

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF NORTH VERNON
JENNINGS COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
03/24/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	R. Shawn Gerkin	01-01-12 to 12-31-15
Mayor	Harold N. Campbell	01-01-12 to 12-31-15
President of the Board of Public Works	Harold N. Campbell	01-01-12 to 12-31-15
President of the Common Council	David Shaw	01-01-12 to 12-31-14
Chairman of the Utilities Service Board	Karen Snyder Jarrod Daeger	01-01-12 to 12-31-13 01-01-14 to 12-31-14
Superintendent of Water Utility	Mike Hess	01-01-12 to 12-31-14
Superintendent of Wastewater Utility	Russell Vaught	01-01-12 to 12-31-14
Superintendent of Storm Water Utility	Russell Vaught	01-01-12 to 12-31-14
Utility Office Manager	Deanna Salyers	01-01-12 to 12-31-14
President of the Aviation Board	Chuck E. Carson	01-01-12 to 12-31-14



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the City of North Vernon (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2014, 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 integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.


Paul D. Joyce, CPA
State Examiner

February 25, 2014



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

We have audited, 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, the financial statement of the City of North Vernon (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated February 25, 2014, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2.

City of North Vernon's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

February 25, 2014

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF NORTH VERNON
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 1,450,775	\$ 2,161,141	\$ 3,063,376	\$ 548,540
Motor Vehicle	145,937	308,546	430,519	23,964
Local Road & Street	65,084	27,155	9,732	82,507
Riverboat Tax Revenue	279,346	39,856	18,461	300,741
Recreation	50,472	73,879	135,379	(11,028)
Rainy Day	36,547	-	9,940	26,607
Cumulative Cap.Develop.Fund	198,328	37,576	125,000	110,904
Cedit Fund	173,353	259,480	112,257	320,576
Police Pension Fund	204,022	106,021	82,083	227,960
City of NV/Windstream Technology	636	624,508	600,000	25,144
NV/Exergistics	1,986,329	-	1,797,334	188,995
D/J Equitable Sharing Program	1	2,116	-	2,117
NV/Bradshaw Builders Retainage	-	33,332	33,332	-
2006 Bond Principal & Interest	255,818	237,892	255,837	237,873
2006 Reserve Account	200,001	25	26	200,000
2003 Tax Increment	488,627	330,045	516,523	302,149
2003 Bond Principal & Interest	231,248	115,640	231,259	115,629
2003 Reserve Account	500,001	65	56	500,010
2003 General Account	106,315	14	12	106,317
Cemetery	29,013	22,287	33,054	18,246
Police Donation Fund	4,176	405	200	4,381
Recreation Railroad Non-Reverting	99	24,746	15,396	9,449
Street Cut Fund	4,500	2,000	1,500	5,000
Fire Dept. Non-Reverting	3,392	2,670	1,955	4,107
Recreation Non-Reverting	12,554	74,340	74,137	12,757
Alarm Fee Non-Reverting Fund	8,706	3,935	2,917	9,724
Concession Fund	118	54,249	48,476	5,891
Impound Fee Non-Reverting	12,909	2,680	7,306	8,283
Nv Education & Training Center	114,302	143,986	133,006	125,282
Nv Redevelopment	2,180,558	1,306,249	1,474,828	2,011,979
Waste Disposal & Recycling Fund	64,492	111,684	141,250	34,926
N.V. Community Development	60,674	40,000	32,898	67,776
N. V. Police Education	31,873	9,979	9,208	32,644
Police Drug Task Force	7,354	4,720	9,220	2,854
Police Grants	1,388	10,813	5,607	6,594
North Vernon-Carnegie Building	4,354	6,040	5,085	5,309
Cob Non-Reverting Fund	24,195	125,000	125,000	24,195
In Housing Grant #Dr10R-009-016	31	-	-	31
Stellar Grant #Scp-010-006	53,093	2,346,454	2,377,337	22,210
Debt Bond Service	26,640	52,120	69,351	9,409
Cumulative Capital Improv.	88,250	17,844	15,000	91,094
Greensburg Street Phase I & II	427,012	-	62,460	364,552

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

CITY OF NORTH VERNON
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
Hayden Pike	156,694	5,905	21,494	141,105
Cemetery Per. Care	7,000	-	-	7,000
Pay/Roll Fund	-	2,821,946	2,821,946	-
Aviation AIP #3-18-0063-14	266,176	2,546,918	2,663,763	149,331
Aviation/Dave O'Mara Retainage	10,912	808	11,720	-
Aviation AIP #3-18-0063-15	-	288,839	156,613	132,226
Aviation	60,814	120,296	116,721	64,389
Aviation Rotary Fund	36,980	226,682	222,129	41,533
Aviation-Bishop Hangar	3,112	20,700	1,614	22,198
Aviation Aip #3-18-0063-10	4,442	-	4,442	-
Aviation Aip #3-18-0063-011	38,305	20,264	58,569	-
Aviation Aip #3-18-0063-012	853	943	1,796	-
Aviation Aip# 3-18-0063-013	12,427	1,504	13,931	-
Stormwater Utility Fund	428,411	267,777	448,490	247,698
Sewage Headworks	30,982	509,991	534,058	6,915
Sewage Utility	1,172,314	1,908,648	2,636,295	444,667
Sewage Utility Depreciation	334,993	49,796	38,738	346,051
Sewage Construction Fund	162,615	1,220,198	78,942	1,303,871
Debt Service Reserve Account	574,183	-	-	574,183
Sewage Utility Bond & Interest	691,605	247,988	237,843	701,750
Sewage Utility Capacity Fund	121,623	5,956	28,735	98,844
Water Line Construction	18,876	2,240,981	2,259,431	426
Water Debt Payment	-	95,669	7,719	87,950
Water Utl. Debt Reserve 2011	-	11,893	-	11,893
Water Filter Valve Upgrade	-	156,000	25,784	130,216
SRF North Vernon DW B & I	4,797	77,850	37,215	45,432
SRF North Vernon DW DSR	423,908	14,400	-	438,308
Water Operating	1,646,147	2,131,802	2,080,222	1,697,727
Water Works Capital Improvement	200,245	120,000	97,816	222,429
Water-Works Depreciation	554,536	49,413	13,538	590,411
Water-Works Meter Deposit	116,230	33,163	25,725	123,668
Waterworks Revenue Bond-2005	10,264	200,165	200,678	9,751
Hayden Pike Water	197,925	57,649	234,745	20,829
Water Clarifier Project	60,174	14,400	19	74,555
Water Utility Bond & Int 2010	-	77,850	77,850	-
Water Debt Reserve 2010	-	14,400	14,400	-
Waterworks Refunding Bond 2010	21	296,206	295,946	281
Nv/Sunesis Construction-Retainage	14,400	-	14,400	-
Water Distribution Dr2-09-132	-	1,122,782	1,122,781	1
Totals	<u>\$ 16,894,487</u>	<u>\$ 25,699,274</u>	<u>\$ 28,672,425</u>	<u>\$ 13,921,336</u>

