

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

ANNUAL FINANCIAL REPORT

2008

CITY OF NORTH VERNON

JENNINGS COUNTY, INDIANA



FILED
09/01/2009

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Roger W. Short	01-01-08 to 12-31-11
Mayor	Harold N. Campbell	01-01-08 to 12-31-11
President of the Common Council	David Shaw	01-01-08 to 12-31-09
Chairman of the Utility Service Board	Jack Kelley	01-01-08 to 12-31-09
Superintendent of Water Utility	Dean Jones Mike Hess	01-01-08 to 03-31-08 04-01-08 to 12-31-09
Superintendent of Wastewater Utility	David McCorvie (Office Vacant) Russell Vaught/Mike Anderson (Interim)	01-01-08 to 03-31-09 04-01-09 to 04-12-09 04-13-09 to 12-31-09
Utility Office Manager	Deanna Salyers	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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 NORTH VERNON, JENNINGS 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 North Vernon (City), as of and for the year ended December 31, 2008, 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.

In our opinion, 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, 2008, 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 July 13, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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 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 required parts 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

July 13, 2009



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF NORTH VERNON, JENNINGS COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Vernon (City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 13, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in item 2008-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2008-1 to be a material weakness.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management in a separate letter dated July 13, 2009.

The City's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response and Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, Common Council, 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

July 13, 2009

CITY OF NORTH VERNON
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2008

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		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 2,399,358	\$ 366,064	\$ 48,020	\$ 757,176	\$ (1,228,098)	\$ -	\$ (1,228,098)
Public safety	1,826,973	41,047	23,332	-	(1,762,594)	-	(1,762,594)
Highways and streets	716,968	-	14,399	-	(702,569)	-	(702,569)
Sanitation	244,421	115,606	-	-	(128,815)	-	(128,815)
Economic development	598,443	-	-	-	(598,443)	-	(598,443)
Culture and recreation	341,252	152,916	-	-	(188,336)	-	(188,336)
Urban redevelopment and housing	58	-	-	-	(58)	-	(58)
Principal and interest on indebtedness	1,348,797	-	-	-	(1,348,797)	-	(1,348,797)
Total governmental activities	7,476,270	675,633	85,751	757,176	(5,957,710)	-	(5,957,710)
Business-type activities:							
Water	2,106,803	1,924,584	-	-	-	(182,219)	(182,219)
Wastewater	1,438,238	1,446,433	-	-	-	8,195	8,195
Total business-type activities	3,545,041	3,371,017	-	-	-	(174,024)	(174,024)
Total primary government	\$ 11,021,311	\$ 4,046,650	\$ 85,751	\$ 757,176	(5,957,710)	(174,024)	(6,131,734)
General receipts:							
Property taxes					3,897,160	-	3,897,160
Intergovernmental					1,579,504	-	1,579,504
Other local sources					588,125	-	588,125
Investment earnings					104,267	150,167	254,434
Net customer deposits					-	19,604	19,604
Transfers					239,960	(239,960)	-
Total general receipts and transfers					6,409,016	(70,189)	6,338,827
Change in net assets					451,306	(244,213)	207,093
Net assets - beginning					7,197,342	6,153,589	13,350,931
Net assets - ending					\$ 7,648,648	\$ 5,909,376	\$ 13,558,024
Assets							
Cash and investments					\$ 924,466	\$ 1,276,753	\$ 2,201,219
Cash with fiscal agent					1,334,836	-	1,334,836
Restricted assets:							
Cash and investments					5,389,346	4,632,623	10,021,969
Total assets					\$ 7,648,648	\$ 5,909,376	\$ 13,558,024
Net Assets							
Restricted for:							
General government					\$ 291,611	\$ -	\$ 291,611
Public safety					53,476	-	53,476
Highways and streets					228,241	-	228,241
Sanitation					44,408	-	44,408
Economic development					470,129	-	470,129
Culture and recreation					94,933	-	94,933
Urban redevelopment and housing					23,423	-	23,423
Debt service					-	1,968,666	1,968,666
Capital outlay					5,517,961	2,579,157	8,097,118
Customer deposits					-	84,800	84,800
Unrestricted					924,466	1,276,753	2,201,219
Total net assets					\$ 7,648,648	\$ 5,909,376	\$ 13,558,024

