1,208,000
Improvements other than buildings	7,086,469
Machinery and equipment	<u>1,639,329</u>
 Total Wastewater Utility capital assets	 <u>9,933,798</u>
Electric Utility:	
Capital assets, not being depreciated:	
Buildings	467,981
Improvements other than buildings	6,378,607
Machinery and equipment	<u>6,716,230</u>
 Total Electric Utility capital assets	 <u>13,562,818</u>
 Total business-type activities capital assets	 <u>\$ 32,913,313</u>

CITY OF SCOTTSBURG
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2005

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Infrastructure	\$ 1,395,394	\$ 141,772
Business-type Activities:		
Water Utility		
Capital leases:		
Equipment	\$ 22,635	\$ 12,740
Revenue bonds:		
1998 Water improvement bond series A	1,757,000	25,000
1998 Water improvement bond series B	528,000	8,000
Loans payable	1,796,048	94,000
Total Water Utility	4,103,683	139,740
Wastewater Utility		
Revenue bonds:		
2003 Sewage works refunding bonds	760,000	75,000
Electric Utility:		
Loans payable	550,000	550,000
Total business-type activities long-term debt:	\$ 5,413,683	\$ 764,740

CITY OF SCOTTSBURG
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT (Applies to Clerk-Treasurer)

The financial activity reported on the City's annual financial report was inaccurate.

The cash and investment balances as shown on the City's annual report did not include investments in the amount of \$905,130. Part 3 of the annual financial report (Disbursement Report by Fund and Department) did not agree with the disbursement amounts shown in Part 1, Statement of Receipts, Disbursements, Cash Balances and Investment Balances nor did it agree with the disbursements per the City's funds ledger. Adjustments were made to the financial statements to reflect this activity in the audited financial statements.

The Electric, Water and Wastewater Utilities' receipts and disbursements per Part 4 of the annual financial report (Municipal Utilities Report: Water, Wastewater, Electric, Gas, Public Transportation, Trash Collections) did not agree with the receipts and disbursements as shown in Part 1, Statement of Receipts, Disbursements, Cash Balances and Investment Balance in the annual financial report. The cash and investment balances of the Electric Utility as shown in Part 1 of the annual report did not agree with the balance per the unit's ledger. Adjustments were made to the audited financial statements to properly reflect the financial activity.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ADVANCE PAYROLL PAYMENTS (Applies to Clerk-Treasurer)

Compensation to employees was paid in advance of the employees performing the service. Pay checks were issued on Wednesday morning that included payment for work that was to be performed on that Wednesday. Since the hourly employees had not yet worked to the end of the pay period, an estimate of the hours that were worked was made in order to process the payroll.

An instance was noted in which an employee was paid on Wednesday for work that was not performed until the following Thursday and Friday. The pay check was issued to the employee on July 13th for two days regular hours worked and three vacation days for the payroll period July 14, 2005 to July 20, 2005.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY OPERATING FUNDS USED FOR CITY EXPENSES (Applies to Board of Public Works)

Salaries in the amount of \$43,788 for City employees performing duties related to City business were paid from the operating funds of the Electric, Water and Wastewater Utilities.

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

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

CITY OF SCOTTSBURG
AUDIT RESULTS AND COMMENTS
(Continued)

Payments or transfers which are not authorized by statute, ordinance or resolution must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYROLL FUND (Applies to Clerk-Treasurer)

The payroll control account in the City's general ledger did not agree with the manual subsidiary records for the various payroll withholding and employee benefit accounts. At December 31, 2005, the control account in the general ledger had a balance of \$40,810 less than the subsidiary record. The difference was the result of errors in posting transactions and not making transfers to the payroll funds as required in previous years.

A similar comment was included in the prior audit report.

At all times, the manual and computerized records, subsidiary ledgers, control ledger and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BROADBAND SERVICE FINANCIAL REPORTING (Applies to Electric Utility)

The following deficiencies relating to the record keeping of the Electric Utility broadband service financial activity were present during the audit period:

1. The Broadband Utility has two separate billings systems. One billing system relates to regular monthly internet access charges. The other billing system is for miscellaneous charges associated with sale of products, technical support services and installation fees. Deficiencies were noted regarding the controls in both billing systems as follows:
 - a. Deficiencies noted in the regular monthly internet access billing system included the failure to properly maintain an accounts receivable control and to properly record and document transactions made to customer accounts.