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

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENT

Note 1. 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 some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution, or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENT
(Continued)

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

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

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be 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; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

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

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

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

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

CITY OF NORTH VERNON
NOTES TO FINANCIAL STATEMENT
(Continued)

B. 1925 Police Officers' Pension Plan

Plan Description

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

Funding Policy

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

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

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

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) 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 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

CITY OF NORTH VERNON
 NOTES TO FINANCIAL STATEMENT
 (Continued)

Note 7. Cash Balance Deficits

The financial statement contains a fund with a cash deficit. This is a result of the county tax distribution for December 2012 was not received until January 2013.

Note 8. Restatements

For the year ended December 31, 2012, certain changes have been made to the beginning balance of the financial statement to more appropriately reflect financial activity of the City. The following schedule presents a summary of restated beginning balances due to funds not being included on the financial statement for the year ending December 31, 2011:

Fund Name	Balance as of December 31 2011	New Fund	Balance as of January 1, 2012
SRF North Vernon DW DSR	\$ -	\$ 423,908	\$ 423,908
SRF North Vernon DW B&I	-	4,797	4,797

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle	Local Road & Street	Riverboat Tax Revenue	Recreation	Rainy Day	Cumulative Cap.Develop.Fund
Cash and investments - beginning	\$ 1,450,775	\$ 145,937	\$ 65,084	\$ 279,346	\$ 50,472	\$ 36,547	\$ 198,328
Receipts:							
Taxes	952,018	127,391	-	-	66,203	-	34,981
Licenses and permits	200	-	-	-	-	-	-
Intergovernmental	1,013,645	180,855	27,068	39,856	4,911	-	2,595
Charges for services	109,253	-	-	-	1,157	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	86,025	300	87	-	1,608	-	-
Total receipts	<u>2,161,141</u>	<u>308,546</u>	<u>27,155</u>	<u>39,856</u>	<u>73,879</u>	<u>-</u>	<u>37,576</u>
Disbursements:							
Personal services	1,797,571	364,094	-	-	112,004	9,940	-
Supplies	772,516	34,143	-	18,461	1,125	-	-
Other services and charges	462,366	2,805	-	-	22,250	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	30,923	29,477	9,732	-	-	-	125,000
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>3,063,376</u>	<u>430,519</u>	<u>9,732</u>	<u>18,461</u>	<u>135,379</u>	<u>9,940</u>	<u>125,000</u>
Excess (deficiency) of receipts over disbursements	<u>(902,235)</u>	<u>(121,973)</u>	<u>17,423</u>	<u>21,395</u>	<u>(61,500)</u>	<u>(9,940)</u>	<u>(87,424)</u>
Cash and investments - ending	<u>\$ 548,540</u>	<u>\$ 23,964</u>	<u>\$ 82,507</u>	<u>\$ 300,741</u>	<u>\$ (11,028)</u>	<u>\$ 26,607</u>	<u>\$ 110,904</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Cedit Fund	Police Pension Fund	City of NV/Windstream Technology	NV/Exergistics	D/J Equitable Sharing Program	NV/Bradshaw Builders Retainage	2006 Bond Principal & Interest
Cash and investments - beginning	\$ 173,353	\$ 204,022	\$ 636	\$ 1,986,329	\$ 1	\$ -	\$ 255,818
Receipts:							
Taxes	-	104,626	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	240,880	1,395	-	-	-	-	-
Charges for services	-	-	-	-	-	33,321	-
Utility fees	-	-	-	-	-	-	-
Other receipts	18,600	-	624,508	-	2,116	11	237,892
Total receipts	<u>259,480</u>	<u>106,021</u>	<u>624,508</u>	<u>-</u>	<u>2,116</u>	<u>33,332</u>	<u>237,892</u>
Disbursements:							
Personal services	-	81,983	-	-	-	-	-
Supplies	-	100	-	-	-	-	-
Other services and charges	6,442	-	600,000	1,797,334	-	33,332	19
Debt service - principal and interest	-	-	-	-	-	-	255,818
Capital outlay	105,815	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>112,257</u>	<u>82,083</u>	<u>600,000</u>	<u>1,797,334</u>	<u>-</u>	<u>33,332</u>	<u>255,837</u>
Excess (deficiency) of receipts over disbursements	<u>147,223</u>	<u>23,938</u>	<u>24,508</u>	<u>(1,797,334)</u>	<u>2,116</u>	<u>-</u>	<u>(17,945)</u>
Cash and investments - ending	<u>\$ 320,576</u>	<u>\$ 227,960</u>	<u>\$ 25,144</u>	<u>\$ 188,995</u>	<u>\$ 2,117</u>	<u>\$ -</u>	<u>\$ 237,873</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	2006 Reserve Account	2003 Tax Increment	2003 Bond Principal & Interest	2003 Reserve Account	2003 General Account	Cemetery	Police Donation Fund
Cash and investments - beginning	\$ 200,001	\$ 488,627	\$ 231,248	\$ 500,001	\$ 106,315	\$ 29,013	\$ 4,176
Receipts:							
Taxes	-	-	-	-	-	18,003	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	1,336	-
Charges for services	-	-	-	-	-	2,850	-
Utility fees	-	-	-	-	-	-	-
Other receipts	25	330,045	115,640	65	14	98	405
Total receipts	<u>25</u>	<u>330,045</u>	<u>115,640</u>	<u>65</u>	<u>14</u>	<u>22,287</u>	<u>405</u>
Disbursements:							
Personal services	-	-	-	-	-	29,153	-
Supplies	-	-	-	-	-	1,135	200
Other services and charges	20	39	15	56	12	1,794	-
Debt service - principal and interest	-	163,000	231,244	-	-	-	-
Capital outlay	-	-	-	-	-	972	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	6	353,484	-	-	-	-	-
Total disbursements	<u>26</u>	<u>516,523</u>	<u>231,259</u>	<u>56</u>	<u>12</u>	<u>33,054</u>	<u>200</u>
Excess (deficiency) of receipts over disbursements	<u>(1)</u>	<u>(186,478)</u>	<u>(115,619)</u>	<u>9</u>	<u>2</u>	<u>(10,767)</u>	<u>205</u>
Cash and investments - ending	<u>\$ 200,000</u>	<u>\$ 302,149</u>	<u>\$ 115,629</u>	<u>\$ 500,010</u>	<u>\$ 106,317</u>	<u>\$ 18,246</u>	<u>\$ 4,381</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Recreation Railroad Non-Reverting	Street Cut Fund	Fire Dept. Non-Reverting	Recreation Non-Reverting	Alarm Fee Non-Reverting Fund	Concession Fund	Impound Fee Non-Reverting
Cash and investments - beginning	\$ 99	\$ 4,500	\$ 3,392	\$ 12,554	\$ 8,706	\$ 118	\$ 12,909
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	3,935	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	5,586	2,000	-	-	-	54,249	2,680
Utility fees	-	-	-	-	-	-	-
Other receipts	19,160	-	2,670	74,340	-	-	-
Total receipts	<u>24,746</u>	<u>2,000</u>	<u>2,670</u>	<u>74,340</u>	<u>3,935</u>	<u>54,249</u>	<u>2,680</u>
Disbursements:							
Personal services	-	-	1,955	-	-	11,708	-
Supplies	6,817	-	-	74,137	2,917	36,768	7,306
Other services and charges	8,579	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	1,500	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>15,396</u>	<u>1,500</u>	<u>1,955</u>	<u>74,137</u>	<u>2,917</u>	<u>48,476</u>	<u>7,306</u>
Excess (deficiency) of receipts over disbursements	<u>9,350</u>	<u>500</u>	<u>715</u>	<u>203</u>	<u>1,018</u>	<u>5,773</u>	<u>(4,626)</u>
Cash and investments - ending	<u>\$ 9,449</u>	<u>\$ 5,000</u>	<u>\$ 4,107</u>	<u>\$ 12,757</u>	<u>\$ 9,724</u>	<u>\$ 5,891</u>	<u>\$ 8,283</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Nv Education & Training Center	Nv Redevelopment	Waste Disposal & Recycling Fund	N.V. Community Development	N. V. Police Education	Police Drug Task Force	Police Grants
Cash and investments - beginning	\$ 114,302	\$ 2,180,558	\$ 64,492	\$ 60,674	\$ 31,873	\$ 7,354	\$ 1,388
Receipts:							
Taxes	-	1,114,957	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	143,379	-	111,684	-	9,800	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	607	191,292	-	40,000	179	4,720	10,813
Total receipts	<u>143,986</u>	<u>1,306,249</u>	<u>111,684</u>	<u>40,000</u>	<u>9,979</u>	<u>4,720</u>	<u>10,813</u>
