

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

ANNUAL FINANCIAL REPORT

2008

CITY OF LOOGOOTEE

MARTIN COUNTY, INDIANA



FILED
04/07/2010

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Nancy L. Jones	01-01-08 to 12-31-11
Mayor	Donald F. Bowling	01-01-08 to 12-31-11
President of the Board of Public Works	Donald F. Bowling	01-01-08 to 12-31-11
President of the Common Council	James R. Taylor Donald "Rick" Norris	01-01-08 to 12-31-09 01-01-10 to 12-31-10
Superintendent of Utilities	James E. Wilson	01-01-08 to 12-31-10



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

TO: THE OFFICIALS OF THE CITY OF LOOGOOTEE, MARTIN 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 Loogootee (City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2008, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 11, 2010, 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.

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

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

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, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

STATE BOARD OF ACCOUNTS

March 11, 2010



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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 LOOGOOTEE, MARTIN 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 Loogootee (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 March 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated March 11, 2010.

The City's response to the findings identified in our audit is described in the accompanying section of the report entitled 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, 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

March 11, 2010

CITY OF LOOGOOTEE
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	\$ 336,470	\$ 5,885	\$ -	\$ -	\$ (330,585)	\$ -	\$ (330,585)
Public safety	623,873	8,746	8,819	209,000	(397,308)	-	(397,308)
Highways and streets	177,751	-	73,293	10,943	(93,515)	-	(93,515)
Sanitation	441,330	-	-	394,017	(47,313)	-	(47,313)
Culture and recreation	95,206	20,745	-	-	(74,461)	-	(74,461)
Total governmental activities	1,674,630	35,376	82,112	613,960	(943,182)	-	(943,182)
Business-type activities:							
Wastewater	930,072	838,655	-	-	-	(91,417)	(91,417)
Water	799,562	716,690	-	-	-	(82,872)	(82,872)
Total business-type activities	1,729,634	1,555,345	-	-	-	(174,289)	(174,289)
Total primary government	\$ 3,404,264	\$ 1,590,721	\$ 82,112	\$ 613,960	(943,182)	(174,289)	(1,117,471)
General receipts:							
Property taxes					677,651	-	677,651
Intergovernmental					337,200	-	337,200
Other local sources					31,581	-	31,581
Grants and contributions not restricted to specific programs					5,620	-	5,620
Investment earnings					9,731	51,970	61,701
Transfers					54,744	(54,744)	-
Total general receipts and transfers					1,116,527	(2,774)	1,113,753
Change in net assets					173,345	(177,063)	(3,718)
Net assets - beginning					512,724	2,027,633	2,540,357
Net assets - ending					\$ 686,069	\$ 1,850,570	\$ 2,536,639
Assets							
Cash and investments					\$ 321,218	\$ 181,431	\$ 502,649
Restricted assets:							
Cash and investments					364,851	1,669,139	2,033,990
Total assets					\$ 686,069	\$ 1,850,570	\$ 2,536,639
Net Assets							
Restricted for:							
General government					\$ 113,546	\$ -	\$ 113,546
Public safety					8,062	-	8,062
Highways and streets					44,767	-	44,767
Economic development					93,449	-	93,449
Culture and recreation					30,403	-	30,403
Capital outlay					74,624	-	74,624
Other purposes					-	1,669,139	1,669,139
Unrestricted					321,218	181,431	502,649
Total net assets					\$ 686,069	\$ 1,850,570	\$ 2,536,639

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

CITY OF LOOGOOTEE
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	Fema Fire Truck Grant	Stormwater Drainage Improvement Grant	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 523,362	\$ -	\$ -	\$ 96,644	\$ 620,006
Intergovernmental	275,174	209,000	394,017	212,726	1,090,917
Charges for services	9,428	-	-	24,323	33,751
Fines and forfeits	165	-	-	1,460	1,625
Other	19,824	-	-	6,681	26,505
Total receipts	827,953	209,000	394,017	341,834	1,772,804
Disbursements:					
General government	333,433	-	-	-	333,433
Public safety	310,588	-	-	10,495	321,083
Highways and streets	3,686	-	-	173,807	177,493
Culture and recreation	-	-	-	42,278	42,278
Capital outlay:					
General government	2,917	-	-	120	3,037
Public safety	40,000	209,000	-	53,790	302,790
Highways and streets	-	-	-	258	258
Sanitation	-	-	342,930	98,400	441,330
Culture and recreation	-	-	-	52,928	52,928
Total disbursements	690,624	209,000	342,930	432,076	1,674,630
Excess (deficiency) of receipts over disbursements	137,329	-	51,087	(90,242)	98,174
Other financing sources (uses):					
Transfers in	54,744	-	-	11,545	66,289
Transfers out	-	-	-	(11,545)	(11,545)
Other receipts	596	-	-	19,831	20,427
Total other financing sources (uses)	55,340	-	-	19,831	75,171
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	192,669	-	51,087	(70,411)	173,345
Cash and investment fund balance - beginning	128,549	-	-	384,175	512,724
Cash and investment fund balance - ending	<u>\$ 321,218</u>	<u>\$ -</u>	<u>\$ 51,087</u>	<u>\$ 313,764</u>	<u>\$ 686,069</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 321,218	\$ -	\$ -	\$ -	\$ 321,218
Restricted assets:					
Cash and investments	-	-	51,087	313,764	364,851
Total cash and investment assets - Ending	<u>\$ 321,218</u>	<u>\$ -</u>	<u>\$ 51,087</u>	<u>\$ 313,764</u>	<u>\$ 686,069</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ 113,546	\$ 113,546
Public safety	-	-	-	8,062	8,062
Highways and streets	-	-	-	44,767	44,767
Economic development	-	-	-	93,449	93,449
Culture and recreation	-	-	-	30,403	30,403
Capital outlay	-	-	51,087	23,537	74,624
Unrestricted	321,218	-	-	-	321,218
Total cash and investment fund balance - ending	<u>\$ 321,218</u>	<u>\$ -</u>	<u>\$ 51,087</u>	<u>\$ 313,764</u>	<u>\$ 686,069</u>

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

CITY OF LOOGOOTEE
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	\$ 806,837	\$ 631,679	\$ 1,438,516
Sales for resale	-	26,140	26,140
Fire protection receipts	-	19,800	19,800
Penalties	17,105	4,603	21,708
Charges for services	7,380	11,889	19,269
Miscellaneous	<u>7,333</u>	<u>22,579</u>	<u>29,912</u>
Total operating receipts	<u>838,655</u>	<u>716,690</u>	<u>1,555,345</u>
Operating disbursements:			
Salaries and wages	-	152,776	152,776
Employee pensions and benefits	-	79,228	79,228
Purchased power	-	49,535	49,535
Chemicals	-	11,043	11,043
Material and supplies	-	59,742	59,742
Contractual services	-	74,997	74,997
Rents	-	2,000	2,000
Transportation	-	13,205	13,205
Insurance claims and expense	-	16,052	16,052
Customer accounts	-	7,195	7,195
Administration and general	126,607	20,175	146,782
Collection system	171,214	-	171,214
Treatment and disposal	187,122	-	187,122
Refunds	-	2,522	2,522
Equipment and capital improvements	43,125	-	43,125
Miscellaneous	<u>57,325</u>	<u>-</u>	<u>57,325</u>
Total operating disbursements	<u>585,393</u>	<u>488,470</u>	<u>1,073,863</u>
Excess of operating receipts over operating disbursements	<u>253,262</u>	<u>228,220</u>	<u>481,482</u>
Nonoperating receipts (disbursements):			
Investment income	37,376	14,594	51,970
Debt service of principal	(175,000)	(175,000)	(350,000)
Interest disbursements	<u>(169,679)</u>	<u>(136,092)</u>	<u>(305,771)</u>
Total nonoperating receipts (disbursements)	<u>(307,303)</u>	<u>(296,498)</u>	<u>(603,801)</u>
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(54,041)	(68,278)	(122,319)
Transfers in	-	-	-
Transfers out	<u>(36,803)</u>	<u>(17,941)</u>	<u>(54,744)</u>
Deficiency of receipts, contributions and transfers in over disbursements and transfers out	(90,844)	(86,219)	(177,063)
Cash and investment fund balance - beginning	<u>1,319,499</u>	<u>708,134</u>	<u>2,027,633</u>
Cash and investment fund balance - ending	<u>\$ 1,228,655</u>	<u>\$ 621,915</u>	<u>\$ 1,850,570</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 132,523	\$ 48,908	\$ 181,431
Restricted assets:			
Cash and investments	<u>1,096,132</u>	<u>573,007</u>	<u>1,669,139</u>
Total cash and investment assets - December 31	<u>\$ 1,228,655</u>	<u>\$ 621,915</u>	<u>\$ 1,850,570</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Other purposes	\$ 1,096,132	\$ 573,007	\$ 1,669,139
Unrestricted	<u>132,523</u>	<u>48,908</u>	<u>181,431</u>
Total cash and investment fund balance - December 31	<u>\$ 1,228,655</u>	<u>\$ 621,915</u>	<u>\$ 1,850,570</u>

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

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

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Additions:		
Contributions:		
Employer	\$ 36,178	\$ -
Deductions:		
Benefits	<u>15,028</u>	<u>-</u>
Excess of total additions over total deductions	21,150	-
Cash and investment fund balance - beginning	<u>34,025</u>	<u>-</u>
Cash and investment fund balance - ending	<u><u>\$ 55,175</u></u>	<u><u>\$ -</u></u>

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

CITY OF LOOGOOTEE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water and wastewater.