The utility began utilizing an accounts receivable control during the middle of the year for the regular monthly broadband service fees billed. However, the record did not take into account any outstanding customer account balances that existed prior to creation of the control record. The control was not reconciled monthly with the subsidiary record and the control was not in agreement with the subsidiary record due partly to not including outstanding balances that existed prior to the creation of the control record.

- b. During the year, the Utility purchased a new computerized billing system for billing monthly broadband internet access charges. Entries were made to the new computerized billing system to incorporate outstanding customer balances as shown on the old billing system. Information was not retained for audit to document the outstanding customer account balances per the old computer system and the corresponding balances entered into the new computerized billing system. After customer balances

CITY OF SCOTTSBURG
AUDIT RESULTS AND COMMENTS
(Continued)

were entered into the new computer billing system, it was determined that numerous errors were made. Adjustment transactions were entered to correct customer balances; however, no documentation was retained for audit to support how the corrected amounts were determined.

c. Financial information summarizing monthly billings for product sales, technical support services, and installations was not maintained. Individual customer account records providing information on billings, payments and outstanding balances owed were not maintained. An accounts receivable control record was not maintained. No system was in place to properly account for the invoices issued due to the invoices in use not being numbered.

2. Financial activity related to the broadband services was not properly posted to the financial records.

For the first half of the year, financial activity related to the broadband service was included in the financial records of the Electric Utility. In the middle of the year, a separate general ledger was created to record the broadband service financial activity. Revenue and expense accounts in the newly created broadband general ledger did not correspond with revenue and expense accounts used during the first half of the year when the broadband financial activity was included with the Electric Utility. As a result of using different revenue and expense classifications during the course of the year and inconsistencies in posting, transactions among the various categories, all revenue and expense categories were grouped together and reported as one total, instead of, providing a detail as to the type of revenue earned and the expenses incurred.

The newly created general ledger established for broadband was incomplete in that the balances of financial activity that existed prior to the separation from the electric utility were not incorporated into the new general ledger.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Controls over the receipting, disbursing, recording and accounting for financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCES (Applies to Clerk-Treasurer)

At December 31, 2005, the City had the following overdrawn fund balances:

General	\$ 140,939
Park and Recreation	34,163
Organized Crime Drug Enforcement Task Force	5,466
Indiana Housing Development	20,000
Historic Review Board	1,273
Rails to Trails Grant	29,609
Brownfield Grant	63,415
OVO Resource Center	8,489

CITY OF SCOTTSBURG
AUDIT RESULTS AND COMMENTS
(Continued)

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT BROADBAND ACCOUNTS RECEIVABLE (Applies to Electric Utility)

The Utility does not have a policy regarding collections on delinquent amounts owed for product sales, installation services and other miscellaneous charges billed by the broadband department. As a result, there are outstanding balances owed from items invoiced as far back as 2003.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. 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)

APPROPRIATIONS (Applies to Clerk-Treasurer)

Expenditures were made in excess of budgeted appropriations for the Cumulative Park and Recreation Fund in the amount of \$51,740.

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."

ERRORS ON CLAIMS (Applies to Clerk-Treasurer)

Seventeen percent of the claims or invoices tested were not accompanied by evidence to support receipt of goods or services.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless . . . :

(2) the invoice or bill is approved by the officer or person receiving the goods and services . . ."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF SCOTTSBURG, SCOTT COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Scottsburg (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

October 12, 2006

CITY OF SCOTTSBURG
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2005

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Direct Grant			
Grants for Public Works and Economic Development Facilities	11.300		
Water System Improvements		06-01-04519	<u>\$ 267,064</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Department of Commerce			
Community Development Block Grants/State's Program	14.228		
Resource Center		B03DC18001CF-03-131	<u>500,000</u>
Total federal awards expended			<u><u>\$ 767,064</u></u>

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

CITY OF SCOTTSBURG
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Scottsburg (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF SCOTTSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2005-1, ANNUAL FINANCIAL REPORT

The financial activity reported on the City's annual financial report was inaccurate.

The cash and investment balances as shown on the City's annual report did not include investments in the amount of \$905,130. Part 3 of the annual financial report (Disbursement Report by Fund and Department) did not agree with the disbursement amounts shown in Part 1, Statement of Receipts, Disbursements, Cash Balances and Investment Balances nor did it agree with the disbursements per the City's funds ledger. Adjustments were made to reflect this activity in the audited financial statements.