Disbursements:							
Personal services	-	-	-	26,000	-	7,030	-
Supplies	-	34,106	95,896	-	7,244	2,190	612
Other services and charges	133,006	-	45,354	-	324	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	1,110,722	-	6,898	1,640	-	4,995
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	330,000	-	-	-	-	-
Total disbursements	<u>133,006</u>	<u>1,474,828</u>	<u>141,250</u>	<u>32,898</u>	<u>9,208</u>	<u>9,220</u>	<u>5,607</u>
Excess (deficiency) of receipts over disbursements	<u>10,980</u>	<u>(168,579)</u>	<u>(29,566)</u>	<u>7,102</u>	<u>771</u>	<u>(4,500)</u>	<u>5,206</u>
Cash and investments - ending	<u>\$ 125,282</u>	<u>\$ 2,011,979</u>	<u>\$ 34,926</u>	<u>\$ 67,776</u>	<u>\$ 32,644</u>	<u>\$ 2,854</u>	<u>\$ 6,594</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	North Vernon-Carnegie Building	Cob Non-Reverting Fund	In Housing Grant #Dr10R-009-016	Stellar Grant #Scp-010-006	Debt Bond Service	Cumulative Capital Improv.	Greensburg Street Phase I & li
Cash and investments - beginning	\$ 4,354	\$ 24,195	\$ 31	\$ 53,093	\$ 26,640	\$ 88,250	\$ 427,012
Receipts:							
Taxes	-	-	-	-	48,427	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	3,593	17,844	-
Charges for services	6,040	125,000	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	2,346,454	100	-	-
Total receipts	<u>6,040</u>	<u>125,000</u>	<u>-</u>	<u>2,346,454</u>	<u>52,120</u>	<u>17,844</u>	<u>-</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	5,085	125,000	-	2,377,337	69,351	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	62,460
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	15,000	-
Total disbursements	<u>5,085</u>	<u>125,000</u>	<u>-</u>	<u>2,377,337</u>	<u>69,351</u>	<u>15,000</u>	<u>62,460</u>
Excess (deficiency) of receipts over disbursements	<u>955</u>	<u>-</u>	<u>-</u>	<u>(30,883)</u>	<u>(17,231)</u>	<u>2,844</u>	<u>(62,460)</u>
Cash and investments - ending	<u>\$ 5,309</u>	<u>\$ 24,195</u>	<u>\$ 31</u>	<u>\$ 22,210</u>	<u>\$ 9,409</u>	<u>\$ 91,094</u>	<u>\$ 364,552</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Hayden Pike	Cemetery Per. Care	Pay/Roll Fund	Aviation AIP #3-18-0063-14	Aviation/Dave O'Mara Retainage	Aviation AIP #3-18-0063-15	Aviation
Cash and investments - beginning	\$ 156,694	\$ 7,000	\$ -	\$ 266,176	\$ 10,912	\$ -	\$ 60,814
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	288,839	102,120
Utility fees	-	-	-	-	-	-	-
Other receipts	5,905	-	2,821,946	2,546,918	808	-	18,176
Total receipts	<u>5,905</u>	<u>-</u>	<u>2,821,946</u>	<u>2,546,918</u>	<u>808</u>	<u>288,839</u>	<u>120,296</u>
Disbursements:							
Personal services	-	-	2,821,946	-	-	-	2,541
Supplies	-	-	-	-	11,720	-	3,192
Other services and charges	-	-	-	2,663,763	-	156,613	106,302
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	21,494	-	-	-	-	-	4,686
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>21,494</u>	<u>-</u>	<u>2,821,946</u>	<u>2,663,763</u>	<u>11,720</u>	<u>156,613</u>	<u>116,721</u>
Excess (deficiency) of receipts over disbursements	<u>(15,589)</u>	<u>-</u>	<u>-</u>	<u>(116,845)</u>	<u>(10,912)</u>	<u>132,226</u>	<u>3,575</u>
Cash and investments - ending	<u>\$ 141,105</u>	<u>\$ 7,000</u>	<u>\$ -</u>	<u>\$ 149,331</u>	<u>\$ -</u>	<u>\$ 132,226</u>	<u>\$ 64,389</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Aviation Rotary Fund	Aviation-Bishop Hangar	Aviation Aip #3-18-0063-10	Aviation Aip #3-18-0063-011	Aviation Aip #3-18-0063-012	Aviation Aip# 3-18-0063-013	Stormwater Utility Fund
Cash and investments - beginning	\$ 36,980	\$ 3,112	\$ 4,442	\$ 38,305	\$ 853	\$ 12,427	\$ 428,411
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	224,807	20,700	-	-	-	-	-
Utility fees	-	-	-	-	-	-	129,152
Other receipts	1,875	-	-	20,264	943	1,504	138,625
Total receipts	<u>226,682</u>	<u>20,700</u>	<u>-</u>	<u>20,264</u>	<u>943</u>	<u>1,504</u>	<u>267,777</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	222,130	-	-	-	-	-	-
Other services and charges	-	1,614	4,442	58,569	1,796	13,931	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	(1)	-	-	-	-	-	379,682
Utility operating expenses	-	-	-	-	-	-	5,538
Other disbursements	-	-	-	-	-	-	63,270
Total disbursements	<u>222,129</u>	<u>1,614</u>	<u>4,442</u>	<u>58,569</u>	<u>1,796</u>	<u>13,931</u>	<u>448,490</u>
Excess (deficiency) of receipts over disbursements	<u>4,553</u>	<u>19,086</u>	<u>(4,442)</u>	<u>(38,305)</u>	<u>(853)</u>	<u>(12,427)</u>	<u>(180,713)</u>
Cash and investments - ending	<u>\$ 41,533</u>	<u>\$ 22,198</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 247,698</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Sewage Headworks	Sewage Utility	Sewage Utility Depreciation	Sewage Construction Fund	Debt Service Reserve Account	Sewage Utility Bond & Interest	Sewage Utility Capacity Fund
Cash and investments - beginning	\$ 30,982	\$ 1,172,314	\$ 334,993	\$ 162,615	\$ 574,183	\$ 691,605	\$ 121,623
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Utility fees	-	1,882,653	-	-	-	-	4,826
Other receipts	509,991	25,995	49,796	1,220,198	-	247,988	1,130
Total receipts	<u>509,991</u>	<u>1,908,648</u>	<u>49,796</u>	<u>1,220,198</u>	<u>-</u>	<u>247,988</u>	<u>5,956</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	509,991	499,692	-	46,303	-	237,843	-
Utility operating expenses	-	665,713	38,738	32,639	-	-	28,735
Other disbursements	24,067	1,470,890	-	-	-	-	-
Total disbursements	<u>534,058</u>	<u>2,636,295</u>	<u>38,738</u>	<u>78,942</u>	<u>-</u>	<u>237,843</u>	<u>28,735</u>
Excess (deficiency) of receipts over disbursements	<u>(24,067)</u>	<u>(727,647)</u>	<u>11,058</u>	<u>1,141,256</u>	<u>-</u>	<u>10,145</u>	<u>(22,779)</u>
Cash and investments - ending	<u>\$ 6,915</u>	<u>\$ 444,667</u>	<u>\$ 346,051</u>	<u>\$ 1,303,871</u>	<u>\$ 574,183</u>	<u>\$ 701,750</u>	<u>\$ 98,844</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Water Line Construction	Water Debt Payment	Water Utl. Debt Reserve 2011	Water Filter Valve Upgrade	SRF North Vernon DW B & I	SRF North Vernon DW DSR	Water Operating
Cash and investments - beginning	\$ 18,876	\$ -	\$ -	\$ -	\$ 4,797	\$ 423,908	\$ 1,646,147
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	2,107,326
Other receipts	2,240,981	95,669	11,893	156,000	77,850	14,400	24,476
Total receipts	<u>2,240,981</u>	<u>95,669</u>	<u>11,893</u>	<u>156,000</u>	<u>77,850</u>	<u>14,400</u>	<u>2,131,802</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	7,647	-	-	-	-	-
Utility operating expenses	2,259,431	72	-	25,784	-	-	748,127
Other disbursements	-	-	-	-	37,215	-	1,332,095
Total disbursements	<u>2,259,431</u>	<u>7,719</u>	<u>-</u>	<u>25,784</u>	<u>37,215</u>	<u>-</u>	<u>2,080,222</u>
Excess (deficiency) of receipts over disbursements	<u>(18,450)</u>	<u>87,950</u>	<u>11,893</u>	<u>130,216</u>	<u>40,635</u>	<u>14,400</u>	<u>51,580</u>
Cash and investments - ending	<u>\$ 426</u>	<u>\$ 87,950</u>	<u>\$ 11,893</u>	<u>\$ 130,216</u>	<u>\$ 45,432</u>	<u>\$ 438,308</u>	<u>\$ 1,697,727</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Water Works Capital Improvement	Water-Works Depreciation	Water-Works Meter Deposit	Waterworks Revenue Bond-2005	Hayden Pike Water	Water Clarifier Project
Cash and investments - beginning	\$ 200,245	\$ 554,536	\$ 116,230	\$ 10,264	\$ 197,925	\$ 60,174
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Utility fees	-	-	33,163	-	-	-
Other receipts	120,000	49,413	-	200,165	57,649	14,400
Total receipts	<u>120,000</u>	<u>49,413</u>	<u>33,163</u>	<u>200,165</u>	<u>57,649</u>	<u>14,400</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	97,816	13,259	25,725	200,673	-	-
Utility operating expenses	-	279	-	5	234,745	19
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>97,816</u>	<u>13,538</u>	<u>25,725</u>	<u>200,678</u>	<u>234,745</u>	<u>19</u>
Excess (deficiency) of receipts over disbursements	<u>22,184</u>	<u>35,875</u>	<u>7,438</u>	<u>(513)</u>	<u>(177,096)</u>	<u>14,381</u>
Cash and investments - ending	<u>\$ 222,429</u>	<u>\$ 590,411</u>	<u>\$ 123,668</u>	<u>\$ 9,751</u>	<u>\$ 20,829</u>	<u>\$ 74,555</u>