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

Primary Government: City of Loogootee

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

The fema fire truck grant fund is used to account for federal financial resources provided through the fiscal year 2008 assistance to firefighters grant program for the acquisition of fire vehicle equipment.

The stormwater drainage improvement grant fund is used to account for federal financial resources provided through the community development block grant program for eligible costs of the project as described in exhibits a and b of the grant agreement.

CITY OF LOOGOOTEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

Agency funds account for assets held by the City as an agent for employee wages and withholdings, utility payments, consumer meter deposits and other government agencies and serve as a control of accounts for certain cash transactions during the time they are a liability to the City

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water, and wastewater functions and various other functions of the City. 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 non-operating 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

CITY OF LOOGOOTEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 School Corporation on or prior to December 31 of the year collected.

3. Capital Assets

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

4. Long-Term Debt

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

5. Equity Classification

Government-Wide Statements

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

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

CITY OF LOOGOOTEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

1. 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

CITY OF LOOGOOTEE
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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.

2. Primary government and balances – Resource flows between the primary government are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

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.

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
Law Enforcement Continuing Education Fund	\$ <u>1,657</u>

These disbursements were funded by available fund balance.

CITY OF LOOGOOTEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The City's deposit policy for custodial credit risk is to only deposit funds with financial institutions designated by the State Board of Finance as depositories for municipal funds and to ensure preservation of the capital in the portfolio as safety of the principal is the paramount objective of the City's investment program. At December 31, 2008, the City had deposit balances in the amount of \$2,591,815.

The remaining 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>
Water Utility	General Fund	\$ 17,941
Wastewater Utility	General Fund	36,803
Other governmental funds	Other governmental funds	<u>11,545</u>
Totals		<u>\$ 66,289</u>

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

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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. Risk financing is not utilized for the other risks of loss.

CITY OF LOOGOOTEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Job Related Injuries

During 1994, the City joined with other governmental entities to form the Indiana Public Employer's Plan Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers compensation claims. The City pays an annual premium to the risk pool. 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. Bond Defeasance

In prior years, the Water Utility defeased certain serial revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide all future debt service payments on the old bonds. Accordingly the trust accounts and the liability for the defeased bonds are not included in the Water Utility's financial statements. At December 31, 2008, \$471,000 of the bonds outstanding is considered defeased.

C. Subsequent Events

State Pension Relief Fund

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.

Tymco 435 Street Sweeper

On October 13, 2009, the City Council approved the lease purchase of a new Tymco Model 435 Street Sweeper from Best Equipment. On November 16, 2009, the City entered into a Lease Purchase agreement with GABC Leasing Inc., at an annual interest rate of 4%. The lease purchase agreement required a \$50,000 down payment plus annual payments over the next five years amounting to \$109,155.75 less a \$4,500 deduction for the value the unit received as a trade-in.

D. Rate Structure – Enterprise Funds

Water Utility

On February 12, 1996, the City Council adopted Ordinance No. 95-6 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council with adoption of Ordinance No. 2002-3 on March 6, 2002, and Ordinance amendments No. 2004-5 and No. 2008-1 adopted on June 14, 2004, and April 14, 2008, respectively.

CITY OF LOOGOOTEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Wastewater Utility

The current rate structure was approved by the City Council with adoption of Ordinance No. 2002-5 on February 11, 2002. Also applicable to the current rate structure is Ordinance No. 1991-12 adopted by the City Council on August 8, 1991.

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

CITY OF LOOGOOTEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

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

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

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension
Annual required contribution	\$ 24,349	\$ 37,700
Interest on net pension obligation	135	7,900
Adjustment to annual required contribution	(154)	(9,900)
Annual pension cost	24,330	35,700
Contributions made	24,711	14,279
Increase (decrease) in net pension obligation	(381)	21,421
Net pension obligation, beginning of year	1,864	130,886
Net pension obligation, end of year	\$ 1,483	\$ 152,307

	PERF	1925 Police Officers' Pension
Contribution rates:		
City	7%	0%
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 LOOGOOTEE
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	\$ 22,934	101%	\$ 2,893
	06-30-07	22,433	105%	1,864
	06-30-08	24,330	102%	1,483
1925 Police Officers' Pension Plan	12-31-06	36,000	33%	106,471
	12-31-07	35,900	32%	130,886
	12-31-08	35,700	40%	152,307

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

Retirees and beneficiaries currently receiving benefits	1925 Police Officers' Pension
	1

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

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

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

CITY OF LOOGOOTEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$37,700, \$37,400, and \$37,200, respectively, equal to the required contributions for each year.

F. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

The City of Loogootee's Healthcare Plan is a single-employer defined benefit healthcare plan administered by the city. The plan provides healthcare benefits to eligible retirees and their spouses. IC 5-10-8 assigns the authority to establish and amend benefit provisions to the city. The financial activity of the plan is included in the accompanying financial statements presented.

Funding Policy

The contribution requirements of plan members for the City of Loogootee's Healthcare Plan are established by the Common Council. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2008, the city contributed \$2,607 to the plan for current premiums (approximately 50% of total premiums). Plan members receiving benefits contributed \$2,607, or approximately 50% of the total premiums, through their required contribution.

CITY OF LOOGOOTEE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 353,092	\$ 422,612	\$ (69,520)	84%	\$ 328,220	(21%)
07-01-07	411,441	468,384	(56,943)	88%	357,425	(16%)
07-01-08	408,115	505,074	(96,959)	81%	310,678	(31%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-03	\$ 76,994	\$ 422,300	\$ (345,306)	18%	\$ -	N/A
01-01-04	81,304	534,900	(453,596)	15%	-	N/A
01-01-05	87,763	513,000	(425,237)	17%	-	N/A
01-01-06	73,808	520,500	(446,692)	14%	-	N/A
01-01-07	57,766	515,600	(457,834)	11%	-	N/A
01-01-08	34,025	512,800	(478,775)	7%	-	N/A

N/A = Not available

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

1925 Police Officers' Pension Plan			
	Year Ending	Annual Required Contribution (ARC)	Percentage of SRC Contributed
1925 Police Officers' Pension Plan	12-31-03	\$ 76,100	56%
	12-31-04	61,100	54%
	12-31-05	36,300	36%
	12-31-06	37,200	32%
	12-31-07	37,400	31%
	12-31-08	37,700	38%

CITY OF LOOGOOTEE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2008

	Motor Vehicle Highway	Local Road And Street	Donation	Law Enforcement Continuing Education	Riverboat
Receipts:					
Taxes	\$ 9,796	\$ -	\$ -	\$ -	\$ -
Intergovernmental	74,481	10,943	-	-	17,194
Charges for services	407	-	-	-	-
Fines and forfeits	-	-	-	1,460	-
Other	661	-	5,620	-	-
	<u>85,345</u>	<u>10,943</u>	<u>5,620</u>	<u>1,460</u>	<u>17,194</u>
Total receipts					
	<u>85,345</u>	<u>10,943</u>	<u>5,620</u>	<u>1,460</u>	<u>17,194</u>
Disbursements:					
Public safety	-	-	-	1,657	-
Highways and streets	105,580	14,008	-	-	12,066
Culture and recreation	-	-	-	-	-
Capital outlay:					
General government	-	-	120	-	-
Public safety	-	-	8,368	-	-
Highways and streets	258	-	-	-	-
Sanitation	-	-	-	-	-
Culture and recreation	-	-	-	-	-
	<u>105,838</u>	<u>14,008</u>	<u>8,488</u>	<u>1,657</u>	<u>12,066</u>
Total disbursements					
	<u>105,838</u>	<u>14,008</u>	<u>8,488</u>	<u>1,657</u>	<u>12,066</u>
Excess (deficiency) of receipts over disbursements					
	<u>(20,493)</u>	<u>(3,065)</u>	<u>(2,868)</u>	<u>(197)</u>	<u>5,128</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Other receipts	214	-	-	-	-
	<u>214</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)					
	<u>214</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses					
	<u>(20,279)</u>	<u>(3,065)</u>	<u>(2,868)</u>	<u>(197)</u>	<u>5,128</u>
Cash and investment fund balance - beginning					
	<u>64,513</u>	<u>3,598</u>	<u>12,582</u>	<u>4,142</u>	<u>54,272</u>
Cash and investment fund balance - ending					
	<u>\$ 44,234</u>	<u>\$ 533</u>	<u>\$ 9,714</u>	<u>\$ 3,945</u>	<u>\$ 59,400</u>
Cash and Investment Assets - Ending					
Restricted assets:					
Cash and investments	<u>44,234</u>	<u>533</u>	<u>9,714</u>	<u>3,945</u>	<u>59,400</u>
Total cash and investment assets - Ending					
	<u>\$ 44,234</u>	<u>\$ 533</u>	<u>\$ 9,714</u>	<u>\$ 3,945</u>	<u>\$ 59,400</u>
Cash and Investment Fund Balance - Ending					
Restricted for:					
General government	\$ -	\$ -	\$ 9,714	\$ -	\$ 59,400
Public safety	-	-	-	3,945	-
Highways and streets	44,234	533	-	-	-
Economic development	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
	<u>\$ 44,234</u>	<u>\$ 533</u>	<u>\$ 9,714</u>	<u>\$ 3,945</u>	<u>\$ 59,400</u>
Total cash and investment fund balance - ending					
	<u>\$ 44,234</u>	<u>\$ 533</u>	<u>\$ 9,714</u>	<u>\$ 3,945</u>	<u>\$ 59,400</u>

