

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

EXAMINATION REPORT

OF

CITY OF SCOTTSBURG

SCOTT COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED
01/27/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Janetta C. Hardy	01-01-08 to 12-31-11
Mayor	William H. Graham	01-01-08 to 12-31-11
President of the Common Council	Ray Zollman	01-01-08 to 12-31-09
President of the Board of Public Works	William H. Graham	01-01-08 to 12-31-11
Superintendent of Water Utility	Lance Hounshell	01-01-08 to 12-31-09
Superintendent of Wastewater Utility	Jason Applegate	01-01-08 to 12-31-09
Superintendent of Electric Utility	James Binkley	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial information presented herein of the City of Scottsburg (City), for the period of January 1, 2008 to December 31, 2008. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2008, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

December 8, 2009

CITY OF SCOTTSBURG
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2008

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
General	\$ (64,893)	\$ 4,927,481	\$ 4,386,858	\$ 475,730
Southeast Redevelopment Commission District Capital	1,172,453	307,925	191,267	1,289,111
Northwest Redevelopment Commission District Capital	2,356,998	1,469,764	860,387	2,966,375
Certified Technology Park	725,083	1,279,464	593,824	1,410,723
Motor Vehicle Highway	263,932	251,190	252,662	262,460
Local Road and Street	317,630	23,220	50,000	290,850
Police Donations	11,013	1,250	2,142	10,121
Law Enforcement Continuing Education	36,765	7,527	1,913	42,379
Park and Recreation	(34,897)	309,625	254,012	20,716
Economic Industrial Development	491,165	338,429	320,000	509,594
Revolving Loan EDA	217,368	263,747	371,250	109,865
Federal Asset Forfeiture	166,970	11,745	22,605	156,110
Operation Pullover	248	1,900	2,330	(182)
Scottsburg Heritage Station	17,492	8,600	7,073	19,019
Historic Preservation	2,384	-	-	2,384
Linza Graham Park Fund	-	17,000	1,947	15,053
Affordable Housing (Vintage Main Street)	1,569	-	-	1,569
Citizens Against Substance Abuse	2,418	2,500	1,173	3,745
Park Donations - Restricted	8,000	-	-	8,000
Rails to Trails Grant	(29,609)	29,609	-	-
Organized Crime Drug Enforcement Task Force	(3,407)	11,799	8,392	-
Local Asset Forfeiture	12,225	11,719	4,671	19,273
Tobacco Grant	12	-	-	12
Rural Development Revolving	14,848	7,280	-	22,128
Indiana Housing Development	(20,000)	20,000	-	-
Historic Review Board	(1,213)	1,293	-	80
Technology Center Grant	539,372	6,185	545,557	-
Brownfield Grant	(194,907)	633,727	210,574	228,246
Water Park	452	-	452	-
Cumulative Capital Improvement	60,370	19,642	-	80,012
Cumulative Building and Firefighting Equipment	242,883	961	49,501	194,343
Cumulative Park	1,059	-	-	1,059
Cumulative Capital Development	212,115	146,723	17,608	341,230
Recreational Trails	17,032	-	-	17,032
Rainy Day	180,886	59,212	-	240,098
Safe Street Task Force	(1,458)	3,958	3,972	(1,472)
Proprietary Funds:				
Water Utility - Operating	(111,521)	2,316,141	2,087,189	117,431
Water Utility - Bond and Interest	111,627	334,727	357,437	88,917
Water Utility - Debt Service Reserve	334,461	38,581	86,528	286,514
Water Utility - Customer Deposit	28,549	31,574	20,063	40,060
Water Utility - Depreciation	32,951	576	169	33,358
Water Utility - Tower Painting	148,592	127	148,719	-
Wastewater Utility - Operating	84,819	1,333,211	1,385,395	32,635
Wastewater Utility - Bond and Interest	65,000	180,198	180,190	65,008
Wastewater Utility - Debt Service Reserve	-	111,000	-	111,000
Wastewater Utility - West I-65 Construction	7,082	-	-	7,082
Wastewater Utility - Sludge Belt Press	-	9,034	51,000	(41,966)
Electric Utility - Operating	1,837,304	13,678,794	12,901,939	2,614,159
Electric Utility - Customer Deposit	120,094	60,447	64,435	116,106
Electric Utility - Depreciation	71,235	1,721	-	72,956
Electric Utility - Cash Reserve	336,000	63,000	-	399,000
Electric Utility - Broadband Operating	(2,291,937)	914,665	904,369	(2,281,641)
Electric Utility - Broadband Customer Deposit	-	9,125	775	8,350
Non-Reverting Insurance	-	145,533	71,692	73,841
Fiduciary Funds:				
Payroll	42,079	4,357,994	4,329,637	70,436
Focus Retainage	65	-	65	-
Police Pension Trust	618,914	187,040	159,647	646,307
Totals	<u>\$ 8,157,672</u>	<u>\$ 33,946,963</u>	<u>\$ 30,909,419</u>	<u>\$ 11,195,216</u>