CITY OF NORTH VERNON
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Water Utility Bond & Int 2010	Water Debt Reserve 2010	Waterworks Refunding Bond 2010	Nv/Sunesis Construction-Retainage	Water Distribution Dr2-09-132	Totals
Cash and investments - beginning	\$ -	\$ -	\$ 21	\$ 14,400	\$ -	\$ 16,894,487
Receipts:						
Taxes	-	-	-	-	-	2,466,606
Licenses and permits	-	-	-	-	-	4,135
Intergovernmental	-	-	-	-	-	1,533,978
Charges for services	-	-	-	-	-	1,243,465
Utility fees	-	-	-	-	-	4,157,120
Other receipts	77,850	14,400	296,206	-	1,122,782	16,293,970
Total receipts	<u>77,850</u>	<u>14,400</u>	<u>296,206</u>	<u>-</u>	<u>1,122,782</u>	<u>25,699,274</u>
Disbursements:						
Personal services	-	-	-	-	-	5,265,925
Supplies	-	-	-	-	-	1,332,715
Other services and charges	-	-	-	-	-	8,697,550
Debt service - principal and interest	-	-	-	-	-	650,062
Capital outlay	-	-	295,946	-	-	3,830,890
Utility operating expenses	-	-	-	14,400	-	4,054,225
Other disbursements	77,850	14,400	-	-	1,122,781	4,841,058
Total disbursements	<u>77,850</u>	<u>14,400</u>	<u>295,946</u>	<u>14,400</u>	<u>1,122,781</u>	<u>28,672,425</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>-</u>	<u>260</u>	<u>(14,400)</u>	<u>1</u>	<u>(2,973,151)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 281</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 13,921,336</u>

