

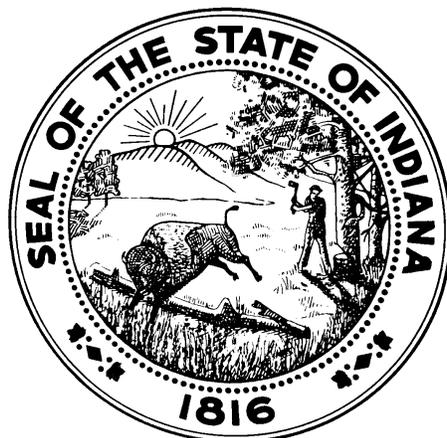
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2008

CITY OF MITCHELL

LAWRENCE COUNTY, INDIANA



FILED
12/31/2009

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	George James	01-01-08 to 12-31-11
Mayor	Daniel Terrell	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Daniel Terrell	01-01-08 to 12-31-09
President of the Common Council	Everett Ferrell Dwight Moore	01-01-08 to 11-03-08 11-04-08 to 12-31-09
Superintendent of Utilities	Tyler S. Duncan	01-01-08 to 12-31-09



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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 MITCHELL, LAWRENCE 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 Mitchell (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.

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, 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 December 9, 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, Schedule of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, is not a required part of the basic financial statements but is 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

December 9, 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 MITCHELL, LAWRENCE 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 Mitchell (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 December 9, 2009. The opinions to the financial statements were qualified due to the omission of the component unit of the City which resulted in incomplete presentation. 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 2008-2 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 2008-2 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.

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

December 9, 2009

CITY OF MITCHELL
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		
					Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 890,174	\$ 13,378	\$ 37,262	\$ -	\$ (839,534)	\$ -	\$ (839,534)
Public safety	683,092	11,699	1,200	-	(670,193)	-	(670,193)
Highways and streets	428,905	95	347,436	25,335	(56,039)	-	(56,039)
Sanitation	103,594	112,092	-	-	8,498	-	8,498
Health and welfare	-	17,425	-	-	17,425	-	17,425
Economic development	586,404	-	-	630,460	44,056	-	44,056
Culture and recreation	132,798	45,321	-	-	(87,477)	-	(87,477)
Urban redevelopment and housing	978	-	-	-	(978)	-	(978)
Principal and interest on indebtedness	29,419	-	-	-	(29,419)	-	(29,419)
Total governmental activities	<u>2,855,364</u>	<u>200,010</u>	<u>385,898</u>	<u>655,795</u>	<u>(1,613,661)</u>	<u>-</u>	<u>(1,613,661)</u>
Business-type activities:							
Wastewater	1,425,740	397,844	-	-	-	(1,027,896)	(1,027,896)
Water	1,449,664	1,034,974	88,008	-	-	(326,682)	(326,682)
Total business-type activities	<u>2,875,404</u>	<u>1,432,818</u>	<u>88,008</u>	<u>-</u>	<u>-</u>	<u>(1,354,578)</u>	<u>(1,354,578)</u>
Total primary government	<u>\$ 5,730,768</u>	<u>\$ 1,632,828</u>	<u>\$ 473,906</u>	<u>\$ 655,795</u>	<u>(1,613,661)</u>	<u>(1,354,578)</u>	<u>(2,968,239)</u>
General receipts:							
Property taxes					1,248,037	-	1,248,037
Income taxes					-	-	-
Intergovernmental					509,413	-	509,413
Other local sources					251,401	30,620	282,021
Net proceeds from borrowings					-	1,024,441	1,024,441
Grants and contributions not restricted to specific programs					33,331	-	33,331
Investment earnings					4,472	26,162	30,634
Total general receipts					<u>2,046,654</u>	<u>1,081,223</u>	<u>3,127,877</u>
Change in net assets					432,993	(273,355)	159,638
Net assets - beginning					128,984	1,725,070	1,854,054
Net assets - ending					<u>\$ 561,977</u>	<u>\$ 1,451,715</u>	<u>\$ 2,013,692</u>
<u>Assets</u>							
Cash and investments					\$ (191,369)	\$ 566,699	\$ 375,330
Restricted assets:							
Cash and investments					753,346	885,016	1,638,362
Total assets					<u>\$ 561,977</u>	<u>\$ 1,451,715</u>	<u>\$ 2,013,692</u>
<u>Net Assets</u>							
Restricted for:							
General government					\$ 9,629	\$ -	\$ 9,629
Public safety					44,286	-	44,286
Economic development					272,846	-	272,846
Culture and recreation					2,439	-	2,439
Urban redevelopment and housing					16,398	-	16,398
Debt service					-	654,531	654,531
Capital outlay					407,748	-	407,748
Other purposes					-	230,485	230,485
Unrestricted					(191,369)	566,699	375,330
Total net assets					<u>\$ 561,977</u>	<u>\$ 1,451,715</u>	<u>\$ 2,013,692</u>