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

CITY OF NORTH VERNON
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, 2008

	General	Aviation Grant AIP #3-18-0063-08	Redevelopment Commission Number 1	Redevelopment Commission Number 2	Other Governmental Funds	Totals
Receipts:						
Taxes	\$ 1,563,805	\$ -	\$ 1,831,411	\$ -	\$ 501,944	\$ 3,897,160
Licenses and permits	-	-	-	-	2,475	2,475
Intergovernmental	1,033,881	685,144	-	-	703,406	2,422,431
Charges for services	58,027	-	-	-	617,606	675,633
Fines and forfeits	680	-	-	-	4,340	5,020
Interfund loans	-	-	-	-	85,000	85,000
Other	69,586	10,972	211,702	21,072	371,565	684,897
Total receipts	2,725,979	696,116	2,043,113	21,072	2,286,336	7,772,616
Disbursements:						
General government	677,062	-	-	-	750,616	1,427,678
Public safety	1,639,625	-	-	-	55,943	1,695,568
Highways and streets	77,314	-	-	-	511,839	589,153
Sanitation	119,310	-	-	-	125,111	244,421
Economic development	-	-	159,958	31,749	96,196	287,903
Culture and recreation	77,392	-	-	-	263,860	341,252
Urban redevelopment and housing	-	-	-	-	58	58
Interfund loans	-	-	-	85,000	-	85,000
Debt service:						
Principal	-	-	-	520,000	169,957	689,957
Interest	-	-	-	630,144	28,696	658,840
Capital outlay:						
General government	6,813	826,480	-	-	138,387	971,680
Public safety	116,352	-	-	-	15,053	131,405
Highways and streets	-	-	-	-	127,815	127,815
Economic development	-	-	-	310,540	-	310,540
Total disbursements	2,713,868	826,480	159,958	1,577,433	2,283,531	7,561,270
Excess (deficiency) of receipts over disbursements	12,111	(130,364)	1,883,155	(1,556,361)	2,805	211,346
Other financing sources (uses):						
Transfers in	15,000	123,267	-	956,568	398,630	1,493,465
Transfers out	(50,000)	-	(839,875)	-	(363,630)	(1,253,505)
Total other financing sources (uses)	(35,000)	123,267	(839,875)	956,568	35,000	239,960
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(22,889)	(7,097)	1,043,280	(599,793)	37,805	451,306
Cash and investment fund balance - beginning	758,099	96,783	2,193,732	1,934,629	2,214,099	7,197,342
Cash and investment fund balance - ending	\$ 735,210	\$ 89,686	\$ 3,237,012	\$ 1,334,836	\$ 2,251,904	\$ 7,648,648
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ 735,210	\$ -	\$ -	\$ -	\$ 189,256	\$ 924,466
Cash with fiscal agent	-	-	-	1,334,836	-	1,334,836
Restricted assets:						
Cash and investments	-	89,686	3,237,012	-	2,062,648	5,389,346
Total cash and investment assets - ending	\$ 735,210	\$ 89,686	\$ 3,237,012	\$ 1,334,836	\$ 2,251,904	\$ 7,648,648
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
General government	\$ -	\$ 89,686	\$ -	\$ -	\$ 201,925	\$ 291,611
Public safety	-	-	-	-	53,476	53,476
Highways and streets	-	-	-	-	228,241	228,241
Sanitation	-	-	-	-	44,408	44,408
Economic development	-	-	-	-	470,129	470,129
Culture and recreation	-	-	-	-	94,933	94,933
Urban redevelopment and housing	-	-	-	-	23,423	23,423
Capital outlay	-	-	3,237,012	1,334,836	946,113	5,517,961
Unrestricted	735,210	-	-	-	189,256	924,466
Total cash and investment fund balance - ending	\$ 735,210	\$ 89,686	\$ 3,237,012	\$ 1,334,836	\$ 2,251,904	\$ 7,648,648

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

CITY OF NORTH VERNON
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, 2008

	Water Utility	Wastewater Utility	Totals
Operating receipts:			
Metered/measured	\$ 1,905,922	\$ 1,259,622	\$ 3,165,544
Fees	2,725	35,441	38,166
Storm water receipts	-	125,906	125,906
Miscellaneous	<u>15,937</u>	<u>25,464</u>	<u>41,401</u>
Total operating receipts	<u>1,924,584</u>	<u>1,446,433</u>	<u>3,371,017</u>
Operating disbursements:			
Water treatment	293,760	-	293,760
Transmission and distribution	308,085	-	308,085
Customer accounts	30,172	12,830	43,002
Administration and general	441,213	240,555	681,768
Collection system	-	293,184	293,184
Treatment and disposal	-	622,133	622,133
Equipment and capital improvements	<u>513,385</u>	<u>267,511</u>	<u>780,896</u>
Total operating disbursements	<u>1,586,615</u>	<u>1,436,213</u>	<u>3,022,828</u>
Excess of operating receipts over operating disbursements	<u>337,969</u>	<u>10,220</u>	<u>348,189</u>
Nonoperating receipts (disbursements):			
Investment income	63,620	86,547	150,167
Net customer deposits	19,604	-	19,604
Miscellaneous disbursements	-	(2,025)	(2,025)
Debt service of principal	(200,000)	-	(200,000)
Interest disbursements	<u>(320,188)</u>	<u>-</u>	<u>(320,188)</u>
Total nonoperating receipts (disbursements)	<u>(436,964)</u>	<u>84,522</u>	<u>(352,442)</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(98,995)	94,742	(4,253)
Transfers out	<u>-</u>	<u>(239,960)</u>	<u>(239,960)</u>
Deficiency of receipts under disbursements and transfers out	(98,995)	(145,218)	(244,213)
Cash and investment fund balance - beginning	<u>2,420,401</u>	<u>3,733,188</u>	<u>6,153,589</u>
Cash and investment fund balance - ending	<u>\$ 2,321,406</u>	<u>\$ 3,587,970</u>	<u>\$ 5,909,376</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 518,337	\$ 758,416	\$ 1,276,753
Restricted assets:			
Cash and investments	<u>1,803,069</u>	<u>2,829,554</u>	<u>4,632,623</u>
Total cash and investment assets - December 31	<u>\$ 2,321,406</u>	<u>\$ 3,587,970</u>	<u>\$ 5,909,376</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 747,481	\$ 1,221,185	\$ 1,968,666
Capital outlay	970,788	1,608,369	2,579,157
Customer deposits	84,800	-	84,800
Unrestricted	<u>518,337</u>	<u>758,416</u>	<u>1,276,753</u>
Total cash and investment fund balance - December 31	<u>\$ 2,321,406</u>	<u>\$ 3,587,970</u>	<u>\$ 5,909,376</u>