CITY OF LOOGOOTEE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended December 31, 2008
 (Continued)

	Park And Recreation	Rainy Day	E.D.I.T.	Edward D. Byrne Grant	Police Equipment And Training
Receipts:					
Taxes	\$ 36,423	\$ -	\$ -	\$ -	\$ -
Intergovernmental	4,811	23,294	57,645	8,819	-
Charges for services	20,795	-	-	-	3,121
Fines and forfeits	-	-	-	-	-
Other	400	-	-	-	-
Total receipts	62,429	23,294	57,645	8,819	3,121
Disbursements:					
Public safety	-	-	-	8,819	19
Highways and streets	-	-	-	-	-
Culture and recreation	42,278	-	-	-	-
Capital outlay:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Highways and streets	-	-	-	-	-
Sanitation	-	-	98,400	-	-
Culture and recreation	1,543	-	48,481	-	-
Total disbursements	43,821	-	146,881	8,819	19
Excess (deficiency) of receipts over disbursements	18,608	23,294	(89,236)	-	3,102
Other financing sources (uses):					
Transfers in	-	11,545	-	-	-
Transfers out	-	-	-	-	-
Other receipts	-	-	19,440	-	-
Total other financing sources (uses)	-	11,545	19,440	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	18,608	34,839	(69,796)	-	3,102
Cash and investment fund balance - beginning	11,795	9,593	163,245	-	1,015
Cash and investment fund balance - ending	\$ 30,403	\$ 44,432	\$ 93,449	\$ -	\$ 4,117
Cash and Investment Assets - Ending					
Restricted assets:					
Cash and investments	30,403	44,432	93,449	-	4,117
Total cash and investment assets - Ending	\$ 30,403	\$ 44,432	\$ 93,449	\$ -	\$ 4,117
Cash and Investment Fund Balance - Ending					
Restricted for:					
General government	\$ -	\$ 44,432	\$ -	\$ -	\$ -
Public safety	-	-	-	-	4,117
Highways and streets	-	-	-	-	-
Economic development	-	-	93,449	-	-
Culture and recreation	30,403	-	-	-	-
Capital outlay	-	-	-	-	-
Total cash and investment fund balance - ending	\$ 30,403	\$ 44,432	\$ 93,449	\$ -	\$ 4,117

CITY OF LOOGOOTEE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended December 31, 2008
 (Continued)

	Rural Development	Cumulative Capital Development	Cumulative Capital Improvement	Cumulative Building And Firefighting Equipment	Totals
Receipts:					
Taxes	\$ -	\$ 31,659	\$ -	\$ 18,766	\$ 96,644
Intergovernmental	-	4,157	8,914	2,468	212,726
Charges for services	-	-	-	-	24,323
Fines and forfeits	-	-	-	-	1,460
Other	-	-	-	-	6,681
Total receipts	-	35,816	8,914	21,234	341,834
Disbursements:					
Public safety	-	-	-	-	10,495
Highways and streets	-	28,000	14,153	-	173,807
Culture and recreation	-	-	-	-	42,278
Capital outlay:					
General government	-	-	-	-	120
Public safety	-	-	-	45,422	53,790
Highways and streets	-	-	-	-	258
Sanitation	-	-	-	-	98,400
Culture and recreation	2,904	-	-	-	52,928
Total disbursements	2,904	28,000	14,153	45,422	432,076
Excess (deficiency) of receipts over disbursements	(2,904)	7,816	(5,239)	(24,188)	(90,242)
Other financing sources (uses):					
Transfers in	-	-	-	-	11,545
Transfers out	(11,545)	-	-	-	(11,545)
Other receipts	177	-	-	-	19,831
Total other financing sources (uses)	(11,368)	-	-	-	19,831
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(14,272)	7,816	(5,239)	(24,188)	(70,411)
Cash and investment fund balance - beginning	14,272	190	5,239	39,719	384,175
Cash and investment fund balance - ending	\$ -	\$ 8,006	\$ -	\$ 15,531	\$ 313,764
Cash and Investment Assets - Ending					
Restricted assets:					
Cash and investments	-	8,006	-	15,531	313,764
Total cash and investment assets - Ending	\$ -	\$ 8,006	\$ -	\$ 15,531	\$ 313,764
Cash and Investment Fund Balance - Ending					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ -	\$ 113,546
Public safety	-	-	-	-	8,062
Highways and streets	-	-	-	-	44,767
Economic development	-	-	-	-	93,449
Culture and recreation	-	-	-	-	30,403
Capital outlay	-	8,006	-	15,531	23,537
Total cash and investment fund balance - ending	\$ -	\$ 8,006	\$ -	\$ 15,531	\$ 313,764

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

	<u>Payroll</u>	<u>Suspense</u>	<u>Payroll Fund Taxes</u>	<u>Totals</u>
Additions:				
Agency fund additions	\$ 700,364	\$ 1,553,106	\$ 148,640	\$ 2,402,110
Deductions:				
Agency fund deductions	<u>700,364</u>	<u>1,553,106</u>	<u>148,640</u>	<u>2,402,110</u>
Excess (deficiency) of total additions over total deductions	-	-	-	-
Cash and investment fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LOOGOOTEE
 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 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	\$ 52,433
Infrastructure	276,108
Buildings	848,063
Improvements other than buildings	345,253
Machinery and equipment	1,048,100
Construction in progress	<u>480,410</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 3,050,367</u>
<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 51,620
Buildings	1,152,422
Improvements other than buildings	5,196,621
Machinery and equipment	<u>1,025,877</u>
 Total Water Utility capital assets	 <u>7,426,540</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	19,900
Buildings	2,871,563
Improvements other than buildings	4,715,249
Machinery and equipment	<u>1,957,449</u>
 Total Wastewater Utility capital assets	 <u>9,564,161</u>
 Total business-type activities capital assets	 <u>\$ 16,990,701</u>

CITY OF LOOGOOTEE
 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
Business-type activities:		
Water Utility:		
Revenue bonds:		
1996 Refunding Bonds	\$ 385,000	\$ 91,210
2002C Improvements to tank, plant & mains	775,000	116,898
2002B Improvements to mains and looping of distribution system	<u>1,455,000</u>	<u>104,915</u>
Total Water Utility	<u>2,615,000</u>	<u>313,023</u>
Wastewater Utility:		
Revenue bonds:		
2001 Refunding Bonds	150,000	158,450
2002E Treatment Plant and Storage Facility Improvements	<u>3,410,000</u>	<u>186,953</u>
Total Wastewater Utility	<u>3,560,000</u>	<u>345,403</u>
Total business-type activities debt:	<u>\$ 6,175,000</u>	<u>\$ 658,426</u>

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS

HANDGUN FEES

Handgun application fees were not collected by the City Police Department from City employees and employees' family members.

IC 35-47-2-3 states in part:

"(a) A person desiring a license to carry a handgun shall apply: (1) to the chief of police, or corresponding law enforcement officer of the municipality in which the applicant resides: (b) The law enforcement agency which accepts an application for a handgun license shall collect the following application fees: (1) From a person applying for a four (4) year handgun license, a ten dollar (\$10) application fee, five dollars (\$5) of which shall be refunded if the license is not issued. (2) From a person applying for a lifetime handgun license who does not currently possess a valid Indiana handgun license, a fifty dollar (\$50) application fee, thirty dollars (\$30) of which shall be refunded if the license is not issued. (3) From a person applying for a lifetime handgun license who currently possesses a valid Indiana handgun license, a forty (\$40) application fee, thirty dollars (\$30) of which shall be refunded if the license is not issued."

IC 35-47-2-3 further states:

"Except as provided in subsection (h), the fee shall be deposited into the law enforcement agency's firearms training fund or other appropriate training activities fund and used by the agency to train law enforcement officers in the proper use of firearms or in other law enforcement duties, or to purchase firearms or firearm related equipment, or both for the law enforcement officers employed by the law enforcement agency."