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

CITY OF MITCHELL
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 Fund	Motor Vehicle Highway	Urban Development	Hamilton Blvd	SIDC/Industrial Park	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 994,538	\$ 125,150	\$ -	\$ 53,466	\$ -	\$ 74,883	\$ 1,248,037
Licenses and permits	1,599	-	-	-	-	1,480	3,079
Intergovernmental	393,626	194,415	-	172,432	630,460	187,423	1,578,356
Charges for services	130,769	95	-	-	-	57,968	188,832
Fines and forfeits	2,054	-	-	-	-	6,045	8,099
Interfund loans	510,000	-	-	-	-	-	510,000
Other	226,508	14,011	-	8,466	14	12,955	261,954
Total receipts	2,259,094	333,671	-	234,364	630,474	340,754	3,798,357
Disbursements:							
General government	758,010	-	-	-	-	132,164	890,174
Public safety	659,489	-	-	-	-	1,797	661,286
Highways and streets	-	413,174	-	-	-	11,724	424,898
Sanitation	103,594	-	-	-	-	-	103,594
Economic development	-	-	280	-	-	27,250	27,530
Culture and recreation	-	-	-	-	-	132,798	132,798
Urban redevelopment and housing	-	-	-	-	-	978	978
Interfund loans	510,000	-	-	-	-	-	510,000
Debt service:							
Principal	10,756	-	3,900	-	-	11,923	26,579
Interest	1,559	-	-	-	-	1,281	2,840
Capital outlay:							
Public safety	21,806	-	-	-	-	-	21,806
Highways and streets	-	4,007	-	-	-	-	4,007
Economic development	-	-	-	-	558,874	-	558,874
Total disbursements	2,065,214	417,181	4,180	-	558,874	319,915	3,365,364
Excess (deficiency) of receipts over disbursements	193,880	(83,510)	(4,180)	234,364	71,600	20,839	432,993
Other financing sources (uses):							
Transfers in	-	-	-	-	-	76,646	76,646
Transfers out	(63,860)	(8,107)	-	-	-	(4,679)	(76,646)
Total other financing sources (uses)	(63,860)	(8,107)	-	-	-	71,967	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	130,020	(91,617)	(4,180)	234,364	71,600	92,806	432,993
Cash and investment fund balance - beginning	(131,021)	(1,924)	253,859	-	-	8,070	128,984
Cash and investment fund balance - ending	<u>\$ (1,001)</u>	<u>\$ (93,541)</u>	<u>\$ 249,679</u>	<u>\$ 234,364</u>	<u>\$ 71,600</u>	<u>\$ 100,876</u>	<u>\$ 561,977</u>
Cash and Investment Assets - Ending							
Cash and investments	\$ (1,001)	\$ (93,541)	\$ -	\$ -	\$ -	\$ (96,827)	\$ (191,369)
Restricted assets:							
Cash and investments	-	-	249,679	234,364	71,600	197,703	753,346
Total cash and investment assets - ending	<u>\$ (1,001)</u>	<u>\$ (93,541)</u>	<u>\$ 249,679</u>	<u>\$ 234,364</u>	<u>\$ 71,600</u>	<u>\$ 100,876</u>	<u>\$ 561,977</u>
Cash and Investment Fund Balance - Ending							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,629	\$ 9,629
Public safety	-	-	-	-	-	44,286	44,286
Economic development	-	-	249,679	-	-	23,167	272,846
Culture and recreation	-	-	-	-	-	2,439	2,439
Urban redevelopment and housing	-	-	-	-	-	16,398	16,398
Capital outlay	-	-	-	234,364	71,600	101,784	407,748
Unrestricted	(1,001)	(93,541)	-	-	-	(96,827)	(191,369)
Total cash and investment fund balance - ending	<u>\$ (1,001)</u>	<u>\$ (93,541)</u>	<u>\$ 249,679</u>	<u>\$ 234,364</u>	<u>\$ 71,600</u>	<u>\$ 100,876</u>	<u>\$ 561,977</u>

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

CITY OF MITCHELL
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

	<u>Wastewater</u>	<u>Water</u>	<u>Totals</u>
Operating receipts:			
Metered/measured	\$ 370,201	\$ 971,443	1,341,644
Fire protection receipts	-	30,552	30,552
Interfund loan proceeds	325,000	609,000	934,000
Miscellaneous	<u>27,643</u>	<u>32,979</u>	<u>60,622</u>
Total operating receipts	<u>722,844</u>	<u>1,643,974</u>	<u>2,366,818</u>
Operating disbursements:			
Salaries and wages	210,348	313,795	524,143
Employee pensions and benefits	82,084	139,645	221,729
Chemicals	11,300	146,734	158,034
Material and supplies	24,935	61,125	86,060
Rents	1,943	-	1,943
Bad debt	-	5,199	5,199
Refunds	6,662	7,596	14,258
Equipment and capital improvements	772,705	64,661	837,366
Interfund loans made/repaid	537,000	397,000	934,000
Miscellaneous	<u>305,421</u>	<u>274,185</u>	<u>579,606</u>
Total operating disbursements	<u>1,952,398</u>	<u>1,409,940</u>	<u>3,362,338</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(1,229,554)</u>	<u>234,034</u>	<u>(995,520)</u>
Nonoperating receipts (disbursements):			
Rent	-	30,620	30,620
Investment income	3,346	22,816	26,162
Net proceeds from borrowings	927,422	97,019	1,024,441
Grants	-	88,008	88,008
Debt service of principal	(10,342)	(195,297)	(205,639)
Interest disbursements	<u>-</u>	<u>(241,427)</u>	<u>(241,427)</u>
Total nonoperating receipts (disbursements)	<u>920,426</u>	<u>(198,261)</u>	<u>722,165</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	<u>(309,128)</u>	<u>35,773</u>	<u>(273,355)</u>
Cash and investment fund balance - beginning	<u>905,969</u>	<u>819,101</u>	<u>1,725,070</u>
Cash and investment fund balance - ending	<u>\$ 596,841</u>	<u>\$ 854,874</u>	<u>\$ 1,451,715</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 433,205	\$ 133,494	566,699
Restricted assets:			
Cash and investments	<u>163,636</u>	<u>721,380</u>	<u>885,016</u>
Total cash and investment assets - December 31	<u>\$ 596,841</u>	<u>\$ 854,874</u>	<u>\$ 1,451,715</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 2,612	\$ 651,919	654,531
Other purposes	161,024	69,461	230,485
Unrestricted	<u>433,205</u>	<u>133,494</u>	<u>566,699</u>
Total cash and investment fund balance - December 31	<u>\$ 596,841</u>	<u>\$ 854,874</u>	<u>\$ 1,451,715</u>