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

CITY OF NORTH VERNON
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2008

	Pension Trust Fund	Agency Funds
Additions:		
Contributions:		
Employer	\$ 48,382	
State	52,345	
Total additions	100,727	
Deductions:		
Benefits	92,538	
Total deductions	92,538	
Excess of total additions over total deductions	8,189	
Cash and investment fund balance - beginning	78,166	
Cash and investment fund balance - ending	\$ 86,355	\$ 24,986

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

CITY OF NORTH VERNON
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, culture and recreation, sanitation, municipal airport, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and economic development.

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

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

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, fund equity, 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 aviation grant AIP #3-18-0063-08 fund accounts for federal grant funds received to be used for airport security and wildlife deterrent at the North Vernon Municipal Airport.

The redevelopment commission number 1 fund accounts for taxes received from a tax increment financing (TIF) district used for the acquisition and redevelopment of property located in the TIF district.

The redevelopment commission number 2 fund is monies held by a trustee to pay indebtedness on revenue bonds benefiting the district and to pay for infrastructure acquisitions within the district. The fund is financed by transfers from the redevelopment commission fund number 1.

CITY OF NORTH VERNON
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.

Additionally, the City reports the following fund types:

The pension trust fund account for the activities of the 1925 police pension plan which accumulate resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for employees and for contractors doing business with 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 its utilities. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

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.

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

3. 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.

4. 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.

5. 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."

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

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:

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

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.

Prior to the first required publication, 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.

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. The City does not have a deposit policy for custodial credit risk. At December 31, 2008, the City had deposit balances in the amount of \$11,076,271.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

As of December 31, 2008, the City had the following investments:

<u>Investment Type</u>	<u>Primary Government Market Value</u>
Mutual funds	<u>\$ 1,334,836</u>

Statutory Authorization for Investments

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 City 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 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 City'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.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, were as follows:

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Transfer From	Transfer To	
General Fund	Other governmental funds	\$ 50,000
Redevelopment Commission No. 1	Aviation Grant AIP #3-18-0063-08	123,267
Redevelopment Commission No. 1	Redevelopment Commission No. 2	716,608
Wastewater Utility	Redevelopment Commission No. 2	239,960
Other governmental funds	General Fund	15,000
Other governmental funds	Other governmental funds	348,630
 Total		 \$ 1,493,465

The City typically uses transfers for cash flow purposes as provided by various statutory provisions.

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 2001, 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 compensation claims. The City pays an annual premium to the risk pool for its worker compensation claims coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Postemployment Benefits

In addition to the pension benefits described below, the City provides postemployment health, dental and vision insurance benefits, as authorized by Indiana Code 5-10-8, to public safety employees who retire from the City on or after attaining age fifty-five with at least twenty years of service. Currently, 4 retirees meet these eligibility requirements. The City and retirees provide 75% and 25%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2008, disbursements of \$22,794 were recognized for postemployment benefits.

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Forgiveable Loan

In 2002, the City agreed to be a recipient for a Community Development Block Grant through the Indiana Housing Finance Authority for North Vernon Senior Housing, Inc., (Senior Housing) for the rehabilitation of sixty-eight rental units. The form of assistance was a forgiveable loan. On April 1, 2004, Senior Housing entered into a loan promising to repay the City the amount of assistance, which is \$448,280, payable at the rate of \$89,656 per year for five years. The first payment was due April 1, 2005. As long as the Senior Housing Facility remains a low-income facility, the payments will be forgiveable.

D. Subsequent Events

Beginning in 2009, the State Pension Relief Fund shall pay to each unit of local government with Pre-1977 Local Police and Fire Fighter Pension obligations, the total amount of pension, disability, and survivor benefit payments. The Pre-1977 funds include the 1925 Police Pension Fund, the 1937 Firefighters' Fund, and the 1953 Police Pension Fund. For property taxes due and payable after December 31, 2008, the Department of Local Government Finance shall reduce the maximum permissible property tax levy of any civil taxing unit and special service district by the amount of the payment to be made in 2009 by the State for the obligations.

E. Rate Structure – Enterprise Funds

Water Utility

On March 3, 1997, the City Council adopted Ordinance 763 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on November 26, 2007.

Wastewater Utility

The current rate structure was approved by the City Council on February 23, 2009.