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping and reporting were present during the audit period:

1. Record balances were not reconciled to depository balances during the audit period. The Utility Suspense Bank Account did not appear on the Clerk-Treasurer's Depository Statement and Cash Reconciliation (General Form 360). The Unit's ledger reflected the Suspense Fund cash balance of \$0; however, the Suspense Bank Account reflected an immaterial balance of \$18.85 from Aug, 2007 to date.

IC 5-13-6-1(e) states in part: "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."

2. Record Balances did not reflect the Utility Cash Change Fund nor was it reported on the Clerk-Treasurer's Annual Report (CTAR).

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(Continued)

3. The ledger contained numerous receipt and disbursement classification posting errors.

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)

4. All interest earned on checking accounts was recorded during the subsequent month. The Clerk-Treasurer stated that they were following procedures established by the prior administration and she thought they were required to report the same in the subsequent month. All receipts should be recorded in the month received to allow for reporting transactions in the proper accounting period.

All documents and entries to records should be done in a timely manner to ensure that accurate information is available to allow the governmental unit to make informed decisions and help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the public records law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

5. The Clerk-Treasurer's Annual Financial Report (CTAR PART 1) did not reflect the receipts, disbursements and ending balances for the enterprise funds. In addition, the 2008 annual financial report presented for audit contained numerous errors and did not agree with the reconciled bank and ledger balances. The ending balance of the report was \$210 less than the reconciled ledger balances.

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 ledger, 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)

CONDITION OF CAPITAL ASSET LEDGERS

The City's and Utilities' capital asset ledgers reflected some capital asset additions, but disposals were not readily identifiable due to the method used to record disposals. The process of recording dispositions of capital assets consisted of locating the original entry of the capital asset to be retired on the capital asset ledger and placing brackets around the original cost recorded to reflect the cost of the capital asset being retired.

Review of capital asset ledger maintenance procedures revealed that not all dispositions were recorded and some additions were clearly not actual costs nor were the amounts reasonable estimations. The following deficiencies in recording changes in capital assets were noted:

1. City Council minutes of August 11, 2008, reflected that four lots had been donated to the Habitat for Humanity Organization, with the Mayor and Clerk-Treasurer signing and transferring deeds; however, nothing appeared on the Capital Asset Ledger for disposition of land.

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(Continued)

2. The cost of a fire truck purchased with Federal Emergency Management Assistance (FEMA) funds was \$209,000 federal funding plus additional equipment added to the truck, costing \$45,422 was made from the Cumulative Building and Firefighting Equipment Fund; however, the capital asset ledger reflected \$400,000, an overstatement of \$145,578 in recording the purchase of the asset.
3. During 2008, \$342,930 of Federal Community Development Block Grant (CDBG) and local contributions and \$99,542 of nonfederal match was used to pay for storm drainage improvements; however, construction-in-progress was not recorded on the City's capital asset ledger nor were the \$47,339 in Indiana Department of Transportation (INDOT) sidewalk/trail improvements and the \$31,355 south side fire station improvements recorded as construction-in-progress, resulting in an understatement of \$521,166 in unrecorded improvements.
4. The Water Utility's Capital Asset Ledger balance carried forward from December 31, 2007, agreed in total with the prior report capital asset supplemental schedule; however, the capital asset ledger did not foot and balances by asset classification did not agree with the prior report supplemental schedule detail. Differences were due to the reclassification of prior period construction-in-progress not being recorded on the Water Utility's Capital Asset ledger and not all transactions were recorded when the capital asset ledger was rewritten.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECORDS OF HOURS WORKED

Several officials and employees held more than one position. A record of hours worked for each was not presented for audit.

IC 5-11-9-4(b) states in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

DISBURSEMENT CLASSIFICATIONS

Wastewater disbursements for capital assets were paid from the office supply line item; software maintenance services were paid from other expenses-refunds classification; and the materials invoiced for impeller repairs were charged to the collection system; whereas, the labor to make those repairs was charged to the plant.

EDIT Fund disbursements for the storm drainage improvement project construction contract of \$18,000 and project engineering of \$20,160 were paid from legal services and sidewalk classification budgeted line items, respectively. Engineering costs for the storm drainage improvement and trail/sidewalk construction contracts were comingled within budgeted line items.

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(Continued)

Disbursements should be paid from properly authorized line items. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

Accounts receivable for \$2,406.15 and \$15,341.62 billings due to the water and wastewater utilities, respectively, were deleted from the records in November and December, 2009. The minutes presented for audit did indicate approval of the governing body. However, documentation was not presented for audit concerning unsuccessful collection procedures prior to adjustments to the records.

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

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

IMPROPER ALLOCATION OF UTILITY COLLECTIONS

The following circumstances resulted in improper allocation of utility collections:

1. Review of quarterly customer history reports revealed that some customer accounts reflected a balance due on the water tax and a credit in the same dollar amount on the sewer balance. Further investigation revealed that car wash and laundry mat customers receive a 50% discount on their monthly sewer bill. The computer program applies the customer's payment first to the delinquent water portion of the bill, then the delinquent sewer, delinquent water tax, delinquent water penalty, delinquent sewer penalty, current water, current sewer, current water tax, current water penalty, current sewer penalty, in that sequence. When the utility clerk fails to adjust the car wash and laundromat customer accounts for the 50% discount prior to posting the payments from those customers, the computer program applies the payment in the aforementioned sequence; therefore, too much cash will be applied to the sewer account leaving a balance due on the water tax. If the customer pays the full amount of his bill, the customer's account will reflect a credit toward the sewer account in the amount of one-half of the original sewer bill and the same dollar amount due on account for water tax. The customer's account nets to \$0; however, at month end too much money will be transferred from the combined utility suspense bank account to the Sewer Utility bank account.
2. Review of mid-month and end-of-month delinquency reports revealed that a number of customer accounts reflected a credit balance on account for water and an amount due on account for sewer service. The utility clerk did not know why the program did not reallocate the credit from the water to satisfy the balance due on the sewer portion on account. Inquiry of the utility computer programmer revealed that several years ago, City officials had requested he change their utility program so that all prepayments and overpayments would automatically apply to the customer's water balance on account. Customer account balances for sewer only, water only and customers with both water

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(Continued)

and sewer services were analyzed. All customer prepaid amounts and overpayments were applied to the water utility customer account balance on account. Inquiry of the computer programmer revealed that prepayments and overpayments are not automatically reallocated upon subsequent billings. The programmer stated the utility clerk was told that she was required to make an adjustment to reallocate prepayments and overpayments to get the money to the proper utility. For water only and customers with both water and sewer services, the credit on the customer's water account will work its way out of the system over a relatively short period of time as the customer is subsequently billed; however, customers with sewer only service, the system carried the credit in the water utility and each month the sewer unpaid balance due continued to increase. The current program requires the utility clerk to manually reallocate the credit on the customer's water account to the customer's sewer balance on account in a timely manner. The computer program distributes all prepaid and overpaid collections to the water utility; therefore, the utility clerk should reallocate the water credit balance on a monthly basis for all sewer only customer accounts to redistribute prepaid and overpaid amounts from the water utility to the sewer utility collections to properly reflect the account receivable balances due from customers as to the portion due from water customers and the balance due from sewer customers.

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

DISBURSEMENTS WITHOUT APPROPRIATION

Disbursements of \$1,657 were made from the City Law Enforcement Continuing Education Fund for other services and charges (police training services). Formal budgets and appropriations were not found to have been prepared and approved for these disbursements.

IC 36-4-8-2 states in part: "Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if: (1) an appropriation has been made for that purpose and the appropriation is not exhausted; . . ."

NONCOMPLIANCE OF ORDINANCES, RESOLUTIONS, AND POLICIES

The following instances of noncompliance were noted during the audit period:

1. Payment in Lieu of Taxes

The City's most recent ordinance concerning payment in lieu of taxes (Ordinance 1993-5) set the payment in lieu of taxes at \$4,400 for the Water Utility and \$9,385 for the Wastewater Utility; however, the 2008 payments in lieu of taxes for the Water Utility

CITY OF LOOGOOTEE
 AUDIT RESULTS AND COMMENTS
 (Continued)

totalled \$17,941 and the Wastewater Utility total was \$36,803. No supporting documentation was presented for audit that provided authorization by the appropriate officials and documentation in appropriate minutes. If the payments currently being made can be justified, Ordinance 1993-5 should be amended retroactively to when the increased rates were implemented.

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)

2. Capital Asset Policy

The City's most recent resolution concerning capital asset capitalization policies (Resolution 2005-2) provides that where construction work has not been completed in the current calendar year, the cost of the project will be carried as construction-work-in-progress; however, the City had three ongoing construction projects during 2008 and their Capital Asset Ledger reflected no construction-work-in-progress for 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)

3. Wastewater Bond Ordinance

The City's annual report reflected \$42,500 in federal funds disbursed from Wastewater Utility Sewage Project CF-99-236 during 2008. Further investigation revealed that Community Development Block Grant CF-99-236 federal funds were fully disbursed during calendar year 2003 and the cash balance within the fund was bond proceeds remaining from the construction project. The project was accepted as being completed during calendar year 2004.