The accompanying notes are an integral part of the financial information.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, electric, wireless broadband internet service, water, wastewater, and economic development.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and 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.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. 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 this 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 members' 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. 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 Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. 1925 Police Officers' Pension Plan

Plan Description

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL INFORMATION
(Continued)

C. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

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

Note 7. Restatement of Funds

For the year ended December 31, 2008, certain changes have been made to the financial schedule to more appropriately reflect financial activity of the City of Scottsburg. The following schedule presents a summary of restated beginning balances. New funds represent the inclusion of existing funds which were not presented in the prior report.

Fund	Balance As Reported December 31, 2007	New Fund Titles	Balance As Reported January 1, 2008
Redevelopment Commission District Capital	\$ 3,529,451	Southeast Redevelopment Commission District Capital	\$ 1,172,453
		Northwest Redevelopment Commission District Capital	2,356,998

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

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 3,410,860
Infrastructure	10,479,264
Buildings	5,885,181
Improvements other than buildings	1,725,597
Machinery and equipment	<u>2,806,111</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 24,307,013</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Buildings	\$ 6,433,036
Improvements other than buildings	8,197,480
Machinery and equipment	<u>979,741</u>
 Total Water Utility capital assets	 <u>15,610,256</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Buildings	1,208,000
Improvements other than buildings	6,879,586
Machinery and equipment	<u>1,739,787</u>
 Total Wastewater Utility capital assets	 <u>9,827,373</u>
Electric Utility:	
Capital assets, not being depreciated:	
Buildings	467,981
Improvements other than buildings	6,398,866
Machinery and equipment	<u>6,167,045</u>
 Total Electric Utility capital assets	 <u>13,033,892</u>
 Total business-type activities capital assets	 <u>\$ 38,471,521</u>

CITY OF SCOTTSBURG
 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:		
Infrastructure	\$ 954,126	\$ 197,500
Business-type activities:		
Water Utility:		
Loans payable:	\$ 2,181,000	\$ 119,000
Revenue bonds:		
1998 Water Improvement Bond Series A	1,677,000	104,465
1998 Water Improvement Bond Series B	<u>504,000</u>	<u>31,680</u>
Total Water Utility	<u>4,362,000</u>	<u>255,145</u>
Wastewater Utility:		
Revenue bonds:		
2003 Sewage Works Refunding Bonds	<u>280,000</u>	<u>90,384</u>
Total Wastewater Utility	<u>280,000</u>	<u>90,384</u>
Total business-type activities debt	<u>\$ 4,642,000</u>	<u>\$ 345,529</u>

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS

DEFICIT CASH BALANCES (Applies to Clerk-Treasurer, Mayor, and City Council)

The following funds had deficit cash balances at December 31, 2008:

Fund	Amount
Operation Pullover	\$ 182
Safe Street Task Force	1,472
Wastewater Utility - Sludge Belt Press	41,966
Electric Utility Broadband	2,281,641

The Operation Pullover Fund and the Wastewater Utility – Sludge Belt Press Fund are reimbursable grant funds used for various city projects. Costs are incurred and paid by the City from future grant fund reimbursements.

The Safe Street Task Force Fund was overdrawn because a grant reimbursement was recorded to the Organized Crime Drug – Enforcement Task Force Fund in error. This error should be corrected to eliminate the deficit cash balance in the Safe Street Task Force Fund.

The Electric Utility's Broadband Fund is a service that operates within the Electric Utility. The City has elected to maintain a Broadband Fund separate from the Electric Utility Operating Fund. The Broadband Fund and the Electric Utility Operating Fund share a common depository account. If the Electric Utility Operating Fund and the Broadband Fund were combined as one Operating Fund, these two funds would have a net cash balance of \$332,518 at December 31, 2008.

When a deficit cash balance occurs, the Clerk-Treasurer is, in effect, borrowing funds from other City funds without obtaining formal approval from the City Council.

IC 36-1-8-4 (a) states:

"The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other funds at the end of the prescribed period.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred."

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)

We recommended that City officials adopt a financial plan that will eventually eliminate the deficit cash balances.

A similar comment was made in prior Report B33752

CUSTOMER DEPOSIT REGISTER (Applies to the Electric, Broadband and Water Utilities)

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger for the following utilities:

<u>Utility</u>	<u>Variance</u>
Electric	\$ 16
Broadband	681
Water	2,174

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 SCOTTSBURG
EXIT CONFERENCE

The contents of this report were discussed on December 8, 2009, with Janetta C. Hardy, Clerk-Treasurer; and Trish Richey, Deputy Clerk-Treasurer. The officials concurred with our findings.