F. 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 NORTH VERNON
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 NORTH VERNON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension
Annual required contribution	\$ 129,885	\$ 99,300
Interest on net pension obligation	482	38,600
Adjustment to annual required contribution	(549)	(48,000)
Annual pension cost	129,818	89,900
Contributions made	119,486	88,654
Increase in net pension obligation	10,332	1,246
Net pension obligation, beginning of year	6,643	643,302
Net pension obligation, end of year	\$ 16,975	\$ 644,548

	PERF	1925 Police Officers' Pension
Contribution rates:		
City	8.75%	N/A
Plan members	3%	6%
Actuarial valuation date	07-01-08	01-01-08
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	30 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

N/A = Not available

Actuarial Assumptions	PERF	1925 Police Officers' Pension
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 NORTH VERNON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-06	\$ 101,373	91%	\$ (11,146)
	06-30-07	114,749	84%	6,643
	06-30-08	129,818	92%	16,975
1925 Police Officers' Pension Plan	12-31-05	92,800	103%	641,820
	12-31-06	91,600	98%	643,302
	12-31-07	89,900	99%	644,548

Membership in the 1925 Police Officers' Pension Plan at January 1, 2008, was comprised of the following:

	<u>1925 Police Officers' Pension</u>
Retirees and beneficiaries currently receiving benefits	5

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

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 NORTH VERNON
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, 2008, 2007, and 2006, were \$175,935, \$164,447, and \$163,774, respectively, equal to the required contributions for each year.

CITY OF NORTH VERNON
 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)
07-01-06	\$ 932,813	\$ 1,440,414	\$ (507,601)	65%	\$ 1,361,189	(37%)
07-01-07	1,102,122	1,595,801	(493,679)	69%	1,573,614	(31%)
07-01-08	1,149,250	1,655,433	(506,183)	69%	1,551,325	(33%)

1925 Police Officer's 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)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-02	\$ 94,669	\$ 1,489,400	\$ (1,394,731)	6%	*	*
01-01-03	94,946	1,779,900	(1,684,954)	5%	*	*
01-01-04	86,603	1,484,900	(1,398,297)	6%	*	*
01-01-05	74,773	1,429,300	(1,354,527)	5%	*	*
01-01-06	80,453	1,402,800	(1,322,347)	6%	*	*
01-01-07	80,201	1,370,500	(1,290,299)	6%	*	*

* No covered payroll

CITY OF NORTH VERNON
 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 *		
1925 Police Officers' Pension Plan	12-31-02	\$ 155,900	59%		
	12-31-03	194,100	44%		
	12-31-04	169,900	50%		
	12-31-05	100,900	94%		
	12-31-06	100,300	90%		
	12-31-07	99,300	89%		

* Information to provide percentage by contributing entity is not available.

CITY OF NORTH VERNON
 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, 2008

	Motor Vehicle Highway	Local Road and Street	Cemetery	Aviation	North Vernon Community Development	Riverboat	Park and Recreation
Receipts:							
Taxes	\$ 200,935	\$ -	\$ 34,426	\$ -	\$ -	\$ -	\$ 129,348
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	208,879	27,788	3,148	-	-	40,869	8,849
Charges for services	-	-	2,000	10,833	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-
Other	1,560	12,166	323	99,535	34,673	-	1,590
Total receipts	411,374	39,954	39,897	110,368	34,673	40,869	139,787
Disbursements:							
General government	-	-	36,038	93,389	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	470,983	40,856	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Economic development	-	-	-	-	26,196	-	-
Culture and recreation	-	-	-	-	-	-	133,266
Urban redevelopment and housing	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	19,759	-	-	-
Interest	-	-	-	4,300	-	-	-
Capital outlay:							
General government	-	-	2,300	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Total disbursements	470,983	40,856	38,338	117,448	26,196	-	133,266
Excess (deficiency) of receipts over disbursements	(59,609)	(902)	1,559	(7,080)	8,477	40,869	6,521
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	(59,609)	(902)	1,559	(7,080)	8,477	40,869	6,521
Cash and investment fund balance - beginning	243,668	45,084	20,412	52,629	326,655	116,163	64,475
Cash and investment fund balance - ending	\$ 184,059	\$ 44,182	\$ 21,971	\$ 45,549	\$ 335,132	\$ 157,032	\$ 70,996
Cash and Investment Assets - Ending							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 157,032	\$ -
Restricted assets:							
Cash and investments	184,059	44,182	21,971	45,549	335,132	-	70,996
Total cash and investment assets - ending	\$ 184,059	\$ 44,182	\$ 21,971	\$ 45,549	\$ 335,132	\$ 157,032	\$ 70,996
Cash and Investment Fund Balance - Ending							
Restricted for:							
General government	\$ -	\$ -	\$ 21,971	\$ 45,549	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-
Highways and streets	184,059	44,182	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Economic development	-	-	-	-	335,132	-	-
Culture and recreation	-	-	-	-	-	-	70,996
Urban redevelopment and housing	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	157,032	-
Total cash and investment fund balance - ending	\$ 184,059	\$ 44,182	\$ 21,971	\$ 45,549	\$ 335,132	\$ 157,032	\$ 70,996

CITY OF NORTH VERNON
 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, 2008
 (Continued)