CITY OF NORTH VERNON
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 38,628	\$ 2,006,502
Storm Water	-	13,187
Wastewater	4,750	192,156
Water	72,809	171,261
Totals	\$ 116,187	\$ 2,383,106

CITY OF NORTH VERNON
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Revenue bonds	Redevelopment District Tax Increment Revenue Bonds 2003	\$ 4,535,000	\$ 231,244
Revenue bonds	Redevelopment District Tax Increment Revenue Bonds 2006	<u>920,000</u>	<u>255,381</u>
Total governmental activities		<u>5,455,000</u>	<u>486,625</u>
Wastewater:			
Revenue bonds	Tax Increment and Sewage Works Revenue Bonds of 2006	540,000	64,790
Revenue bonds	Tax Increment and Sewage Works Refunding Revenue Bonds of 2006	<u>4,775,000</u>	<u>494,264</u>
Total Wastewater		<u>5,315,000</u>	<u>559,054</u>
Water:			
Revenue bonds	Waterworks Revenue Bonds of 2005	1,705,000	195,623
Revenue bonds	Waterworks Refunding Revenue Bonds of 2010	1,345,000	294,593
Revenue bonds	Waterworks Revenue Bonds of 2011	3,060,000	97,777
Notes and loans payable	Waterworks Revenue Bonds of 2010	<u>1,106,000</u>	<u>75,172</u>
Total Water		<u>7,216,000</u>	<u>663,165</u>
Totals		<u>\$ 17,986,000</u>	<u>\$ 1,708,844</u>

CITY OF NORTH VERNON
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

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.