Per Section 12 of bond ordinance 2002-4, "Any balance or balances remaining unexpended in the Construction Fund after completion of the Project, which was not required to meet unpaid obligations incurred in connection with such Project, shall be paid into the Bond and Interest Account of the Sinking Fund hereby created pursuant to this Ordinance (the "Bond and Interest Account") and used solely for the purpose of paying interest on the Bonds when due . . ."

At the close of the construction project the cash balance in the fund was \$171,877. This balance was spent as follows:

2006	Sewage ac with camera attachment	\$ 49,999
2007	New backhoe	39,675
2008	Launder cover for Sewage Department	42,500
2009	Truck with lift, new backhoe, labor and material for bearings for sewer plant equipment	<u>39,704</u>
Total		<u><u>\$ 171,877</u></u>

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(Continued)

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)

4. Wastewater Rate Ordinance

Review of the City's most recent wastewater rate ordinance (Ordinance 2002-5) of the Common Council revealed the following:

"Section 1. The following schedule of user rates and charges, which amends the existing schedule of user rates and charges, shall apply to sewer service provided by the City of Loogootee, Indiana."

Wastewater Rate Ordinance 2002-5 does not indicate which ordinance or ordinances it amended. The City has more than one rate ordinance that applies to different groups of customers; therefore, it is unclear what Ordinance 2002-5 amended and whether Ordinance 2002-5 superseded all previous rate ordinances in effect at the time of its passage or if it amended only a segment of a specific rate ordinance.

IC 36-9-23-26 states in part:

"(a) After the introduction of the ordinance establishing fees under section 25 of this chapter, but before it is finally adopted . . . (b) After the hearing, the municipal legislative body shall adopt the ordinance establishing the fees, either as originally introduced or as modified. A copy of the schedule of fees adopted shall be kept on file and available for public inspection in the offices of the board and the municipal clerk. . . . (d) The municipal legislative body may change or readjust the fees in the same manner by which they were established."

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)

5. City of Loogootee Employee Handbook

Employee service records and an employee policy handbook addressing leave and overtime were presented for audit. During the test of payroll the following exceptions were noted:

1. Test of employee service records revealed that some employee vacation leave balances forwarded from year to year exceeded the amount authorized to be forwarded per the employee policy handbook.
2. Service records of department heads reflected compensatory time earned and taken. Per the employee policy handbook, administrative personnel and department heads were not eligible for compensatory time.
3. Review of employee service records revealed that at least two employees of the police department were authorized by the Chief of Police to use weeks of sick leave while pursuing employment elsewhere. At the end of the trial employment period, both employees decided to continue employment with the City of

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(Continued)

Loogootee Police Department. The City does not pay for sick leave balance upon termination of employment with the City; however, they do pay the vacation and compensatory leave balances to an employee leaving employment.

Officials or employees authorizing, directing, or executing procedures which are not consistent with ordinances, resolutions or policies adopted by the City or are not warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered a written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period:

1. Claims were not adequately itemized or supported.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be available for audit to provide supporting information for the validity and accountability 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)

2. Claims were paid in advance of receiving the goods or services.

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

3. Claims or invoices did not always agree with the amount of the payment. Some disbursements exceeded the obligation of the unit.

All overpayments should be collected and paid back to the fund from which it was originally paid. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7) Over payments noted during the test of claims was applied on subsequent claims.

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(Continued)

4. Disbursements were not always made by check.

Disbursements, other than proper petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

5. Contracts were not available for audit.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

6. Claims were not audited and certified by the fiscal officer as to the bill or invoice being true and correct.

IC 5-11-10-1.6 states in part:

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

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

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

PRESCRIBED FORMS

The following prescribed or approved forms were not always in use or were not used as intended:

Form 350, Register of Investments

The Register of Investments is incomplete, not reflecting interest received on certificates of deposit and reflecting the use of white-out. White-out defaces the original entry and should not be used on any official records.

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(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)

Form 203 or 217, Receipts

Not all City receipts reflect the type of collection (cash, check, MO, etc). All receipts should reflect the amount of cash, checks, etc., that make up the collections receipted. Some City receipts reflect the misclassification of county distributions. For example, in 2008 county economic development income tax distributions and license excise tax were receipted as property tax distributions.

Police Department receipts did not always reflect the date of collection, type of receipt (cash, check, MO, etc.) and not all receipts clearly reflected whether the receipt was for a handgun permit, incident report or accident report. It was also noted that some receipts were issued out of sequence, some were altered subsequent to the original being removed from the carbon and the original of some voided receipts was not presented for audit. Receipts and fees collected by the Police Department were remitted to the Clerk-Treasurer less frequently than once a week.

Receipts and fees collected by the police department should be remitted to the Clerk-Treasurer at least once a week. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September, 2003)

Utility collection reports did not reflect the type of collection (cash, check, MO, etc); therefore, the test of whether utility receipts were deposited intact could not be performed. In addition, utility collection reports clearly reflected the fees collected for fire protection services provided to Water Utility customers located outside the jurisdiction of the City and Martin County were misclassified and were reported as water sales.

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

Form 211, City or Town General Fixed Asset Account Group

The Capital Asset Ledger was not adequately maintained to reflect all addition, deletion and reclassification activity by type of general fixed asset (land, buildings, improvements other than building, machinery, equipment and construction-in-progress) and did not reflect totals by asset classification at December 31, 2008.

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(Continued)

Disposals were not readily identifiable due to the City's method of recording disposals. The process of recording disposals consisted of locating the acquisition entry of the capital asset to be disposed and placing brackets around the original cost recorded on the capital asset ledger to reflect the cost was removed.

Review of capital asset ledger maintenance procedures revealed that some capital asset additions were clearly not actual costs nor were the amounts reasonable estimations. The capital asset ledger did not foot due to some transactions not being carried forward from one record to the next and asset disposals not being properly entered.

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)

INVESTMENT MATURITY LIMITATIONS

The governmental unit purchased certain investments which have a stated maturity in excess of two years.

IC 5-13-9-5.6 states: "Investments made under IC 5-13-9 must have a stated final maturity of not more than two years after the date of purchase or entry into a repurchase agreement."

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Several deficiencies in the internal control system of the City and the Municipal Utilities are related to financial transactions and reporting. These deficiencies are believed to constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City and Municipal Utilities to reduce risks of error and/or fraud of the financial statements. The City and Municipal Utilities have not separated incompatible activities related to receipts, disbursements, payroll and related liabilities and cash and investment balances. The failure to establish these controls could enable material misstatements and irregularities to go undetected.
2. Preparing Financial Statements: Effective internal controls over financial reporting involves the identification and analysis of the risks of material misstatement of the City and Municipal Utilities audited financial statement 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 reliable financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the City Council 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 places the City at risk that controls may not be designed or operating effectively to provide reasonable

CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS
(Continued)

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)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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 LOOGOOTEE, MARTIN COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Loogootee (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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-2, 2008-3, 2008-4, 2008-5, and 2008-6.

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)

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

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. We consider the deficiencies in internal control over compliance described in items 2008-3, 2008-5 and 2008-6 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

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. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The City's response to the findings identified in our audit is described in the accompanying 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, 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

March 11, 2010

CITY OF LOOGOOTEE
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 HOMELAND SECURITY</u>			
Assistance to Firefighters Grant Vehicle Acquisition	97.044	EMW-2008-FV-00141	\$ 209,000
Total For Assistance to Firefighters Grant Program			<u>209,000</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Office of community and Rural Affairs Community Development Block Grants/State's Program Community Focus Fund	14.228	B07DC18000CF-07-122	303,611
Total For Community Development Block Grants/State's Program			<u>303,611</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass-Through Indiana Criminal Justice Institute Edward Byrne Memorial Formula Grant Program Office of Justice Program, Bureau of Justice Assistance	16.579	2003-DB-BX-0026	8,819
Total For Edward Byrne Memorial Formula Grant Program			<u>8,819</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		
Disaster #1795 (PW-00058.0)			933
Disaster #1795 (PW-00074.0)			1,602
Total For Disaster Grants - Public Assistance (Presidentially Declared Disasters)			<u>2,535</u>
Total federal awards expended			<u>\$ 523,965</u>

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

CITY OF LOOGOOTEE
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 Loogootee (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 LOOGOOTEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified
 Internal control over financial reporting:
 Material weaknesses identified? yes
 Significant deficiencies identified that are not considered to be
 material weaknesses? none reported
 Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:
 Material weaknesses identified? no
 Significant deficiencies identified that are not considered to be
 material weaknesses? yes
 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? yes

Identification of Major Programs:

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

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2008-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the City of Loogootee related to financial transactions and reporting which could result in a material misstatement of the financial statements not being prevented or detected. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts, (utility billings and collections,) disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.