	Rainy Day Fund	Economic Development Income Tax	Police Donation	Alarm Fee Nonreverting	Workforce Grant	Impound Fee Nonreverting
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	2,475	-	-
Intergovernmental	9,877	225,851	-	-	48,020	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	4,340
Interfund loans	-	-	-	-	-	-
Other	-	-	102	-	-	-
Total receipts	9,877	225,851	102	2,475	48,020	4,340
Disbursements:						
General government	-	-	-	-	125,705	-
Public safety	-	-	1,389	770	-	770
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Economic development	-	70,000	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Total disbursements	-	70,000	1,389	770	125,705	770
Excess (deficiency) of receipts over disbursements	9,877	155,851	(1,287)	1,705	(77,685)	3,570
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	(348,630)	-	-	-	-
Total other financing sources (uses)	-	(348,630)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	9,877	(192,779)	(1,287)	1,705	(77,685)	3,570
Cash and investment fund balance - beginning	26,670	327,776	4,666	1,214	77,685	825
Cash and investment fund balance - ending	\$ 36,547	\$ 134,997	\$ 3,379	\$ 2,919	\$ -	\$ 4,395
Cash and Investment Assets - Ending						
Cash and investments	\$ 36,547	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	-	134,997	3,379	2,919	-	4,395
Total cash and investment assets - ending	\$ 36,547	\$ 134,997	\$ 3,379	\$ 2,919	\$ -	\$ 4,395
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	3,379	2,919	-	4,395
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Economic development	-	134,997	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	36,547	-	-	-	-	-
Total cash and investment fund balance - ending	\$ 36,547	\$ 134,997	\$ 3,379	\$ 2,919	\$ -	\$ 4,395

CITY OF NORTH VERNON
 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, 2008
 (Continued)

	North Vernon Education and Training Center	Waste Disposal and Recycling Fee	Downtown Revitalization Project	Law Enforcement Continuing Education	Police Drug Task Force	Law Enforcement Grant
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	23,332	-
Charges for services	-	113,606	-	15,125	-	-
Fines and forfeits	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Other	153,782	-	297	27,950	1,680	-
Total receipts	153,782	113,606	297	43,075	25,012	-
Disbursements:						
General government	125,905	-	-	-	-	-
Public safety	-	-	-	21,994	28,295	1
Highways and streets	-	-	-	-	-	-
Sanitation	-	125,111	-	-	-	-
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	58	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	15,053	-	-
Highways and streets	-	-	-	-	-	-
Total disbursements	125,905	125,111	58	37,047	28,295	1
Excess (deficiency) of receipts over disbursements	27,877	(11,505)	239	6,028	(3,283)	(1)
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	27,877	(11,505)	239	6,028	(3,283)	(1)
Cash and investment fund balance - beginning	30,134	55,913	23,184	18,240	18,252	1
Cash and investment fund balance - ending	\$ 58,011	\$ 44,408	\$ 23,423	\$ 24,268	\$ 14,969	\$ -
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	58,011	44,408	23,423	24,268	14,969	-
Total cash and investment assets - ending	\$ 58,011	\$ 44,408	\$ 23,423	\$ 24,268	\$ 14,969	\$ -
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ 58,011	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	24,268	14,969	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	44,408	-	-	-	-
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	23,423	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - ending	\$ 58,011	\$ 44,408	\$ 23,423	\$ 24,268	\$ 14,969	\$ -

CITY OF NORTH VERNON
 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, 2008
 (Continued)

	Aviation Grant AIP-#3-18-0063-07	Aviation- Bishop Hangar	Aviation Rotary	Aviation Grant AIP-#3-18-0063-09	Aviation Grant AIP-#3-18-0063-05	Aviation NVIC Hangar
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	13,944	-	-	58,088	-	-
Charges for services	-	-	366,064	-	-	-
Fines and forfeits	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	85,000
Other	-	15,000	-	-	-	-
Total receipts	13,944	15,000	366,064	58,088	-	85,000
Disbursements:						
General government	-	10,200	359,379	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	10,650	-	-	40,437	-	85,000
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Total disbursements	10,650	10,200	359,379	40,437	-	85,000
Excess (deficiency) of receipts over disbursements	3,294	4,800	6,685	17,651	-	-
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	3,294	4,800	6,685	17,651	-	-
Cash and investment fund balance - beginning	2,241	3,097	29,316	-	2,233	-
Cash and investment fund balance - ending	<u>\$ 5,535</u>	<u>\$ 7,897</u>	<u>\$ 36,001</u>	<u>\$ 17,651</u>	<u>\$ 2,233</u>	<u>\$ -</u>
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	5,535	7,897	36,001	17,651	2,233	-
Total cash and investment assets - ending	<u>\$ 5,535</u>	<u>\$ 7,897</u>	<u>\$ 36,001</u>	<u>\$ 17,651</u>	<u>\$ 2,233</u>	<u>\$ -</u>
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ 5,535	\$ 7,897	\$ 36,001	\$ 17,651	\$ 2,233	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - ending	<u>\$ 5,535</u>	<u>\$ 7,897</u>	<u>\$ 36,001</u>	<u>\$ 17,651</u>	<u>\$ 2,233</u>	<u>\$ -</u>

CITY OF NORTH VERNON
 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, 2008
 (Continued)