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

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

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	<u>Agency Funds</u>
Additions:			
Contributions:			
State	\$ 33,209	\$ -	
Investment earnings:			
Interest	<u>402</u>	<u>-</u>	
Total additions	<u>33,611</u>	<u>-</u>	
Deductions:			
Benefits	<u>54,995</u>	<u>-</u>	
Deficiency of total additions over total deductions	(21,384)	-	
Cash and investment fund balance - beginning	<u>269,746</u>	<u>75,774</u>	
Cash and investment fund balance - ending	<u>\$ 248,362</u>	<u>\$ 75,774</u>	<u>\$ (51,889)</u>

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

CITY OF MITCHELL
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 Town Council form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and housing.

The City's financial reporting entity is composed of the following:

Primary Government:	City of Mitchell
Blended Component Unit:	Mitchell Redevelopment Authority

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

The Mitchell Redevelopment Authority, a blended 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, 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 motor vehicle highway accounts for street and roadway receipts and disbursements.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

The urban development fund accounts for receipts from rent and donations and disbursements for various capital projects. During the current audit period the disbursements were made for the loan payment on the downtown police station.

The hamilton boulevard fund accounts for the construction revenues and expenses for the hamilton boulevard project.

The SIDC/industrial park fund accounts for the grant revenues and expenses for the industrial park project.

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 accounts for the activities of the 1925 police pension fund, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the cemetery fund.

The agency funds account for payroll withholdings held by the City and serve as a control accounts for withholding 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.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 water and wastewater utility. 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. 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.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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."

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 and the similar discretely presented component unit 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.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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.

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.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2008, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2008
General	\$ 352,999
Motor Vehicle Highway	119,824
Local Road and Street	7,047
Park and Recreation	53,286
Transportation	945
 Total	 \$ 534,101

These disbursements were funded by excess fund balances in other funds.

C. Cash and Investment Balance Deficits

At December 31, 2008, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2008
General	\$ 1,001
Motor Vehicle Highway	93,541
Local Road and Street	12,443
Transportation	100,996
Park and Recreation	63,099
Payroll - Federal Withholding	373
Payroll - FICA Withholding	6,495
Payroll - County Adjusted Gross	2,372
Payroll - Insurance Withholding	39,261
Payroll - Police Pension	48,600
Payroll - Withholding Garnishment	2,460

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

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

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$2,439,123. 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.

B. Interfund Transfers

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>2008</u>
General Fund	Other governmental funds	\$ 63,860
Motor Vehicle Highway	Other governmental funds	8,107
Other governmental funds	Other governmental funds	<u>4,679</u>
Total		<u>\$ 76,646</u>

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

C. Restatements and Reclassifications

For the year ended December 31, 2008, certain changes have been made to the financial statements to more appropriately reflect financial activity of the City. The TIF Redevelopment Bond – Hamilton Blvd. Fund included in the Schedule of Receipts, Disbursements, and Cash and Investment Balances in 2007 was not included in the 2008 financial statements because component unit information was not reported. Also, the Cemetery fund reported in the prior report has been closed and the \$6,250 balance was reclassified as part of the January 1, 2008, beginning balance in the General Fund.

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 1991, the City joined a public entity risk pool, the Indiana Public Employer's Plan, Inc., currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989 for the purpose of providing a medium

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

premium to the risk pool for its job related illnesses or injuries to employees insurance 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. 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.

On February 23, 2009, the Common Council passed Ordinances 2009-002, 2009-003, and 2009-004. Ordinance 2009-002 increased the water rates 39%, Ordinance 2009-003 increased the sewer rates 58%, and Ordinance 2009-004 was to approve the issuance of revenue bonds in the amount of \$740,000 for the water well project.

C. Plan Commission Leases

On January 19, 2007, the Mitchell Redevelopment Authority adopted resolution No. 2007-1 indicating its intent to issue Economic Development Lease Rental Revenue Bonds, Series 2007. The bond issue was for \$3,900,000 and was used to finance construction of improvements to the Hamilton Economic Development Area.

Also, on December 21, 2006, the Mitchell Redevelopment Authority entered into a twenty eight year lease with the Mitchell Redevelopment Commission. The rental payments to be paid by the Commission vary from a low payment of \$241,000 to a high payment of \$329,000 per year in monthly installments beginning on February 1, 2010.

D. Rate Structure – Enterprise Funds

Water Utility

On November 6, 1984, the voters of the City of Mitchell passed a referendum vote to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The rate structure in affect on December 31, 2008, was approved by the Common Council on October 26, 2006.

Wastewater Utility

The rate structure in affect on December 31, 2008, was approved by the Common Council on October 26, 2006.

Trash Charges

The current rate structure was approved by the Common Council on June 2, 2008. The trash charges are deposited into the water utility and then transferred to the general fund.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. 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.