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

2. **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.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the City Council 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 places 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)

Section III – Federal Award Findings and Questioned Costs

FINDING 2008-2, ALLOWABLE COSTS

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
CFDA Number: 14.228
Federal Award Number: B07DC18000CF-07-122
Pass-Through: Indiana Office of Community and Rural Affairs

The City of Loogootee procured administration, management, and environmental review services from a third party, in the completion of the CDBG CF-07-122 Program. As part of the contracted services, the grant administrator was to account for all project funds to ensure that all funds were spent in compliance with federal requirements and City officials relied on those services without performing oversight responsibilities.

The grant administrator agreed to develop and maintain a federal cash control ledger, contract obligation control ledger and contract expenditure ledger. They also initiated a Project Financial Summary; but, failed to properly maintain it. They did implement the required ledgers; however, observation and testing of their project ledgers revealed their ledgers were incomplete; 1) not reflecting all the transactions and dates of transactions, 2) the project financial summary did not provide a running balance for the project and did not reflect check numbers and dates of 2008 disbursements and thereafter, 3) Project

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

Financial Summary and Contractor Expenditure ledgers contained errors as to the amounts disbursed and lacked check numbers and dates of some disbursements. Based on records presented for audit and inquiries made of officials, no attempt was made by either the City or the third party to reconcile the financial records of the City and the grant administrator Project financial records.

Controls over the reconciling of the Clerk-Treasurer records and the CDBG grant records have been insufficient. On December 31, 2008, the Clerk-Treasurer's cash balance of the Community Development Block Grant Fund was \$51,087.44 and the cash balance of the CDBG Fund Federal Cash Control Register, maintained by the grant administrator, was \$ 0, resulting in a difference of \$51,087.44.

The Contract Obligation Control Ledger (Form 4) implemented and maintained by the grant administrator was:

1. Incomplete and inaccurate; not listing contract identification numbers, change orders or contract addendums, and
2. Contained budget information pertaining to different aspects of the construction project that was either not applicable to a specific contract or there was no indication to which contract the cost obligation was applicable. The Contract Obligation Control Ledger has not been completed and maintained as intended:

City Ledger of Receipts, Disbursements and Balances reflected that CDBG federal money and Local matching funds contributed by the school corporation were comingled in Fund 471. (See Finding 2008-3 Cash Management)

Review of the City Fund 218 revealed that the Project Budget was not implemented in their accounting system. The City had appropriated their edit funds but had not established categories matching those of the Project Budgets of two ongoing construction projects.

Review of City Fund 218 revealed the following misclassification of Project disbursements:

1. An \$18,000 payment made to the construction contractor was classified as legal expenses.
2. \$21,147.50 in Project engineering and labors standards services disbursements were classified as sidewalks.

Grantee Implementation Manual requires:

". . . for grant monitoring purposes, the following financial documents must be maintained: 1) Federal Cash Control Register (Form 3) . . . This form only entails information dealing with federal funds; no "local match" is recorded on this form. 2) Contract Obligation Control Ledger (Form 4) . . . This form provides a listing of all contractual obligations . . . (noting the amount to be paid from CDBG funds) should be entered on the form for each contract under the grant."

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

24 CFR 85.20(b)(2) states:

"Accounting records. Grantees and subgrantees must maintain records which adequately identify the source, and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

The amount of \$39,200 is considered a questioned cost due to noncompliance of a contractual agreement between the grant administrator and the City; whereby, the grant administrator was to provide adequate grant administration and cash management services to the City to avoid noncompliance issues with state and federal laws and regulations.

We recommended that for all current and future grant projects that City officials exercise their oversight responsibilities and initiate procedures to establish internal controls over the cash fund balance of the CDBG Fund and the CDBG Project Ledgers. Such procedures should include, implementation of the grant project budget in their accounting system and, on a monthly basis, reconciling the CDBG cash balance of the City ledgers to those of the third party grant administrator.

FINDING 2008-3, CASH MANAGEMENT

Federal Agency: U.S. Department of Housing and Urban Development
 Federal Program: Community Development Block Grants/State's Program
 CFDA Number: 14.228
 Federal Award Number: B07DC18000CF-07-122
 Pass-Through: Indiana Office of Community and Rural Affairs

The City of Loogootee procured administration and management services and environmental review services from a third party in the completion of the CDBG CF-07-122 Program.

Throughout the grant period, the City processed drawdown requests based on submitted invoices, with exception to the last drawdown, where the City used the balance of the Federal budget to make the determination of the amount of the drawdown. The following schedule will reflect when the drawdown was received, the amount received from the U.S. Treasury, the date of deposit and the date federal funds were disbursed.

<u>Date Received</u>	<u>Amount</u>	<u>Date Deposited</u>	<u>Date Paid Out</u>
July 2, 2008	\$ 18,880.00	July 2, 2008	July 15, 2008
August 12, 2008	4,370.00	August 12, 2008	September 5, 2008
September 5, 2008	4,370.00	September 5, 2008	September 29, 2008
November 6, 2008	3,732.50	November 6, 2008	November 10, 2008
December 8, 2008	3,732.50	December 10, 2008	December 15, 2008
January 12, 2009	52,259.44	January 13, 2009	July 28, 2009

The City of Loogootee failed to implement policies and procedures to ensure that all Community Development Block Grant (CDBG) funds received would be disbursed within applicable financial management requirements. Officials had no internal control safeguards in place to monitor compliance with the cash management requirements of the grant.

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

The Office of Community and Rural Affairs (OCRA) Grant Support Division completed their monitoring of the storm drainage project on March 19, 2009, and found one finding: Federal funds in the amount of \$9,440 were drawn down and deposited on July 2, 2008, and not disbursed until July 15, 2008.

To resolve the finding, the City submitted, on April 21, 2009, an explanation as to why these funds were held, along with a letter from the bank indicating any interest earned, and accompanied by a check made payable for seven days interest to the U.S. Treasury.

The Federal Cash Control Register (Form 3) prepared by the grant administrator and presented to OCRA Grant Support Division for the final monitoring was incomplete and contained errors. Form 3 reflected that \$125,491.06 received on January 12, 2009, was disbursed by January 14, 2009; however, the \$52,259.44 recorded as being disbursed was not disbursed on January 13, 2009, as indicated. It should also be noted that the amount of the drawdown deposited on July 2, 2008, was \$18,880 in lieu of \$9,440 and the full amount was not disbursed until July 15, 2008, which was seven banking days that interest had accrued. The financial records maintained by grant administrator were not reconciled to the City ledgers nor did they accurately reflect the balance of federal funds. Review of City Fund 471 revealed that CDBG funds and contributions from the Loogootee Community School Corporation were comingled and if the assumption was made that federal dollars were disbursed prior to disbursement of local match, disbursements were made as follows: February 13, 2009, \$33,669.40 and June 9, 2009, \$27,116.52. (Also see Federal Finding 2008-2 Allowable Costs)

Cash management provisions require the City to minimize the time between the receipt and disbursement of federal funds. Because the above scheduled drawdowns were not disbursed for weeks and months after the drawdown of federal funds were received, the City did not comply with cash management requirements. In addition, failure to use proper procedures in determining the amount of the last drawdown by not using invoices submitted is a control deficiency significant to the CDGB Program.

24 CFR 85.20, standard for financial management systems states in part:

"(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

24 CFR 85.20, standards for financial management systems states in part:

"(7)Cash management. Procedures for minimizing the time elapsing between the transfer of Funds from the U.S. Treasury and disbursement by grantees and sub-grantees must be followed . . ."

Failure to expend grant monies within a reasonable time could result in the loss of future federal funding for the City of Loogootee.

We recommended that for all future grants officials design and implement controls that would ensure compliance with the cash management requirement of minimizing the time between the receipt and disbursement of federal funds.

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

Finding 2008-4. INTERNAL CONTROLS OVER EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grant/State's Program
CFDA Number: 14.228
Federal Award Number: B07DC18000CF-07-122
Pass-Through: Indiana Office of Community and Rural Affairs

The City of Loogootee did not maintain adequate records for construction-in-progress, equipment, property, and infrastructure purchased with Federal monies. They have no system to provide separate identification for items acquired with Federal and non-Federal funds. Without adequate records, periodic physical inventories cannot be compared to property records.

The City's capital assets records are not adequate. The capital asset records do not adequately document additions, deletions, and construction-in-progress. During 2008, the City recorded some capital asset additions and disposals; however, the payments of on-going construction projects were not entered in the construction work in progress for 2008. None of the \$342,930 federally funded CDGB-CF-07-122 storm drainage improvement construction costs and none of the additional construction costs of \$99,542 associated with the CDBG project made from the EDIT fund were added to the construction work in progress. The \$442,472 in unrecorded CDBG Project payments made on the storm-water drainage construction project is a material understatement of the capital assets.