	Aviation A.W.O.S.	Fire Department Nonreverting	Park Nonreverting Operating	Railroad Nonreverting	Hillcrest Cemetery	Concession Fund
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	3,783	57,863	-	-	48,332
Fines and forfeits	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Other	-	2,025	2,050	18,828	-	-
Total receipts	-	5,808	59,913	18,828	-	48,332
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	2,724	-	-	-	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	55,907	18,625	-	56,062
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Total disbursements	-	2,724	55,907	18,625	-	56,062
Excess (deficiency) of receipts over disbursements	-	3,084	4,006	203	-	(7,730)
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	-	3,084	4,006	203	-	(7,730)
Cash and investment fund balance - beginning	77	462	12,053	-	7,000	15,405
Cash and investment fund balance - ending	\$ 77	\$ 3,546	\$ 16,059	\$ 203	\$ 7,000	\$ 7,675
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	77	3,546	16,059	203	7,000	7,675
Total cash and investment assets - ending	\$ 77	\$ 3,546	\$ 16,059	\$ 203	\$ 7,000	\$ 7,675
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ 77	\$ -	\$ -	\$ -	\$ 7,000	\$ -
Public safety	-	3,546	-	-	-	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	16,059	203	-	7,675
Urban redevelopment and housing	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - ending	\$ 77	\$ 3,546	\$ 16,059	\$ 203	\$ 7,000	\$ 7,675

CITY OF NORTH VERNON
 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, 2008
 (Continued)

	Debt Bond Service	Cumulative Capital Development	Cumulative Capital Improvement	Greensburg Street Phase I & II	Hayden Pike	Totals
Receipts:						
Taxes	\$ 58,079	\$ 79,156	\$ -	\$ -	\$ -	\$ 501,944
Licenses and permits	-	-	-	-	-	2,475
Intergovernmental	5,745	7,829	21,187	-	-	703,406
Charges for services	-	-	-	-	-	617,606
Fines and forfeits	-	-	-	-	-	4,340
Interfund loans	-	-	-	-	-	85,000
Other	-	4	-	-	-	371,565
Total receipts	63,824	86,989	21,187	-	-	2,286,336
Disbursements:						
General government	-	-	-	-	-	750,616
Public safety	-	-	-	-	-	55,943
Highways and streets	-	-	-	-	-	511,839
Sanitation	-	-	-	-	-	125,111
Economic development	-	-	-	-	-	96,196
Culture and recreation	-	-	-	-	-	263,860
Urban redevelopment and housing	-	-	-	-	-	58
Debt service:						
Principal	135,540	14,658	-	-	-	169,957
Interest	23,531	865	-	-	-	28,696
Capital outlay:						
General government	-	-	-	-	-	138,387
Public safety	-	-	-	-	-	15,053
Highways and streets	-	-	-	18,700	109,115	127,815
Total disbursements	159,071	15,523	-	18,700	109,115	2,283,531
Excess (deficiency) of receipts over disbursements	(95,247)	71,466	21,187	(18,700)	(109,115)	2,805
Other financing sources (uses):						
Transfers in	-	-	-	89,530	309,100	398,630
Transfers out	-	-	(15,000)	-	-	(363,630)
Total other financing sources (uses)	-	-	(15,000)	89,530	309,100	35,000
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(95,247)	71,466	6,187	70,830	199,985	37,805
Cash and investment fund balance - beginning	90,924	135,975	69,300	163,570	228,800	2,214,099
Cash and investment fund balance - ending	\$ (4,323)	\$ 207,441	\$ 75,487	\$ 234,400	\$ 428,785	\$ 2,251,904
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ (4,323)	\$ -	\$ -	\$ -	\$ -	\$ 189,256
Restricted assets:						
Cash and investments	-	207,441	75,487	234,400	428,785	2,062,648
Total cash and investment assets - ending	\$ (4,323)	\$ 207,441	\$ 75,487	\$ 234,400	\$ 428,785	\$ 2,251,904
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201,925
Public safety	-	-	-	-	-	53,476
Highways and streets	-	-	-	-	-	228,241
Sanitation	-	-	-	-	-	44,408
Economic development	-	-	-	-	-	470,129
Culture and recreation	-	-	-	-	-	94,933
Urban redevelopment and housing	-	-	-	-	-	23,423
Capital outlay	-	207,441	75,487	234,400	428,785	946,113
Unrestricted	(4,323)	-	-	-	-	189,256
Total cash and investment fund balance - ending	\$ (4,323)	\$ 207,441	\$ 75,487	\$ 234,400	\$ 428,785	\$ 2,251,904

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2008

	Payroll Fund	Street Cut	Bansal Construction Retainage	Dave O'Mara Construction Retainage	Dave O'Mara Construction Retainage	Totals
Additions:						
Agency fund additions	\$ 2,581,666	\$ 5,000	\$ 47,041	\$ 6,445	\$ 9,852	\$ 2,650,004
Deductions:						
Agency fund deductions	2,581,706	4,775	44,312	-	-	2,630,793
Excess (deficiency) of total additions over total deductions	(40)	225	2,729	6,445	9,852	19,211
Cash and investment fund balance - beginning	-	5,775	-	-	-	5,775
Cash and investment fund balance - ending	<u>\$ (40)</u>	<u>\$ 6,000</u>	<u>\$ 2,729</u>	<u>\$ 6,445</u>	<u>\$ 9,852</u>	<u>\$ 24,986</u>