	Ending Balance
Governmental activities:	
Land	\$ 1,494,204
Infrastructure	8,492,691
Buildings	5,743,375
Improvements other than buildings	3,184,655
Machinery, equipment, and vehicles	5,966,184
Total governmental activities	24,881,109
Airport:	
Land	1,500,180
Buildings	1,807,760
Improvements other than buildings	5,662,099
Machinery, equipment, and vehicles	169,572
Total Airport	9,139,611
Storm Water:	
Improvements other than buildings	1,300,000
Machinery, equipment, and vehicles	25,037
Total Storm Water	1,325,037
Wastewater:	
Land	91,962
Buildings	325,000
Improvements other than buildings	20,993,182
Machinery, equipment, and vehicles	748,305
Total Wastewater	22,158,449
Water:	
Land	14,300
Buildings	246,316
Improvements other than buildings	8,771,934
Machinery, equipment, and vehicles	271,480
Total Water	9,304,030
Total capital assets	\$ 66,808,236

CITY OF NORTH VERNON
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS (Applies to Clerk-Treasurer)

The records presented for audit indicated the General Fund expenditures were in excess of budgeted appropriations by \$84,825.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

FINANCIAL ASSISTANCE TO ENTITIES (Applies to City Council)

The City received financial assistance from the City of Lawrenceburg for various economic development projects. The City used the proceeds to provide financial assistance to various for-profit entities (nongovernmental entities). The financial assistance provided to the nongovernmental entities totaled \$2,575,558 during the year 2012. Interlocal agreements (grant agreements) between the City of Lawrenceburg and the City included information identifying the name of the nongovernmental entities to receive financial assistance and a description of how the financial assistance was to be used. However, the City did not enter into contracts, grant agreements, or memorandums of understanding with the nongovernmental entities describing the purpose of the financial assistance and did not describe the manner the financial assistance was to be provided (direct financial assistance or paying expenses on behalf of entity).

Without a contract, grant agreement, or memorandum of understanding, there is no guarantee that the entities, who were paid direct financial assistance, were adequately informed of the reporting and examination requirements in Indiana Code 5-11-1.

A contract, grant agreement, or memorandum of understanding is a starting point in establishing internal controls to provide assurance that public funds paid to nongovernmental entities will be used for intended public purposes. The City provided financial assistance to the following nongovernmental entities:

Name of Entity	Amount of Assistance	Purpose of Assistance (1)	Notes
Exegistics	\$ 1,797,333	Construction of operating facility and equipment	(2)
WindStream Technologies	600,000	Tooling for the production process	(2)
Hilex Poly	<u>178,225</u>		(3); (4)
Total	<u>\$ 2,575,558</u>		

Notes to Schedule:

- (1) Purpose of assistance as stated in the grant agreement between the City of Lawrenceburg and the City.
- (2) The City provided direct financial assistance by reimbursing the entity based on invoices submitted by the entity.
- (3) The City of made payments directly to vendors on behalf of entity.

CITY OF NORTH VERNON
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) No grant agreement was presented for audit. A letter, dated September 2, 2011, between the City and the City of Lawrenceburg showed the financial assistance was to be for "road/rail expansion."

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

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)

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)

Indiana Code 5-11-1-16(a) states in part: "As used in this article, 'municipality' means any county . . . or other political subdivision of Indiana."

Indiana Code 5-11-1-24 (f) states: "The state or a municipality may not enter into a contract with an entity subject to examination under this chapter if the contract does not permit the examinations and require the reports prescribed by this chapter."

ACCOUNTING OF FINANCIAL ASSISTANCE TO THE CITY OF LAWRENCEBURG (Applies to Mayor)

The City entered into an interlocal agreement (grant agreement) with the City of Lawrenceburg for the City of Lawrenceburg to provide the City with an Economic Development Grant in the amount of \$2,000,000. The grant was for the sole purpose of building a regionally unique rail supported operation facility in North Vernon in conjunction with Exegistics, a for-profit company. The amount of \$1,600,000 was designated for the construction of the operations facility and \$400,000 for equipment.

The City used the grant by reimbursing Exegistics for project costs based on invoices submitted by Exegistics. The agreement required the City (Grantee) to make an accounting to the City of Lawrenceburg (City) as stated below:

" . . . officials of the 'Grantee' receiving the grant agrees to deliver to the City at least every six (6) months or less a complete accounting of the grant, its use, its current balance, and work to be completed. This report is to be verified under the signature of the Chief Executive or the top elected official of the 'Grantee' . . ."

No documentation was presented for audit that the City made an accounting of the grant, as described above, to the City of Lawrenceburg.

CITY OF NORTH VERNON
AUDIT RESULTS AND COMMENTS
(Continued)

The following are examples of costs the City reimbursed Exegistics from the grant proceeds:

David G. Trout & Assoc. - NV Legal work invoices	\$ 2,175
Anthem health insurance premium invoice	2,943
Guardian dental and vision insurance premium invoice	378
Travel and Expense Report for Exegistics President Stephen Old	1,168
Cost Allocation Report on two employees (payroll 08-31-12)	19,140
Demtron Incorporated invoice on Job Tracking database	1,900
Steve Bilden contract management services	4,809
Travel and Expense Report for Exegistics President Stephen Old	5,680
Travel and Expense Report for Nikki Warren	1,089
Travel and Expense Report for John Moore	1,451
Travel and Expense Report for Doug Jones	992

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)

ADVANCE PAYMENTS (Applies to Aviation Board)

The City paid \$4,570 per month of contractual compensation to the Airport Director in advance of the actual date the services were provided. The City would make the monthly payment on or about the end of each month prior to the month the services were rendered.

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 Town, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of North Vernon's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on the CDBG - State-Administered CDBG Cluster

As described in item 2012-4 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Subrecipient Monitoring that are applicable to its CDBG - State - Administered CDBG Cluster. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that cluster.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Qualified Opinion on the CDBG – State-Administered CDBG Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the CDBG - State-Administered CDBG Cluster for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 item 2012-6. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

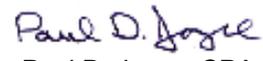
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-3 and 2012-5 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