24CFR85.32(d) states in part:

"(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

The Capital Assets of the City are materially understated stated in the amount of \$442,472 due to the lack of recording the payments made for on-going construction projects.

We recommended that the City of Loogootee enter construction costs of a major project in construction work in progress so that the capital assets are accurately reported. The City should record the purchase of capital assets at the time of purchase in lieu of waiting until year end to update the capital asset records. We also recommended that the City of Loogootee implement policies and procedures to ensure that reported capital asset data is accurate and complete.

FINDING 2008-5. CONTROLS OVER PROJECT BUDGET AND DESIGN

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
CFDA Number: 14.228
Federal Award Number: B07DC18000CF-07-122
Pass-Through: Indiana Office of Community and Rural Affairs

The Project Budget and Budget Modification, as well as, the Design and Implementation of Project requirements are part of the Grant Agreement; however, the City did not implement the Project budget into their accounting system (Federal Fund Disbursements-Fund 471 and Local Matching Fund

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

Disbursements – Fund 218); therefore the City has not established adequate controls to ensure compliance with the budget requirements. The lack of controls over budget requirements is a control deficiency that is significant to this major program. The additional work provided for the school corporation was identified in correspondence as not having been part of the original Project; therefore, modification of the Project requires prior written approval of the State as provided in the Grantee Implementation Manual; however, no documentation of Project budget or design requests were presented for audit.

Project contractual obligations totaled \$730,363.93 which exceeded the budget. Since the unit did not participate in the MBE Program, after de-obligation, the budget total was \$649,000 as shown in the following schedule. Obligations exceed the budget in the amount of \$81,363.83.

Exhibit B: Project Budget and Cost Sharing Schedule:

Item #	Activity Description	CDBG \$	%age	Local \$	%age	De-obligated	%age	Total \$	%age
01	Acquisition/Disposition	\$ -	0%	\$ 25,000	100%	\$ -	0%	\$ 25,000	100%
04C	Flood/Drainage Facilities	450,800	77%	131,000	23%	-	0%	581,800	100%
13	Administration Planning & Mgmt	39,200	100%	-	0%	-	0%	39,200	100%
16	Environmental Review	-	0%	3,000	100%	-	0%	3,000	100%
18	MBE Program Participation	24,500	100%	-	0%	(24,500)	100%	-	0%
Totals		<u>\$ 514,500</u>	76%	<u>\$ 159,000</u>	24%	<u>\$ (24,500)</u>	100%	<u>\$ 649,000</u>	100%

Records presented for audit revealed that no attempt was made to modify the Project budget for the new drainage wall and fence in the amount of \$22,679.29; nor was a modification of the Project budget requested for the extension of the twin 48" diameter pipe 330 feet (648 Linear Feet total), in the amount of \$67,726.58, which was additional work done across the school property for the Loogootee Community School Corporation. This additional work was not part of the original project. The extension of the underground pipe will allow for future extension of the parking area to the west of the Jr. High School. The additional work on the project was paid by the school corporation as a contribution toward the Project during 2008 in the amount of \$90,405.87. No information was provided for audit to support that a Project budget or Project design modification was requested by the City from the State.

The CDBG Grant agreement states:

"the Grantee shall not spend more than the amount for each line item as described in the Budget, without prior written consent of a duly authorized representative of the State, nor shall the Project costs funded by this Grant Agreement and those funded by the local and/or private share be amended without the prior written consent of the State."

The CDGB grant agreement also states:

"The Grantee shall be solely responsible for the proper design and implementation of the Project. The Grantee agrees to complete the Project in accordance with the plans and specifications contained in its application which is on file with the State and is incorporated by reference. Modification of the Project shall require prior written approval of the State as provided in the Grantee Implementation Manual, a manual which describes relevant procedures and regulations which has been provided by the State to the Grantee."

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

Failure to complete the Project and expend, state, local and/or private funds in accordance with the Grant Agreement may be considered a material breach and shall entitle the State to impose sanctions against the Grantee including, but not limited to, suspension of all grant payments, and/or suspension of the Grantee's participation in State grant programs until such time as all material breaches are cured to the State's satisfaction. Sanctions may also include repayment of all state funds expended that are not in the scope of this Project or the Budget.

For all future grants, we recommended that officials implement the grant budget as a part of the City accounting system and initiate controls to ensure that the budget requirements will be met. When applicable, Project budget and design modifications should be pursued. Furthermore, we recommended that the City exercise their oversight responsibility and at a minimum have the records of their grant administrator reconcile their records with those of the City.

FINDING 2008-6, INTERNAL CONTROL OVER FINANCIAL REPORTING

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
CFDA Number: 14.228
Federal Award Number: B07DC18000CF-07-122
Pass-Through: Indiana Office of Community and Rural Affairs (OCRA)

We noted several deficiencies in the internal control system of the City related to financial transactions and financial reporting that we consider a significant deficiency. Some of these deficiencies are related to the CDBG Fund 471 and Local Match Fund 218. The City of Loogootee procured administration and management services from a third party, Southern Indiana Development Commission (SIDC), in the completion of the CDBG CF-07-122 Program. All CDBG administration and management are handled by the third party administrator that the City contracted with for this purpose. There was no oversight by the City on the amounts drawn down and reported to OCRA.

The City Clerk-Treasurer is responsible for the disbursement of all funds. CDBG funds were maintained in fund 471; however, the City commingled local match contributions from Loogootee Community School Corporation with the CDBG funds. The local match contribution from the School Corporation was for additional work performed to install a new drainage wall and fence (\$22,679.29) and to extend twin 48" diameter pipe 330 feet on school property. The third party administrator maintained CDBG records; however, no reconciliation of the third party administrator records was reconciled to the City's reconciled ledger and the depository statements.

By lack of oversight of the third party agreed upon procedures, the City was unable to determine any error in drawdowns and/or reporting errors that might occur.

Drawdowns

Drawdown #1 through #7 consisted of invoices dated prior to the date of the draw down; however, drawdown #8 (final drawdown), dated December 19, 2008, in the amount of \$125,491.06 (balance of CDBG Funds) consisted of contractor's application for pay #7, in the amount of \$73,675.62, dated January 2, 2009, of which \$73,231.62 was paid from CDBG Fund 471 and \$444 was paid from local match Fund 218. \$52,259.44 of drawdown #8 was for reimbursement to the City for Project disbursements originally paid from City's local matching funds. No supporting documentation was presented for audit to indicate which invoices or portion of invoices made up the reimbursement.

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

Note that contractor's application for pay #7 is dated 13 calendar days after the date on drawdown request #8. Reporting of invoiced amounts on drawdown #8 prior to receipt of the invoice from the contractor caused improper reporting of the federal share of outlays for the grant period. Payments to contractors were made subsequent to receipt of the drawdown of federal funds.

The Grant Agreement designated the grant end date as December 31, 2008. Project Budget and Cost Sharing Schedule provided that 76% of the original Project was funded with CDBG finds and 24% local matching funds. The cumulative cost of all Project invoices, dated on or prior to December 31, 2008, presented for audit amounted to \$561,244.08. One invoice, in the amount of \$39,318.43 reflected that payment was from the contribution made by the Loogootee Community School Corporation. The cumulative total of all federal funds drawn down by December 31, 2008, was \$490,000 or 87% of all invoices dated on or prior to the grant end date. If the \$39,318.43 invoice designated by the City as paid from local school corporation contributions was withdrawn from the calculation, the total cost invoiced under the original budget would have been \$521,925.65. Under the original Project, the cumulative amount of federal funds drawn down, \$490,000 was 94% of all costs invoiced as of the end of the grant period, which exceeded the federal share of the Project Budget and Cost Sharing Schedule in the amount of \$103,775.02 or 20%. Unless the Grantee is authorized to spend the federal award prior to expending the local match, at December 31, 2008, the federal share of costs were overfunded by 20%.

The Grant Agreement states:

"5A(5) Unless authorized by statute and previously agreed, all payments will be made in arrears only upon presentation of approved and signed State of Indiana Claim Vouchers. Such Claim Vouchers must be submitted with the budget expenditure report detailing disbursements of state, local and/or private funds by project budget line items as set forth in Exhibit B."

"5A(7) Failure to complete the project and expend state, local, and/or private funds in accordance with this Grant Agreement may be considered a material breach and shall entitle the State to impose sanctions against the Grantee including, but not limited to, suspension of all grant payments, and/or suspension of the Grantee's participation in State grant programs until such time as all material breaches are cured to the State's satisfaction. Sanctions may also include repayment of all state funds expended that are not in the scope of this Project and Budget."

"5A(9) The State shall accept a drawdown request for review and approval provided that the Grantee furnishes copies of all bills and invoices requesting payment by contractors and service providers."