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.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>
Annual required contribution	\$ 78,913	\$ 69,800
Interest on net pension obligation	(1,748)	23,200
Adjustment to annual required contribution	<u>1,992</u>	<u>(29,300)</u>
Annual pension cost	79,157	63,700
Contributions made	<u>76,056</u>	<u>33,209</u>
Increase in net pension obligation	3,101	30,491
Net pension obligation, beginning of year	<u>(24,105)</u>	<u>386,901</u>
Net pension obligation, end of year	<u>\$ (21,004)</u>	<u>\$ 417,392</u>

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>
Contribution rates:		
City	7.25%	100%
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

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-06	\$ 78,656	79%	\$ (33,284)
	06-30-07	76,616	88%	(24,105)
	06-30-08	79,157	96%	(21,004)
1925 Police Officers' Pension Plan	12-31-06	63,200	57%	356,905
	12-31-07	63,900	53%	386,901
	12-31-08	63,700	163%	417,392

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2008, was comprised of the following:

	1925 Police Officers' Pension
Retirees and beneficiaries currently receiving benefits	3

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.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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 \$55,298, \$53,511, and \$65,559, respectively, equal to the required contributions for each year.

CITY OF MITCHELL
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 806,609	\$ 1,029,788	\$ (223,179)	78%	\$ 1,077,198	(21%)
07-01-07	951,160	1,185,032	(233,872)	80%	1,079,282	(22%)
07-01-08	1,074,650	979,089	95,561	110%	817,621	12%

1925 Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-03	\$ 280,837	\$ 671,600	\$ (390,763)	42%	\$ -	*
01-01-04	239,891	661,400	(421,509)	36%	-	*
01-01-05	227,058	594,000	(366,942)	38%	-	*
01-01-06	247,778	946,600	(698,822)	26%	-	*
01-01-07	290,148	953,800	(663,652)	30%	-	*
01-01-08	269,746	950,000	(680,254)	28%	-	*

*No covered payroll

CITY OF MITCHELL
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES 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	
12-31-03	\$ 73,300	1%	40%	
12-31-04	75,600	34%	21%	
12-31-05	41,900	13%	36%	
12-31-06	67,700	11%	42%	
12-31-07	69,100	4%	45%	
12-31-08	69,800	0%	48%	

CITY OF MITCHELL
 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

	Local Road and Street	Community Day Of Caring	Transportation	Community Development	Housing and Rehabilitation	Law Enforcement Continuing Education	Park and Recreation
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,883
Licenses and permits	-	-	-	-	-	1,480	-
Intergovernmental	25,092	-	113,916	-	-	-	5,113
Charges for services	-	-	12,080	-	-	567	41,156
Fines and forfeits	-	-	-	-	-	6,045	-
Other	-	-	-	-	-	6,366	6,549
Total receipts	25,092	-	125,996	-	-	14,458	127,701
Disbursements:							
General government	-	-	129,839	-	-	-	-
Public safety	-	-	-	-	-	1,498	-
Highways and streets	11,724	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	132,798
Urban redevelopment and housing	-	-	-	-	978	-	-
Debt service:							
Principal	-	-	-	-	-	-	11,923
Interest	-	-	-	-	-	-	1,281
Total disbursements	11,724	-	129,839	-	978	1,498	146,002
Excess (deficiency) of receipts over disbursements	13,368	-	(3,843)	-	(978)	12,960	(18,301)
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(4,679)
Total other financing sources (uses)	-	-	-	-	-	-	(4,679)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	13,368	-	(3,843)	-	(978)	12,960	(22,980)
Cash and investment fund balance - beginning	(25,811)	9,629	(97,153)	23,167	17,376	13,441	(40,119)
Cash and investment fund balance - ending	<u>(12,443)</u>	<u>9,629</u>	<u>(100,996)</u>	<u>23,167</u>	<u>16,398</u>	<u>26,401</u>	<u>(63,099)</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ (12,443)	\$ -	\$ (100,996)	\$ -	\$ -	\$ -	\$ (63,099)
Restricted assets:							
Cash and investments	-	9,629	-	23,167	16,398	26,401	-
Total cash and investment assets - ending	<u>(12,443)</u>	<u>9,629</u>	<u>(100,996)</u>	<u>23,167</u>	<u>16,398</u>	<u>26,401</u>	<u>(63,099)</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
General government	\$ -	\$ 9,629	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	26,401	-
Economic development	-	-	-	23,167	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	16,398	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	(12,443)	-	(100,996)	-	-	-	(63,099)
Total cash and investment fund balance - ending	<u>(12,443)</u>	<u>9,629</u>	<u>(100,996)</u>	<u>23,167</u>	<u>16,398</u>	<u>26,401</u>	<u>(63,099)</u>

CITY OF MITCHELL
 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)

	Fire Donation	Donations	Youth Center	Police D.A.R.E	Levy Excess Fund	Downtown Revitalization	Police Officer Reserve
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	1,200
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	40
Total receipts	-	-	-	-	-	-	1,240
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	299	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total disbursements	299	-	-	-	-	-	-
Excess (deficiency) of receipts over disbursements	(299)	-	-	-	-	-	1,240
Other financing sources (uses):							
Transfers in	-	-	-	-	76,646	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	76,646	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(299)	-	-	-	76,646	-	1,240
Cash and investment fund balance - beginning	4,802	3,065	374	4,955	-	3,053	4,134
Cash and investment fund balance - ending	<u>\$ 4,503</u>	<u>\$ 3,065</u>	<u>\$ 374</u>	<u>\$ 4,955</u>	<u>\$ 76,646</u>	<u>\$ 3,053</u>	<u>\$ 5,374</u>
Cash and Investment Assets - Ending							
Cash and investments	\$ -	\$ 3,065	\$ -	\$ -	\$ 76,646	\$ -	\$ -
Restricted assets:							
Cash and investments	4,503	-	374	4,955	-	3,053	5,374
Total cash and investment assets - ending	<u>\$ 4,503</u>	<u>\$ 3,065</u>	<u>\$ 374</u>	<u>\$ 4,955</u>	<u>\$ 76,646</u>	<u>\$ 3,053</u>	<u>\$ 5,374</u>
Cash and Investment Fund Balance - Ending							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	4,503	-	-	4,955	-	3,053	5,374
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	374	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	-	3,065	-	-	76,646	-	-
Total cash and investment fund balance - ending	<u>\$ 4,503</u>	<u>\$ 3,065</u>	<u>\$ 374</u>	<u>\$ 4,955</u>	<u>\$ 76,646</u>	<u>\$ 3,053</u>	<u>\$ 5,374</u>