CITY OF NORTH VERNON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2008

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 (those reported by governmental activities) are included regardless of their acquisition date or amount. 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	\$ 2,994,384
Infrastructure	7,352,641
Easements	1,140,050
Buildings	6,531,318
Improvements other than buildings	7,923,934
Machinery and equipment	<u>5,756,761</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 31,699,088</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 14,300
Buildings	245,717
Improvements other than buildings	8,771,934
Machinery and equipment	<u>232,663</u>
 Total Water Utility capital assets	 <u>9,264,614</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	91,962
Buildings	325,000
Improvements other than buildings	19,993,182
Machinery and equipment	<u>681,947</u>
 Total Wastewater Utility capital assets	 <u>21,092,091</u>
 Total business-type activities capital assets	 <u>\$ 30,356,705</u>

CITY OF NORTH VERNON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2008

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Fire rescue truck	\$ 16,065	\$ 8,392
Notes and loans payable:		
Airport terminal structure	87,320	24,059
Bonds payable:		
General obligation bonds:		
2004 Fire truck	165,000	87,048
2007 Police cars	246,960	34,864
Revenue bonds:		
2003 Redevelopment district tax increment	4,615,000	312,644
2006 Redevelopment district tax increment	<u>1,680,000</u>	<u>254,147</u>
Total governmental activities debt	<u>\$ 6,810,345</u>	<u>\$ 721,154</u>
Business-type Activities:		
Water Utility:		
Revenue bonds:		
1998 Waterworks	\$ 2,290,000	\$ 162,723
2005 Waterworks	<u>2,160,000</u>	<u>101,934</u>
Total Water Utility	<u>4,450,000</u>	<u>264,657</u>
Wastewater Utility:		
Revenue bonds:		
2006 Tax increment and sewage works revenue	700,000	71,595
2006 Tax increment and sewage works refunding	<u>5,765,000</u>	<u>493,764</u>
Total Wastewater Utility	<u>6,465,000</u>	<u>565,359</u>
Total business-type activities debt	<u>\$ 10,915,000</u>	<u>\$ 830,016</u>

CITY OF NORTH VERNON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - SEGREGATION OF DUTIES

The City and its Utilities do not have adequate segregation of accounting duties or compensating controls in place to ensure the accuracy of financial reporting and the safeguarding of cash as described below:

1. The Deputy Clerk-Treasurer is responsible for the following duties:
 - (a) writing receipts; recording receipts; preparing the deposit ticket and making deposits;
 - (b) writing vendor checks and recording vendor checks in the records;
 - (c) writing payroll checks and recording payroll checks in the records;
 - (d) recording payroll withholding amounts paid and writing payroll withholding checks;
and
 - (e) recording adjustments or corrections to the records.
2. The City part-time Clerk is responsible for performing all duties of the Deputy Clerk-Treasurer; and performing month end bank reconciliations.
3. The Utilities' Office Manager, Administrative Assistant, and Billing Clerk all can and do perform the followings duties:
 - (a) preparing customer billings and posting the charges to the customers' accounts;
 - (b) collecting customers' payments and posting the payments to the customers' accounts;
 - (c) balancing the cash drawer at the end of the day; and
 - (d) preparing the bank deposit tickets.

In addition to the above responsibilities, the Office Manager is responsible for posting any required adjustments to customer accounts.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS (Applies to Wastewater Utility)

Delinquent Wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

CITY OF NORTH VERNON
AUDIT RESULTS AND COMMENTS
(Continued)

IC 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) A description of the premises, as shown by the records of the county auditor; and
 - (C) The amount of the delinquent fees, together with the penalty; or
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

A similar comment was made in prior Reports B29488, B31373, and B33589.

ACCOUNTS RECEIVABLE POLICIES (Applies to Water and Wastewater Utilities)

The Utilities do not have a written policy for writing off bad debts, uncollectible accounts receivable or for making adjustments to accounts receivable.

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. Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs. Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment was made in prior Reports B29488, B31373, and B33589.

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE 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 NORTH VERNON, JENNINGS COUNTY, INDIANA

Compliance

We have audited the compliance of the City of North Vernon (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, 2008. 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. 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, 2008.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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)

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, Common Council, Utility Service Board 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

July 13, 2009

CITY OF NORTH VERNON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2008

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant			
Bulletproof Vest Partnership Program	16.607	2003BUBX03019483	\$ 1,680
Pass-Through Indiana Criminal Justice Institute			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	04-DB-103	<u>3,771</u>
Total for federal grantor agency			<u>5,451</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute			
Highway Safety Cluster			
State and Community Highway Safety	20.600	OP-08-01-01-80	2,214
Operation Pullover		OP-09-01-01-83	<u>1,000</u>
Total for program			<u>3,214</u>
Direct Grant			
Airport Improvement Program	20.106	AIP-3-18-0063-07	9,769
		AIP-3-18-0063-08	796,988
		AIP-3-18-0063-09	<u>38,947</u>
Total for program			<u>845,704</u>
Total for federal grantor agency			<u>848,918</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security			
Disaster Grants - Public Assistance	97.036	DR-1766	<u>17,253</u>
Total for federal grantor agency			<u>17,253</u>
Total federal awards expended			<u>\$ 871,622</u>