February 25, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

CITY OF NORTH VERNON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
Department of Agriculture				
Water and Waste Disposal Systems for Rural Communities Water Supply and Distribution System	Direct Grant	10.760	15-040-356001146	\$ 1,952,489
Total for federal grantor agency				<u>1,952,489</u>
Department of Housing and Urban Development				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii				
Disaster Recovery Grant	Indiana Office of Community and Rural Affairs	14.228	DR2-09-110	138,625
Disaster Recovery Grant			DR2-09-132	1,122,782
Stellar Communities Grant			ST-11-102	53,400
Disaster Recovery Grant			DR2-09-165	509,991
Stellar Communities Grant			ST-10-001	329,109
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii				
Homeowner Repair and Improvement	Indiana Housing and Community Development Authority	14.228	HD-011-011	<u>362,867</u>
Total for cluster				<u>2,516,774</u>
Total for federal grantor agency				<u>2,516,774</u>
Department of Justice				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program Award Year 2009	Indiana Criminal Justice Institute	16.738	2009-DJ-BX-0049	<u>4,995</u>
Total for cluster				<u>4,995</u>
Bulletproof Vest Partnership Program				
Fiscal Year 2010 Award		16.607	FY 2010	315
Fiscal Year 2011 Award			FY 2011	<u>3,253</u>
Total for program				<u>3,568</u>
Total for federal grantor agency				<u>8,563</u>
Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction				
Hayden Pike	Indiana Department of Transportation	20.205	DES 0088870	5,905
Stellar Community Project Phase 1			DES 1172490	226,652

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF NORTH VERNON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
Department of Transportation (continued)				
Highway Planning and Construction Cluster (continued)				
Highway Planning and Construction (continued)	Indiana Department of Transportation	20.205		
Stellar Community Project Muscatatuck Trail			DES 1173332	66,119
Stellar Community Project Phase 2			DES 1173751	<u>29,103</u>
Total for cluster				<u>327,779</u>
Highway Safety Cluster				
State and Community Highway Safety Operation Pullover	Indiana Criminal Justice Institute	20.600	OP-12-04-02-66	<u>2,250</u>
Total for cluster				<u>2,250</u>
Airport Improvement Program	Direct Grant	20.106		
Airport Improvement Program				
Design for T-Hangar Taxilane and Apron Rehab Phase 1			AIP 3-18-0063-011-2009	19,744
Rehabilitate Runway 5-23 Phase 2 Construction			AIP 3-18-0063-014-2011	2,284,431
Expand GA Apron, Phase 1			AIP 3-18-0063-15-2012	<u>288,839</u>
Total for program				<u>2,593,014</u>
Total for federal grantor agency				<u>2,690,486</u>
Environmental Protection Agency				
Congressionally Mandated Projects	Direct Grant	66.202		
Hayden Pike Water Extension and Water Treatment Plant Clarifier			EX-00E00485-1	<u>57,649</u>
Total for federal grantor agency				<u>57,649</u>
Department of Homeland Security				
Disaster Grants - Public Assistance (Presidentially Declared Disasters) 2011 Storm		97.036	DR-1997	<u>750</u>
Total for federal grantor agency				<u>750</u>
Total federal awards expended				<u>\$ 7,459,268</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF NORTH VERNON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of North Vernon (City) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2012:

Program Title	Federal CFDA Number	2012
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	\$ <u>362,867</u>

CITY OF NORTH VERNON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified except for the CDBG - State-Administered CDBG Cluster which was Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
20.106	CDBG - State-Administered CDBG Cluster Highway Planning and Construction Cluster Airport Improvement Program

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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

Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to the achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts, utility billings and collections,

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

disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

The Clerk-Treasurer stated that the lack of segregation of duties is due to the Clerk-Treasurer's Office having a small number of staff members.

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

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)

FINDING 2012-2 - INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal controls in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted that several grants were omitted the SEFA: for example, the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii grants in the amount of \$2,516,774, Water and Waste Disposal Systems for Rural Communities grant in the amount of \$1,952,489, and Highway Planning and Construction grants in the amount of \$327,779. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

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

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's
Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): HD-011-011
Pass-Through Entity: Indiana Housing and Community Development Authority

Management of the City have not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirement: Subrecipient Monitoring. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and this compliance requirement. A lack of segregation of duties within an

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

internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and the Subrecipient Monitoring compliance requirement.

FINDING 2012-4 - SUBRECIPIENT MONITORING

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's
Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): HD-011-011
Pass-Through Entity: Indiana Housing and Community Development Authority

The City received a federal award to provide services for homeowner repairs and improvements. Subsequently, the entire federal award was passed-through to Southern Indiana Housing and Community Development Corporation (SIHCDC) to rehabilitate 20 owner-occupied homes within the designated Irish Hill neighborhood as part of the North Vernon Stellar Community Grant Program. The City could not provide any documentation that the expenditures of those funds were properly monitored. The City did not have procedures in place to monitor the reports compiled by SIHCDC, nor did they complete any onsite visits with the SIHCDC Officials.

OMB Circular A-133, Subpart D, section .400(d) states in part:

"Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: . . .

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

- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

Due to the lack of procedures and the lack of monitoring, the City could not ensure that the federal awards had been used in compliance with laws, regulations, and the provisions of the grant agreement. Any misuse of the federal funds by SIHCDC would not have been detected by the City.

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish and implement a formal subrecipient monitoring plan to ensure that funds passed through to subrecipients are appropriately monitored.

FINDING 2012-5 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO AIRPORT IMPROVEMENT PROGRAM

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0063-011-2009;
AIP 3-18-0063-014-2011;
AIP 3-18-0063-15-2012

Management of the City have not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirement: Cash Management. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

FINDING 2012-6 - CASH MANAGEMENT

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Grant

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0063-011-2009;
AIP 3-18-0063-014-2011;
AIP 3-18-0063-15-2012

Amounts received by the City for the Airport Improvement Program were requested and received in advance of payment for services rather than requesting reimbursement based on expenditures actually paid. Requests for reimbursements were filed, received, and held, for up to 133 days prior to payment to the vendor.

49 CFR 18.21(d) states:

"Reimbursement. Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and subgrantees may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, Federal agencies shall not use the percentage of completion method to pay construction grants. The grantee or subgrantee may use that method to pay its construction contractor, and if it does, the awarding agency's payments to the grantee or subgrantee will be based on the grantee's or subgrantee's actual rate of disbursement."