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

The Electric, Water and Wastewater Utilities' receipts and disbursements per Part 4 of the annual financial report (Municipal Utilities Report: Water, Wastewater, Electric, Gas, Public Transportation, Trash Collections) did not agree with the receipts and disbursements as shown in Part 1, Statement of Receipts, Disbursements, Cash Balances and Investment Balance in the annual financial report. The cash and investment balances of the Electric Utility as shown in Part 1 of the annual report did not agree with the balances per the unit's ledger. Adjustments were made to properly reflect the activity in audited financial statements.

The Clerk-Treasurer failed to properly proof the annual financial report prior to submission.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The annual financial report should be reviewed to ensure that the figures shown accurately reflect the financial activity for the year per the financial records and that the various components of the report agree with one another. Accurate financial reporting is necessary in order for management to make informed financial decisions.

FINDING 2005-2, PAYROLL RECORDS

The payroll control account in the City's general ledger did not agree with the manual subsidiary records for the various payroll withholding and employee benefit accounts. At December 31, 2005, the control account in the general ledger had a balance of \$40,810 less than the subsidiary record. The difference was the result of errors in posting transactions and not making transfers to the payroll funds as required in previous years.

Transfers should be made to the payroll control fund from other City funds and the Utility funds to correct prior errors and bring the control in agreement with the subsidiary records. The payroll control record should be reconciled monthly with subsidiary records.

Failure to reconcile the detail payroll withholding records with the payroll control account weakens the internal control regarding the proper recording of financial transactions.

At all times, the manual and computerized records, subsidiary ledgers, control ledger and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2005-3, BROADBAND SERVICE FINANCIAL REPORTING

The following deficiencies relating to the record keeping of the Electric Utility broadband service financial activity were present during the audit period:

1. The Broadband Utility has two separate billings systems. One billing system relates to regular monthly internet access charges. The other billing system is for miscellaneous charges associated with sale of products, technical support services and installation fees. Deficiencies were noted regarding the controls in both billing systems as follows:

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

a. Deficiencies noted in the regular monthly internet access billing system included the failure to properly maintain an accounts receivable control and to properly record and document transactions made to customer accounts.

The Utility began utilizing an accounts receivable control during the middle of the year for the regular monthly broadband service fees billed. However, the record did not take into account any outstanding customer account balances that existed prior to creation of the control record. The control was not reconciled monthly with the subsidiary record and the control was not in agreement with the subsidiary record due partly to not including outstanding balances that existed prior to the creation of the control record.

b. During the year, the Utility purchased a new computerized billing system for billing monthly broadband internet access charges. Entries were made to the new computerized billing system to incorporate outstanding customer balances as shown on the old billing system. Information was not retained for audit to document the outstanding customer account balances per the old computer system and the corresponding balances entered into the new computerized billing system. After customer balances were entered into the new computer billing system, it was determined that numerous errors were made. Adjustment transactions were entered to correct customer balances however no documentation was retained for audit to support how the corrected amounts were determined.

c. Financial information summarizing monthly billings for product sales, technical support services, and installations was not maintained. Individual customer account records providing information on billings, payments and outstanding balances owed were not maintained. An accounts receivable control record was not maintained. No system was in place to properly account for the invoices issued due to the invoices in use not being numbered.

2. Financial activity related to the broadband services was not properly posted to the financial records.

For the first half of the year financial activity related to the broadband service was included in the financial records of the Electric Utility. In the middle of the year, a separate general ledger was created to record the broadband service financial activity. Revenue and expense accounts in the newly created broadband general ledger did not correspond with revenue and expense accounts used during the first half of the year when the broadband financial activity was included with the Electric Utility. As a result of using different revenue and expense classifications during the course of the year and inconsistencies in posting, transactions among the various categories, all revenue and expenses categories were grouped together and reported as one total instead of providing a detail as to the type of revenue earned and the expenses incurred.

The newly created general ledger established for broadband was incomplete in that the balances of financial activity that existed prior to the separation from the Electric Utility were not incorporated into the new general ledger.

City officials indicated the above deficiencies were attributed to the broadband service being a fairly new venture.

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

Controls over the receipting, disbursing, recording and accounting for financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Accounting and other public records must be maintained in a manner that will support accurate financial statements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Invoices should be pre-numbered in order to ensure that all invoices are properly accounted for and in order to ensure collection for services rendered. An accounts receivable control should be maintained and reconciled monthly with the subsidiary records. A customer record should be created documenting amounts invoiced, payments made and balances owed. Documentation should exist to support all entries made to customer accounts.