CITY OF MITCHELL
 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)

	Park Community Deposits	Industrial Loan Program	Cumulative Capital Improvement	Cumulative Capital Development	Cumulative Building and Fire Fighting Equipment	Cumulative Capital Park	Totals
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,883
Licenses and permits	-	-	-	-	-	-	1,480
Intergovernmental	-	27,250	14,852	-	-	-	187,423
Charges for services	4,165	-	-	-	-	-	57,968
Fines and forfeits	-	-	-	-	-	-	6,045
Other	-	-	-	-	-	-	12,955
Total receipts	4,165	27,250	14,852	-	-	-	340,754
Disbursements:							
General government	2,325	-	-	-	-	-	132,164
Public safety	-	-	-	-	-	-	1,797
Highways and streets	-	-	-	-	-	-	11,724
Economic development	-	27,250	-	-	-	-	27,250
Culture and recreation	-	-	-	-	-	-	132,798
Urban redevelopment and housing	-	-	-	-	-	-	978
Debt service:							
Principal	-	-	-	-	-	-	11,923
Interest	-	-	-	-	-	-	1,281
Total disbursements	2,325	27,250	-	-	-	-	319,915
Excess (deficiency) of receipts over disbursements	1,840	-	14,852	-	-	-	20,839
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	76,646
Transfers out	-	-	-	-	-	-	(4,679)
Total other financing sources (uses)	-	-	-	-	-	-	71,967
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,840	-	14,852	-	-	-	92,806
Cash and investment fund balance - beginning	225	-	21,651	24,345	32,919	8,017	8,070
Cash and investment fund balance - ending	<u>\$ 2,065</u>	<u>\$ -</u>	<u>\$ 36,503</u>	<u>\$ 24,345</u>	<u>\$ 32,919</u>	<u>\$ 8,017</u>	<u>\$ 100,876</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (96,827)
Restricted assets:							
Cash and investments	2,065	-	36,503	24,345	32,919	8,017	197,703
Total cash and investment assets - ending	<u>\$ 2,065</u>	<u>\$ -</u>	<u>\$ 36,503</u>	<u>\$ 24,345</u>	<u>\$ 32,919</u>	<u>\$ 8,017</u>	<u>\$ 100,876</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,629
Public safety	-	-	-	-	-	-	44,286
Economic development	-	-	-	-	-	-	23,167
Culture and recreation	2,065	-	-	-	-	-	2,439
Urban redevelopment and housing	-	-	-	-	-	-	16,398
Capital outlay	-	-	36,503	24,345	32,919	8,017	101,784
Unrestricted	-	-	-	-	-	-	(96,827)
Total cash and investment fund balance - ending	<u>\$ 2,065</u>	<u>\$ -</u>	<u>\$ 36,503</u>	<u>\$ 24,345</u>	<u>\$ 32,919</u>	<u>\$ 8,017</u>	<u>\$ 100,876</u>

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

	Payroll Net	Payroll PERF Withholding	Payroll Federal Withholding	Payroll State Withholding	Payroll FICA Withholding	Payroll County Adjusted Gross	Payroll Insurance Withholding
Additions:							
Agency fund additions	\$ 1,136,207	\$ 31,791	\$ 128,070	\$ 48,585	\$ 163,958	\$ 14,004	\$ 210,666
Deductions:							
Agency fund deductions	1,102,029	\$ 39,657	\$ 133,156	\$ 48,994	\$ 171,787	\$ 14,146	212,090
Excess (deficiency) of total additions over total deductions	34,178	(7,866)	(5,086)	(409)	(7,829)	(142)	(1,424)
Cash and investment fund balance - beginning	-	9,267	4,713	7,230	1,334	(2,230)	(37,837)
Cash and investment fund balance - ending	<u>\$ 34,178</u>	<u>\$ 1,401</u>	<u>\$ (373)</u>	<u>\$ 6,821</u>	<u>\$ (6,495)</u>	<u>\$ (2,372)</u>	<u>\$ (39,261)</u>

CITY OF MITCHELL
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2008
 (Continued)

	Uniform Fee	Payroll Medicare Withholding	Payroll Savings Withholding	Payroll Police Pension	Payroll Withholding Garnishment	Totals
Additions:						
Agency fund additions	\$ 3,976	\$ 45,074	\$ 12,870	\$ 15,349	\$ 13,554	\$ 1,824,104
Deductions:						
Agency fund deductions	-	42,810	12,870	10,676	16,365	1,804,580
Excess (deficiency) of total additions over total deductions	3,976	2,264	-	4,673	(2,811)	19,524
Cash and investment fund balance - beginning	-	(968)	-	(53,273)	351	(71,413)
Cash and investment fund balance - ending	<u>\$ 3,976</u>	<u>\$ 1,296</u>	<u>\$ -</u>	<u>\$ (48,600)</u>	<u>\$ (2,460)</u>	<u>\$ (51,889)</u>