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

CITY OF NORTH VERNON
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 North Vernon (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 NORTH VERNON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies 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
20.106	Airport Improvement 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 2008-1, INTERNAL CONTROLS - SEGREGATION OF DUTIES

The City and its Utilities do not have adequate segregation of accounting duties or compensating controls in place to ensure the accuracy of financial reporting and the safeguarding of cash as described below:

1. The Deputy Clerk-Treasurer is responsible for the following duties:
 - (a) writing receipts; recording receipts; preparing the deposit ticket and making deposits;
 - (b) writing vendor checks and recording vendor checks in the records;
 - (c) writing payroll checks and recording payroll checks in the records;

CITY OF NORTH VERNON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (d) recording payroll withholding amounts paid and writing payroll withholding checks;
and
 - (e) recording adjustments or corrections to the records.
2. The City Part-time Clerk is responsible for performing all duties of the Deputy Clerk-Treasurer; and performing month end bank reconciliations.
3. The Utilities' Office Manager, Administrative Assistant and Billing Clerk all can and do perform the followings duties:
- (a) preparing customer billings and posting the charges to the customers' accounts;
 - (b) collecting customers' payments and posting the payments to the customers' accounts;
 - (c) balancing the cash drawer at the end of the day; and
 - (d) preparing the bank deposit tickets.

In addition to the above responsibilities, the Office Manager is responsible for posting any required adjustments to customer accounts.

Segregation of duties is the concept of having different people do different tasks within the organization. Segregation of duties provides the foundation of good internal control by assuring that no one individual is in a position to perpetuate and conceal errors or irregularities in the normal course of their authorized duties. Compensating controls are safeguards put in place to mitigate the effects of the lack of segregation of duties.

The lack of segregation is caused by the City and its Utilities having a small staff that limits the City and its Utilities' ability to segregate accounting duties.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that the City officials make a determination on whether it is practical to enhance segregation of accounting duties or to implement compensating controls.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF NORTH VERNON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

**CITY OF NORTH VERNON
275 MAIN STREET
NORTH VERNON, IN 47265**

COUNCIL MEETINGS – SECOND AND FOURTH MONDAYS

**MAYOR – HAROLD N. CAMPBELL
CLERK-TREASURER – ROGER SHORT
ATTORNEY- JOHN ROCHE
CHIEF OF POLICE- JAMES WEBSTER
STREET COMMISSIONER- RICK MARKSBERRY
FIRE CHIEF – RICK McGILL
PARK DIRECTOR – CHAD SPEER
CEMETERY – ANGIE MARKSBERRY**

**COUNCIL MEMBERS: ALLANE COLBERT
ANTHONY EDER
MATT HURLEY
DAVID SHAW
PATRICK YORK**

July 8, 2009

State Board of Accounts
Re: Findings 2008-1
Internal Controls: Segregation of Duties

To whom it may concern:

Due to the fact the City of North Vernon has a small staff in the Clerk-Treasurer's office and the Utility Office; it is impractical to segregate the duties in an ideal manner.

However, the City is going to review the job duties of the employees in the Clerk-Treasurer's office and the Utility office, in order, to develop and implement more effective segregation of duties controls.

Recently implemented is the change that the City Clerk Treasurer and Deputy Clerk Treasurer are only responsible for making adjustments or corrections to the records not the part-time clerk.

Sincerely,



Roger W. Short
Clerk-Treasurer, City of North Vernon
(812) 346-5907

CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed on July 13, 2009, with Roger W. Short, Clerk-Treasurer; Harold N. Campbell, Mayor; David Shaw, President of the Common Council; Rita L. Elmore, Deputy Clerk-Treasurer; and Deanna Salyers, Utility Office Manager. The official response has been made a part of this report and may be found on page 47.

**CITY OF NORTH VERNON
275 MAIN STREET
NORTH VERNON, IN 47265**

COUNCIL MEETINGS – SECOND AND FOURTH MONDAYS

**MAYOR – HAROLD N. CAMPBELL
CLERK-TREASURER – ROGER SHORT
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PARK DIRECTOR – CHAD SPEER
CEMETERY – ANGIE MARKSBERRY**

**COUNCIL MEMBERS: ALLANE COLBERT
ANTHONY EDER
MATT HURLEY
DAVID SHAW
PATRICK YORK**

July 14, 2009

Indiana State Board of Accounts
302 W. Washington Street
Room E 418
Indianapolis, IN 46204

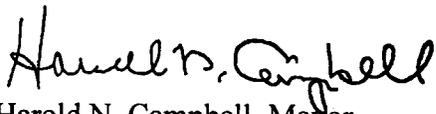
To Whom It May Concern:

The City of North Vernon Municipal Utilities are in the process of implementing a written policy for writing off bad debts, uncollectable accounts receivable and for making adjustments to accounts receivable and delinquent wastewater accounts, the N.V. Utility Board is waiting on the City Attorney to finalize the policy and hope to have it implemented within 30 days. If you have any questions please contact me at (812) 346-5907.

Sincerely,



Roger W. Short, Clerk Treasurer



Harold N. Campbell, Mayor