The City did not have controls in place to reduce the risks of noncompliance with Cash Management.

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended the City establish controls, including segregation of duties, related to the grant agreement and Cash Management.



CITY OF NORTH VERNON

CLERK-TREASURER

143 E. WALNUT STREET

NORTH VERNON, IN 47265

(812) 346-5907

FAX (812) 346-8145

RAYMOND SHAWN GERKIN, CLERK-TREASURER

RITA L. ELMORE, ASST. CLERK-TREASURER

CORRECTIVE ACTION PLANS

February 20, 2014

RE: FINDING 2012-1

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Corrective Action:

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

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

RE: FINDING 2012-2

INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Corrective Action:

We plan to have proper internal controls in place in order to prepare the Schedule of Expenditures of Federal Awards to ensure accurate reporting of the federal awards.

Sincerely,

R. Shawn Gerkin
Clerk-Treasurer, City of North Vernon
(812) 346-5907



CITY OF NORTH VERNON

CLERK-TREASURER
143 E. WALNUT STREET
NORTH VERNON, IN 47265

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RAYMOND SHAWN GERKIN, CLERK-TREASURER

RITA L. ELMORE, ASST. CLERK-TREASURER

CORRECTIVE ACTION PLANS

February 25, 2014

RE: FINDING 2012-3

INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): HD-011-011

Pass-Through Entity: Indiana Housing and Community Development Authority

Auditee Contact Person: R. Shawn Gerkin

Title of Contact Person: Clerk-Treasurer

Phone Number: (812) 346-5907

Expected Completion Date: The expected completion date cannot be determine at this time.

Corrective Action:

We plan to have proper internal controls in place to properly monitor the subrecipients.

RE: FINDING 2012-4

SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): HD-011-011

Pass-Through Entity: Indiana Housing and Community Development Authority

Auditee Contact Person: R. Shawn Gerkin

Title of Contact Person: Clerk-Treasurer

Phone Number: (812) 346-5907

Expected Completion Date: The expected completion date cannot be determine at this time.

Corrective Action:

We plan to properly monitor the subrecipients.

Sincerely,



R. Shawn Gerkin
Clerk-Treasurer, City of North Vernon
(812) 346-5907



NORTH VERNON MUNICIPAL AIRPORT

645 East Co. Rd. 450 North
North Vernon, IN 47265
(812) 346-5223

Ryan A. Curry
Airport Director

OVO

During a recent State Board of Accounts Audit of the City of North Vernon with the North Vernon Municipal Airport as a subpart of that audit received a notification that there were issues with 2 items pertaining to the Federal aid projects.

Specifically Finding 2012-5 & 2012-6 of the SBA audit pertained to airport and federal funds.

Finding 2012-5 – Internal Controls over Compliance requirements that have a direct and material effect to Airport Improvement Program

Finding 2012-6 – Cash Management

- Under Finding 2012-5, SBA reported that local community does not have an established effective internal control system with segregation of duties which could place the city at risk of compliance with requirements.

The airport and local community does have practice in place that provides for segregation of duties to ensure compliance to the FAA Grant Assurances.

The summary of the process is provided below:

1. The claims are collected and submitted by either the vender or aviation consultant to the airport for review/approval at the monthly BOAC meetings.
2. Upon review and approval by the BOAC the Pay Request are submitted electronically to the FAA through the E-Invoicing system by the Grant Administrator of the Aviation Consultant.
3. The local community maintains separate accounts for each grant project to maintain a separation between the multiple projects that may be underway simultaneously.

4. The E-Invoicing system provided notification of payments to the Airport Consultant's Grant Administrator, Airport Director & City Clerk Treasurer. This notification provides all 3 entities a notification that deposits have been made and allows for separation of duties as well as redundancy to ensure that payments are processed in a timely and efficient manner.
5. The claims are taken by the airport director to the City Clerk Treasurer for processing and payment.
6. Claims are presented at a BOAC meeting via a claim docket and reviewed and approved by the BOAC.

- Under Finding 2012-6, SBA documented that on an occurrence the local community received reimbursements and help payment for up to 133 days prior to payment.

This issue occurred in February of 2012. The delayed payment happened on BF&S invoices. This was discovered and rectified immediately with several modifications to how the airport and BF&S were presenting and processing claims.

The list of some of the common practices modifications that were developed since February of 2012 is provided below:

1. Monthly AR Reports are presented to the airport on a monthly basis
2. Co-monitoring of the E-Invoicing system by the BF&S Grant Administrator assists the local community in timely processing and distribution of reimbursements to the appropriate account when multiple grants are open at any given time.
3. At the time of this occurrence the airport had 4 open grants, since then multiple grants have been closed and the amount of effort to manage those open grants has been significantly reduced which

aids in timely processing of payments. The airport currently only has 2 open grants and both are scheduled to be financially closed within the next 2 months.

4. Electronic payment processing of reimbursements by the FAA has expedited local community receipt of funds which aids in cash management process.
5. FAA Electronic notification of reimbursement processing allows for a significant improvement to the claim processing and has significantly reduced any potential errors associated with receipt of FAA reimbursements.
6. Since the February 2012 instance the airport has not had any significant issues in delayed payments which proves that the actions that airport put into place have been effective to remedy the situation.

The City of North Vernon and the North Vernon Municipal Airport work very diligently to comply with our FAA grant Assurances. We have also worked hard to improve in the areas in which the State Board of Accounts believes us to be deficient and look forward to working with the FAA on future projects.

Respectfully Submitted,


Charles E. Carson

North Vernon BOAC President

Ryan A. Curry



Airport Director

CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed on February 25, 2014, with Harold N. Campbell, Mayor; David Shaw, President of the Common Council; R. Shawn Gerkin, Clerk-Treasurer; Rita L. Elmore, Assistant Clerk-Treasurer; Chuck E. Carson, President of the Aviation Board; and Ryan A. Curry, Airport Director. The officials concurred with our audit findings.