Failure to maintain proper controls over billings and other entries made to customer accounts could result in improper recording of financial transactions and fraudulent entries being made in order to conceal theft.

Revenue and expense categories should be established to properly reflect financial activity. Transactions should be consistently posted to the categories established. Accurate financial reporting is necessary in order for management to make informed financial decisions.

FINDING 2005-4, ADVANCE PAYROLL PAYMENTS

Compensation to employees was paid in advance of the employees performing the service. Pay checks were issued on Wednesday morning that included payment for work that was to be performed on that Wednesday. Since the hourly employees had not yet worked to the end of the pay period, an estimate of the hours that were worked was made in order to process the payroll.

An instance was noted in which an employee was paid on Wednesday for work that was not performed until the following Thursday and Friday. The pay check was issued to the employee on July 13th for two days regular hours worked and three vacation days for the payroll period July 14 to July 20.

City officials stated that the payment of salaries had historically been paid in this manner. Officials did not want to place undue hardship on City employees by changing the payment cycle and thus delaying issuing of payroll checks in order to change the payment cycle.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Payment of salaries in advance could result in payment of salaries for which no work was performed.

We recommend that the City change the date in which payroll checks are issued so that adequate time is allowed to process the payroll based upon the actual number of hours worked. Employees should not be paid in advance of services performed.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

2 East McClain Ave.
Scottsburg, Indiana 47170

City of Scottsburg

Indiana

KELLY NEUHAUSER
City Clerk/Treasurer

812-752-4343
Fax 812-752-1483
E-Mail: kmneu@aol.com

Finding Number 2004-12, Cash Management

Original SBA Audit Report Number: B26720
Fiscal Year: 2004
Auditee Contact Person: Kelly Neuhauser
Title of Contact Person: Clerk-Treasurer
Phone Number: (812) 752-4343
Status of Finding: Corrective action was taken.



Kelly Neuhauser, Clerk-Treasurer

10-12-06

Date

KELLY NEUHAUSER
City Clerk/Treasurer

Finding No. 2005-1, Annual Financial Report

Contract Person: Kelly Neuhauser
Title: Clerk-Treasurer
Phone Number: (812) 752-4343
Expected Completion Date: December 2006

Procedures will be implemented to review the completed annual financial report to verify the figures agree with the financial records.

Finding No. 2005-2, Payroll Records

Contract Person: Kelly Neuhauser
Title: Clerk-Treasurer
Phone Number: (812) 752-4343
Expected Completion Date: December 2006

Corrections will be made to the financial records for previous errors in recording payroll transactions. The payroll control account will be reconciled with the subsidiary account on a monthly basis to ensure transactions are properly recorded in the future.

Finding No. 2005-3, Broadband Service Financial Reporting

Contract Person: Kelly Neuhauser
Title: Clerk-Treasurer
Phone Number: (812) 752-4343
Expected Completion Date: December 2006

Corrections will be made to the financial records for failure to incorporate previously existing outstanding customer account balances. The accounts receivable control account will be reconciled monthly with the subsidiary customer accounts balance records.

Supporting documentation will be retained in the future to substantiate all transactions made to customer accounts.

A separate accounts receivable control account will be maintained for miscellaneous customer billings and will be reconciled monthly with the subsidiary records. Invoices for miscellaneous billings will be pre-numbered to provide accountability over items invoiced.

A general ledger will be maintained to properly record and classify revenue and expense transactions. Entries will be made to the general ledger to properly reflect previous existing balances.

2 East McClain Ave.
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City of Scottsburg

Indiana

812-752-4343
Fax 812-752-1483
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KELLY NEUHAUSER
City Clerk/Treasurer

Finding No. 2005-4, Advance Payroll Payments

Contract Person: Kelly Neuhauser
Title: Clerk-Treasurer
Phone Number: (812) 752-4343
Expected Completion Date: December 2006

Procedures will be implemented to document any employee leave time taken on the last day of the pay period so that adjustments can be made to subsequent payroll for any leave time taken.

Kelly Neuhauser
Name

Clerk - Treasurer
Title

8-1-06
Date

CITY OF SCOTTSBURG
EXIT CONFERENCE

The contents of this report were discussed on October 12, 2006, with William H. Graham, Mayor; and Kelly Neuhauser, Clerk-Treasurer. The officials concurred with our audit findings.