CITY OF MITCHELL
 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 completed in the current and prior years have been reported. Retroactive reporting of general infrastructure assets will occur by 2010.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 323,918
Infrastructure	141,494
Buildings	1,958,272
Improvements other than buildings	207,021
Machinery and equipment	1,319,680
Construction in progress	<u>558,874</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 4,509,259</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 42,600
Buildings	4,309,776
Improvements other than buildings	2,526,806
Machinery and equipment	<u>478,424</u>
 Total Water Utility capital assets	 <u>7,357,606</u>
 Wastewater Utility:	
Capital assets, not being depreciated:	
Land	15,140
Buildings	3,724,230
Improvements other than buildings	1,421,415
Machinery and equipment	<u>251,512</u>
 Total Wastewater Utility capital assets	 <u>5,412,297</u>
 Total business-type activities capital assets	 <u>\$ 12,769,903</u>

CITY OF MITCHELL
 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:		
Redevelopment commission	\$ 5,724,000	\$ -
Pool equipment	13,604	13,604
Notes and loans payable	<u>33,409</u>	<u>15,109</u>
Total governmental activities debt	<u>\$ 5,771,013</u>	<u>\$ 28,713</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
Series 2006	\$ 5,570,000	\$ 438,270
Waterworks bond anticipation notes, series 2008	<u>97,019</u>	<u>97,019</u>
Total Water Utility	<u>5,667,019</u>	<u>535,289</u>
Wastewater Utility:		
Capital leases:		
Jet machine	\$ 36,757	\$ 10,342
Revenue bonds:		
Sewage works promissory note, series 2008	<u>927,422</u>	<u>927,422</u>
Total Wastewater Utility	<u>964,179</u>	<u>937,764</u>
Total business-type activities debt:	<u>\$ 6,631,198</u>	<u>\$ 1,473,053</u>

CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

1. The Annual City/Town Financial Report (CTAR-1) presented for audit was not accurate. Material adjustments had to be made during the audit to ensure that the financial statements were materially stated. Some of the errors included fund types being classified incorrectly, and incorrect receipts and disbursements amounts reported.

At all times, the manual and/or 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)

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

2. Numerous posting errors were made during the audit period. Several receipts were posted to the wrong fund and some disbursements were not posted at all.

December county vehicle excise tax and financial institution tax receipts were posted to the General Fund. \$1,254.22 should have been receipted into the Motor Vehicle Highway Fund and \$724.15 should have been receipted into the Park and Recreation Fund.

All of the local road and street distributions received from the State of Indiana were posted to the Motor Vehicle Highway Fund instead of the Local Road and Street Fund. The total local road and street distributions were \$25,091.99.

TIF distributions from the County Auditor should have been posted to the Hamilton Blvd Fund. Instead the \$52,466.74 was posted to the General Fund.

Grant funds from the Indiana Department of Revenue should have only been posted to the Hamilton Blvd Fund. Instead, \$68,251.16 of the grant funds was posted to both Hamilton Blvd and the General Fund.

Water Operating receipts totaling \$4,914.37 were posted to the Water Customer Deposit Fund.

Checks totaling \$4,112.77 were written and disbursed from the net payroll fund without an accounts payable voucher being posted to the appropriations ledger.

A \$7,522.87 property tax reimbursement for the Hamilton Blvd project was deposited into the Water Bond and Interest Fund and was not posted to the Hamilton Blvd Fund.

A \$10,544.76 property tax payment for the Hamilton Blvd property was paid from the Hamilton Blvd bank account, but the disbursement was not posted to the Hamilton Blvd fund.

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

CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS
(Continued)

3. Funds receipted into the Clerk-Treasurer's records did not indicate in what form the funds were received. All receipts were marked as being received as checks instead of detailing the amounts as cash, checks, or electronic funds transfers. Therefore it could not be determined if public funds were deposited in the same form received.

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

4. Receipts are printed with a computer generated number. The numbers are supposed to be sequential in order. However, a receipt can be written and deleted from the system and the receipt and correction will not be posted to the ledger. A History Audit Report of Deleted Transactions can be printed that will list the deleted receipt number, date, revenue number and amount, but it does not include any information as to who the receipt was received from. During the audit period the History Audit Report of Deleted Transactions was not reviewed and there were no controls to determine if all receipts were accounted for.

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

5. Several depository accounts were not reconciled to the fund balance. Numerous errors were found during the audit, but all of the differences could not be identified as of December 31, 2008. The City general bank account was \$61.72 less than the record balance, the water operating was \$1,141.19 more than the record balance and the sewer operating was \$1,536 less than the record balance.

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

At all times, the manual and/or 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)

6. As stated in prior examination number B34131, the detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger. Water Operating receipts totaling \$4,914.37 were posted to the Water Customer Deposit Fund. After adjusting for this error, the total in the Water and Sewer Customer Deposit detailed ledger is \$144.76 less than the totals in the funds ledger.

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)

CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS
(Continued)

DELINQUENT WASTEWATER ACCOUNTS

As stated in the prior Examination Report B34131, 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.

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.
 - (C) The amount of the delinquent fees, together with the penalty.
- (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. . . ."

APPROPRIATIONS

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

Fund	2008
General	\$ 352,999
Motor Vehicle Highway	119,824
Local Road and Street	7,047
Park and Recreation	53,286
Transportation	945

IC 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."

CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS
(Continued)

CREDIT CARDS

The City did not attach itemized supporting documentation with accounts payable vouchers for a portion of purchases made with credit cards. Payments were made on the basis of credit card slips only for \$750.12 of \$6,361.50 total credit card purchases.

The City paid late fees of \$39 and finance charges of \$12.46 for credit card purchases.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

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

TEMPORARY LOAN

A temporary loan of \$212,000 was made in 2008 from the Sewer Operating Fund to the Water Bond and Interest Fund. A sewer cash reserve fund has not been properly established and loan has not been repaid as of November 9, 2009.

CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS
(Continued)

IC 8-1.5-3-11(f) authorizes loans between two (2) municipally owned utilities as long as the ordinance establishing a cash reserve fund in utility loaning the money allows for such loans. The loan must be repaid within five (5) years at any interest rate and all repayments, including interest, must be returned to the utility's cash reserve fund. (Cities and Towns Bulletin and Uniform Compliance Guidelines, March 2008)

PENALTIES, INTEREST, AND OTHER CHARGES

Penalties and interest in the amount of \$1,942.27 were paid to the Indiana Department of Revenue and Chase Card Services during the audit period.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE

The City was not collecting payments on the cemetery lots sold on contract. Each contract specifies the amount and frequency of payment. The amount due to the City on December 31 2008, was \$25,320.

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)

ORDINANCES AND RESOLUTIONS

The City passed ordinance 5-2001 requiring \$25 from the sale of each cemetery plot and \$50 from the charge for opening and closing a grave to be put in a Perpetual Care Fund. However, the City posted all of the revenue from the cemetery in the General Fund.

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

CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS
(Continued)

PAYROLL DEDUCTIONS

Payroll withholding accounts had several posting errors as well as amounts not remitted to the proper authority. Employee's withholdings for garnishments were posted to the wrong employee's account and \$3,442 of garnishments withheld were posted to the uniform fee fund. \$534 of disbursements for uniforms that should have been posted to the uniform fee fund were posted to various employees' garnishment accounts.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

As stated in the prior Examination Report B34131, gross revenues were not being distributed to the various utility funds in accordance with Revenue Bond Ordinance 14-2006. The Water Bond and Interest Account was underfunded by \$7,002 on December 31, 2008.

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

COMPENSATION AND BENEFITS

Parks Department pool concession employees received \$6.25 per hour in compensation for 2008. The salary ordinance did not include any classification for \$6.25 per hour and it did not specifically state the rate of pay for concession workers. A test of Parks Department lifeguards found that lifeguards were paid \$8.25 per hour and the 2008 salary ordinance indicates Lifeguards were to be paid at \$8.12 per hour.

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

RECORDS RETENTION

The Meter Deposit Report, an approved form, was not presented for audit for the months of January and February 2008.

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

CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS
(Continued)

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

OVERDRAWN FUND BALANCES

The following funds were overdrawn as of December 31, 2008.

Fund	2008
General	\$ 1,001
Motor Vehicle Highway	93,541
Local Road and Street	12,443
Transportation	100,996
Park and Recreation	63,099
Payroll - Federal Withholding	373
Payroll - FICA Withholding	6,495
Payroll - County Adjusted Gross	2,372
Payroll - Insurance Withholding	39,261
Payroll - Police Pension	48,600
Payroll - Withholding Garnish	2,460

The fund 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)

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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 MITCHELL, LAWRENCE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Mitchell (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, 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

December 9, 2009

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

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			
Public Works and Economic Development Cluster			
Economic Adjustment Assistance	11.307		
Public Works Assistance		06-79-05152	\$ 719,987
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation			
Formula Grants for Other Than Urbanized Areas	20.509		
Operating Assistance Grant		1802608O	41,016
Capital Assistance Grant		1802508C	38,116
Total for program			79,132
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security			
Disaster Grants - Public Assistance	97.036		
Severe Storms and Flooding		PW-00184.0	36,116
Total federal awards expended			\$ 835,235

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

CITY OF MITCHELL
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 Mitchell (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 MITCHELL
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
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
	Public Works and Economic Development Cluster

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2008-1, CONDITION OF RECORDS

1. The Annual City/Town Financial Report (CTAR-1) presented for audit was not accurate. Material adjustments had to be made during the audit to ensure that the financial statements were materially stated. Some of the errors included fund types being classified incorrectly, and incorrect receipts and disbursements amounts reported.

At all times, the manual and/or 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)

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

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

2. Numerous posting errors were made during the audit period. Several receipts were posted to the wrong fund and some disbursements were not posted at all.

December county vehicle excise tax and financial institution tax receipts were posted to the General Fund. \$1,254.22 should have been receipted into the Motor Vehicle Highway Fund and \$724.15 should have been receipted into the Park and Recreation Fund.

All of the local road and street distributions received from the State of Indiana were posted to the Motor Vehicle Highway Fund instead of the Local Road and Street Fund. The total local road and street distributions were \$25,091.99.

TIF distributions from the County Auditor should have been posted to the Hamilton Blvd Fund. Instead the \$52,466.74 was posted to the General Fund.

Grant funds from the Indiana Department of Revenue should have only been posted to the Hamilton Blvd Fund. Instead, \$68,251.16 of the grant funds was posted to both Hamilton Blvd and the General Fund.

Water Operating receipts totaling \$4,914.37 were posted to the Water Customer Deposit Fund.

Checks totaling \$4,112.77 were written and disbursed from the net payroll fund without an accounts payable voucher being posted to the appropriations ledger.

A \$7,522.87 property tax reimbursement for the Hamilton Blvd project was deposited into the Water Bond and Interest Fund and was not posted to the Hamilton Blvd Fund.

A \$10,544.76 property tax payment for the Hamilton Blvd property was paid from the Hamilton Blvd bank account, but the disbursement was not posted to the Hamilton Blvd fund.