"5C All payments shall be made in arrears and only upon presentation of proper claims for payment, along with invoice copies as stated in paragraph 5A above. The State agrees to approve all drawdown requests submitted to the State on the required State of Indiana claim voucher "Form 11294R", provided that the form has been properly completed as indicated in the Grantee Implementation Manual and the State has no reason, through monitoring procedures, or review of attached invoices, to determine that the Grantee is not performing or completing the project in accordance with its responsibilities under this Grant Agreement."

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

"23 All payments shall be made in arrears in conformance with State fiscal policies and procedures and, as required by IC 4-13-2-14.8, by electronic transfer to the financial institution designated by the Grantee in writing unless a specific waiver has been obtained from the Indiana Auditor of State. No payments will be made in advance of receipt of the goods or services that are the subject of this Grant Agreement except as permitted by IC 4-13-2-20."

Financial Reporting

Information reported on the close-out financial report did not reflect the activity as reported in the City's financial records. Reporting errors included the following: total outlays and federal share of outlays. The cumulative federal share of outlays reported on the close-out report did not agree with the City's financial records for the CDBG Grant Fund (471).

Incorrect reporting indicates that the City had not established controls to ensure that reports were prepared accurately. This is a control design deficiency that is significant to the major program. By not filing reports accurately, the Office of Rural Affairs and U.S. Department of Housing and Urban Development cannot adequately monitor the grant funds. Financial Status Report (Form 9) Table 3 with report date June 30, 2009—Contract Award Information was understated as follows:

<u>Contractor Name</u>	<u>Grant Administration</u>	<u>Engineering Firm</u>	<u>Construction Contractor</u>	<u>Totals</u>
Amount of Contract Reported	\$ 47,200.00	\$ 91,000.00	\$ 530,678.51	\$ 668,878.51
Actual	<u>47200.00</u>	<u>111,312.01</u>	<u>571851.92</u>	<u>730,363.93</u>
Difference	<u>\$ 0.00</u>	<u>\$ 20,312.01</u>	<u>\$ 41,173.41</u>	<u>\$ 61,485.42</u>

Table 4 – Leveraging Funds with report date June 30, 2009, understated local match as follows:

<u>Leverage Fund Source</u>	<u>Grant Agreement Commitment</u>	<u>Amount Expended to Date</u>	<u>Estimated Final Expenditure Amount ^</u>
Local Match Reported	\$ 159,000.00	\$ 207,806.89	\$ 207,806.89
Actual	<u>159,000.00</u>	<u>217,705.62</u>	<u>240,363.93</u>
Difference	<u>\$ 0.00</u>	<u>\$ 9,898.73</u>	<u>\$ 32,557.04</u>

^ Based on contract obligations at June 30, 2009, report date.

Grant Agreement states:

"Grantee shall not spend more than the amount for each line item as described in the Budget without prior written consent of a duly authorized representative of the State, nor shall the project costs funded by the grant agreement and those funded by the local and/or private share be amended without the prior written consent of the State. "

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

Per Grant Agreement CF-07-122:

"If Grantee fails to comply with any of the applicable laws, rules, regulations, terms and conditions of the Grant Agreement or other requirements and such failure continues for a period of sixty (60) days following Grantee's receipt of a Notice of Default from State, State may require at its sole discretion, and Grantee hereby agrees, to repay to State any Grant funds made available under this Grant Agreement."

We recommended, that for all current and future grant projects, City officials exercise their oversight responsibilities and initiate procedures to establish internal controls over the third party agreed upon procedures.

CITY OF LOOGOOTEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

OFFICE of CITY CLERK-TREASURER, PO BOX 276, LOOGOOTEE, IN 47553
PHONE 812-295-3200, FAX 812-295-9359

Email: looclerk@rtccom.net

CORRECTIVE ACTION PLANS

FINDING 2008-1. INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Auditee Contact Person: Nancy L. Jones
Title of Contact Person: Clerk-Treasurer
Phone Number: (812)295-3200

Expected Completion Date: May 3, 2010

Corrective Action:

The City of Loogootee will review control activities in place and select and develop controls for the utility office to reduce risks and separate incompatible activities related to collections and deposits, billing and adjustments or corrections. In addition, the City will review control activities in place and select and develop controls at the clerk's office to reduce risks and separate incompatible activities related to receipts and deposits, disbursements and the distribution of checks, and recording transactions and reconciling with the depository. Control activities will be selected and developed to ensure effectiveness and efficiency of operations as they pertain to day to day and grant transactions. These control activities will be presented to the council for their review and input.

Signature Nancy Jones
Clerk-Treasurer, City of Loogootee

Date 3-11-2010

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Email: looclerk@rtccom.net

FINDING 2008-2. ALLOWABLE COSTS

Auditee Contact Person: Nancy L. Jones
Title of Contact Person: Clerk-Treasurer
Phone Number: (812)295-3200

Expected Completion Date: Immediately upon receipt of grant funds and will remit to contractor by May 3, 2010

Corrective Action:

We are now aware of the 3 day rule and will pay out within 3 days of receiving a draw down. We will maintain separate entries in our ledgers for federal funds and local contributions. We will meet with our grant administrator on a monthly basis to ensure that our figures match. We will remit to the contractor, \$6,821.38 that is owed to them due to an error in calculations performed by the project Engineers and approved by the grant administrator and missed by the Clerk-Treasurer and Mayor.

Signature Nancy Jones

Date 3-11-2010

Clerk-Treasurer, City of Loogootee

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PHONE 812-295-3200, FAX 812-295-9359

Email: looclerk@rtccom.net

FINDING 2008-3. CASH MANAGEMENT

Auditee Contact Person: Nancy L. Jones
Title of Contact Person: Clerk-Treasurer
Phone Number: (812)295-3200

Expected Completion Date: immediately upon receiving grant funding

Corrective action:

The City of Loogootee will implement policies and procedures to ensure that all grant funds received will be disbursed within applicable financial management requirements. Internal controls will be put into place to monitor compliance with the cash management requirements of the grant.

Signature Nancy Jones

Date 3-11-2010

Clerk-Treasurer, City of Loogootee

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FINDING 2008-4. INTERNAL CONTROLS OVER EQUIPMENT AND REAL PROPERTY MANAGEMENT

Auditee Contact Person: Nancy L. Jones
Title of Contact Person: Clerk-Treasurer
Phone Number: (812)295-3200

Expected Completion Date: by May 3, 2010

Corrective Action: The City of Loogootee will implement a better monitoring system for accounting for our capital assets. We will put into place the following procedures immediately:

1. We will work in unison with our project engineer and grant administrator to ensure that when payments are made on the construction contracts, those construction payments will be accounted for in the Construction Work-in-Progress Capital Asset account.
2. We will also ensure that when capital assets are purchased, those costs will be recorded to the capital asset record in a timely manner at cost.
3. We will also work in unison with our contractor, engineering firm, grant administrator and department supervisors to ensure that the demolition of capital assets will be accounted for and that the replacement asset, if applicable, will be accounted for in the capital asset records.
4. We will maintain capital asset records to reflect any asset acquired with Federal funds so designated so that upon disposal proper procedures will be implemented.
5. We will work in unison with department supervisors to ensure that inventories of property and equipment and construction-in-progress are conducted at least every two years and reconciled to the detailed capital asset ledger.

Signature Nancy Jones

Date 3-11-2010

Clerk-Treasurer, City of Loogootee

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Email: looclerk@rtccom.net

FINDING 2008-5. CONTROLS OVER PROJECT BUDGET AND DESIGN

Auditee Contact Person: Nancy L. Jones
Title of Contact Person: Clerk-Treasurer
Phone Number: (812)295-3200

Expected Completion Date: upon receipt of grant funds

Corrective Action:

The City will establish a separate fund within an existing account for CDBG funds or any grant funds that are received. The City will exercise oversight responsibility of the grant administrator by closely monitoring reports submitted and hold monthly meetings with the grant administrator to reconcile our financial reports. The City will stay within the budget for the project. If it is necessary to modify the Project, we will go through the proper channels to do so.

Signature Nancy Jones

Date 3-11-2010

Clerk-Treasurer, City of Loogootee

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PHONE 812-295-3200, FAX 812-295-9359

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FINDING 2008-6. INTERNAL CONTROL OVER FINANCIAL REPORTING

Auditee Contact Person: Nancy L. Jones
Title of Contact Person: Clerk-Treasurer
Phone Number: (812)295-3200

Expected Completion Date: immediately upon receipt of grant funds

Corrective Action:

The City will maintain separate account within an existing fund for grant draw downs. The Clerk-Treasurer will reconcile financial ledgers monthly with the grant administrator. The 3 day rule for payout after a draw down is received will be adhered to by the City for all vendors.

Signature Nancy Jones Date 3-11-2010
Clerk-Treasurer, City of Loogootee

CITY OF LOOGOOTEE
EXIT CONFERENCE

The contents of this report were discussed on March 11, 2010, with Donald F. Bowling, Mayor; and Nancy L. Jones, Clerk-Treasurer. The officials concurred with our audit findings.

The contents of this report were discussed on March 15, 2010, with Donald "Rick" Norris, President of the Common Council.