Payroll withholding accounts had several posting errors as well as amounts not remitted to the proper authority. Employee's withholdings for garnishments were posted to the wrong employee's account and \$3,442 of garnishments withheld were posted to the uniform fee fund. \$534 of disbursements for uniforms that should have been posted to the uniform fee fund were posted to various employees' garnishment accounts.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

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

3. Funds receipted into the Clerk-Treasurer's records did not indicate in what form the funds were received. All receipts were marked as being received as checks instead of detailing the amounts as cash, checks, or electronic funds transfers. Therefore it could not be determined if public funds were deposited in the same form received.

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

4. Receipts are printed with a computer generated number. The numbers are supposed to be sequential in order. However, a receipt can be written and deleted from the system and the receipt and correction will not be posted to the ledger. A History Audit Report of Deleted Transactions can be printed that will list the deleted receipt number, date, revenue number and amount, but it does not include any information as to who the receipt was received from. During the audit period the History Audit Report of Deleted Transactions was not reviewed and there were no controls to determine if all receipts were accounted for.

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

5. Several depository accounts were not reconciled to the fund balance. Numerous errors were found during the audit, but all of the differences could not be identified as of December 31, 2008. The City general bank account was \$61.72 less than the record balance, the water operating was \$1,141.19 more than the record balance and the sewer operating was \$1,536 less than the record balance.

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

At all times, the manual and/or 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)

6. As stated in prior examination number B34131, the detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger. Water Operating receipts totaling \$4,914.37 were posted to the Water Customer Deposit Fund. After adjusting for this error, the total in the Water and Sewer Customer Deposit detailed ledger is \$144.76 less than the totals in the funds ledger.

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)

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

We recommended the City:

1. Properly and accurately prepare the City's annual report by including all funds and transactions of the City.
2. Promptly record all transactions of the City into the financial records.
3. Properly identify each receipt as cash, check or electronic funds transfer.
4. Properly account for each receipt number.
5. Properly complete monthly cash reconcilements by verifying the correct postings of source documents (receipts and checks) to the financial records. Investigate in a timely manner any discrepancies between the reconciled amounts and the transactions and balances.

FINDING 2008-2, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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

1. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statements and then determining how those identified risks should be managed. The City has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
2. **Monitoring of Controls:** Effective internal control over financial reporting requires the City Council to monitor and assess the quality of the City's system of internal control. The City Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls.

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 objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

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

We recommended:

1. The City identify and analyze the risks of material misstatements to the financial statements and then design effective controls to manage those risks in order to prevent or detect material misstatements in a timely manner.
2. The Common Council monitors and assesses the quality of the City's system of internal control. The Common Council should ensure controls are designed to operate effectively to provide reasonable assurance that those controls will prevent or detect material misstatements in a timely manner. Additionally, procedures should be implemented to identify and communicate corrective actions to improve controls.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF MITCHELL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



GEORGE JAMES
Clerk-Treasurer
CITY OF MITCHELL

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December 9, 2009

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

RE: Audit of City of Mitchell

Finding 2008-1, Condition of Records

This letter is addressing the Condition of Records report for the City of Mitchell for the fiscal year of 2008. As the State Board of Accounts is well aware of the Clerk Treasurer prior to my election left office in August of 2007 and not much was done for the remainder of his term. My first day of office was one of utter confusion as we could not even get into the computers. At the urging of an employee of the State Board of Accounts and several other people I enlisted the help of a person with prior experience as a clerk and with Keystone software. This turned out to be a very good decision on my part as we worked until April just trying to enter information from August 2007 to the end of the year as well as to do the day to day business of the city. Working with a State Board of Accounts employee for the most part of 2008, I have been trying to get the records in order.

With that said, I welcomed the State Board of Accounts to Mitchell for this audit in hopes that I can get the rest of the errors corrected. It was very helpful for them to point out my errors as well as things we need to do that we weren't doing as well as things we could do to make our department more efficient. The following is a response to the auditors finding.

- 1) **The Annual City Financial Report (CTAR-1)** was a combination of information input by several people and I'm sure there were mistakes made. I'm not sure however that was partly to be blamed on the fact that there were a lot of bugs still in the system between the State Board of Accounts and Keystone with software issues. Hopefully this years CTAR-1 will be much better.

- 2) **Posting Errors:** All errors noted in the report have been adjusted to the satisfaction of the auditor. **Note: The posting error of the TIF distribution was due to the information given me by an employee of the State Board of Accounts and I feel should not be included in this report. It has been corrected.**
- 3) Corrected
- 4) I have talked to Keystone and they suggested ways to correct the problem.
- 5) I have been working with an employee of the State Board of Accounts since January 1, 2008 trying to identify the problem. It seems we are getting closer and have carried the same fund balances for a year.
- 6) We have implemented a program to correct this problem

Recommendations to the City

All recommendations have been noted and will be implemented into our department.

Finding 2008-2, Internal Controls over Financial Transactions and Reporting

I agree that a system needs to be in place for the betterment of the city as well as helping my department. I have noted these concerns and will start giving the City Council quarterly reports.

Summation: I do appreciate the way the audit was conducted and the interaction that I was allowed to have with the auditors. I do believe that there needs to be more training made available for new Clerk-Treasurers and this a not just coming from me but from all newly elected Clerk-Treasurers that I have spoken to at all of the meetings I have attended and I have not missed any since my election. We are put in classes with Clerk-Treasurers who have had many years of experience that ask questions about tax levies and we don't have a clue of what they are talking about. The "school of hard knocks" is not the best training for this position.

Respectfully Submitted,


George James/Clerk-Treasurer

CITY OF MITCHELL
EXIT CONFERENCE

The contents of this report were discussed on December 9, 2009, with George James, Clerk-Treasurer; Daniel Terrell, Mayor; and Dwight Moore, President of the Common Council.