

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF SCOTTSBURG
SCOTT COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/05/2014

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-5
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	6-7
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis	10-11
Notes to Financial Statement	12-17
Supplementary Information - Unaudited:	
Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis	20-32
Schedule of Payables and Receivables	33
Schedule of Leases and Debt	34
Schedule of Capital Assets	35
Audit Result and Comment:	
Credit Cards	36-37
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control Over Compliance	40-41
Schedule of Expenditures of Federal Awards	44
Notes to Schedule of Expenditures of Federal Awards	45
Schedule of Findings and Questioned Costs	46-51
Auditee Prepared Schedule:	
Corrective Action Plan	52-56
Exit Conference	57

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Janetta C. Hardy	01-01-12 to 12-31-15
Mayor	William H. Graham	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	William H. Graham	01-01-12 to 12-31-14
President Pro Tempore of the Common Council	Terry Amick	01-01-12 to 12-31-14
Superintendent of Water Utility	Lance Hounshell	01-01-12 to 12-31-14
Superintendent of Wastewater Utility	Jason Combs	01-01-12 to 12-31-14
Superintendent of Electric Utility	James Binkley	01-01-12 to 12-31-14
Utility Office Manager	Tonja Caudill	01-01-12 to 12-31-14



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Scottsburg (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. Except as stated in the *Basis for Qualified Opinion on Regulatory Basis of Accounting* paragraph, 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.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The City did not account for rental receipts of its Mid-America Science Park (MASP), a building complex owned by the City and managed by Scott County Economic Development Corporation (SCEDC). The management agreement allows SCEDC to retain the rental proceeds from MASP. As a result, financial activity related to rental proceeds are not reflected on the City's financial records or financial statement. The City's records do not permit adequate testing of the rental receipts.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects on the financial statement, if any, of not accounting for rental receipts of the City's Mid-American Science Park discussed in the *Basis for Qualified Opinion on Regulatory Basis of Accounting* paragraph, 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, on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated July 23, 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

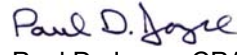
Supplementary Information

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

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.

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

July 23, 2014



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT ON 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 SCOTTSBURG, SCOTT 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 Scottsburg (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 July 23, 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. The opinion to the financial statement relative to the regulatory basis of accounting was qualified due to omission of receipt activity of the City's Mid-American Science Park.

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 item 2012-001 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

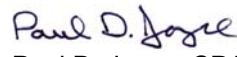
As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2012-001.

City of Scottsburg'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

July 23, 2014

(This page intentionally left blank.)

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 SCOTTSBURG
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	\$ 767,897	\$ 3,100,876	\$ 2,903,934	\$ 964,839
Motor Vehicle Highway	328,454	177,940	229,731	276,663
Local Road And Street	334,531	32,187	62,851	303,867
Economic & Industrial Development	142,400	89,944	-	232,344
Animal Shelter Donations	-	20,257	-	20,257
Law Enforcement Continuing Education	56,359	6,851	2,162	61,048
Parks And Recreation	32,061	342,444	249,483	125,022
Rainy Day	337,539	-	-	337,539
Local Asset Forfeiture	19,129	9,944	951	28,122
Levy Excess Property Taxes	64,223	-	64,223	-
Certified Technology Park	-	164,552	164,552	-
Cumulative Capital Development	268,488	86,533	-	355,021
Cumulative Fire	6,324	-	-	6,324
Cumulative Capital Improvement	133,564	17,895	-	151,459
SE Redevelopment District Capital	1,063,002	444,799	184,603	1,323,198
Non-Reverting Insurance Fund	425,116	728,391	642,164	511,343
Police Pension	645,111	169,344	161,113	653,342
Stormwater Retainage 2011	29,820	15,408	45,228	-
Bacala Center	5,517	-	1,702	3,815
Historic Review Board	220	20	-	240
Revolving Loan City/County	135,913	68,506	125,000	79,419
Rural Development Revolving Loan	45,533	5	-	45,538
Scottsburg Heritage Station Depot	22,867	9,050	6,978	24,939
Tie Center EDA Grant 2009	295,648	-	-	295,648
Federal Asset Forfeiture	162,540	2,593	42,501	122,632
Drug Enforcement Grant 2009	27,962	-	17,747	10,215
Interurban Maintenance Fund 2009	2,345	-	-	2,345
Ogle Grant 2010	7,430	-	1,000	6,430
Tie Center Retainage	43,870	-	43,870	-
Stormwater IOCRA Grant Fund 2010	25,387	199,804	225,191	-
Operation Pullover	-	4,843	4,843	-
Police Donation	11,923	5,250	5,800	11,373
Brownfield Grant Fund	148,737	13,668	71,067	91,338
Safe Street Task Force	(3,800)	19,322	17,946	(2,424)
Casa - Cease	7,789	6,700	7,690	6,799
NW Redevelopment District Capital	806,420	872,939	926,057	753,302
Park Donations Restricted	8,000	-	-	8,000
Employee Share Deferred Comp	-	93,297	93,297	-
Medicare W/H	-	91,222	91,222	-
Net Salaries	-	1,476,060	1,476,060	-
Direct Deposit	-	836,533	836,533	-
United Way	-	1,973	1,973	-

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

CITY OF SCOTTSBURG
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
Companion Life	-	8,146	8,146	-
Boston Life	-	18,483	18,483	-
Grange Life Ins	132	7,155	7,287	-
ID Theft	-	4,112	4,112	-
Health Insurance	-	119,816	119,816	-
Broker's National	-	4,827	4,827	-
AFLAC - 125 Pretax	-	40,514	40,514	-
AFLAC	-	7,223	7,223	-
Employee 457 Disbursement	-	2,173	2,173	-
Child Support/ A.	-	3,941	3,941	-
457 Plan	-	116,023	116,023	-
Federal W/H	-	386,397	386,397	-
Fica W/H	-	267,880	267,880	-
County W/H	-	43,011	43,011	-
Perf Civil	-	233,086	196,884	36,202
Police Perf Converttee	-	122,847	122,196	651
State W/H	-	111,409	111,409	-
Garnishment - A	-	1,604	1,604	-
Garnishment - B	-	234	234	-
Garnishment - C	-	3,604	3,604	-
Cops Hiring Grant 2012	-	60,000	18,377	41,623
JAG Equipment Grant 2012	-	5,000	5,000	-
Wastewater CDBG Grant 2012	-	171,625	5,600	166,025
Electric Petty Cash	400	200	-	600
Electric Customer Deposit	114,404	48,250	46,025	116,629
Electric Utility - Operating	1,144,281	12,437,117	12,707,040	874,358
Electric Utility - Depreciation/Improvement	73,502	-	-	73,502
Electric Utility - Construction	399,000	-	-	399,000
B/B Operating	91,577	972,410	925,760	138,227
Broadband Customer Deposits	27,199	5,900	5,400	27,699
WWTP Operating	249,589	1,267,270	1,248,015	268,844
Wastewater Utility - Construction	7,082	-	-	7,082
Water Operating	438,774	2,201,492	2,173,069	467,197
Water Bond & Interest	166,178	316,615	339,817	142,976
Water Utility-Depreciation/Improvement	34,370	-	-	34,370
Water Meter Deposits	64,753	26,200	24,000	66,953
Water Utility-Other #1	60,000	121,100	156,100	25,000
Water Debt Service Reserve	291,563	-	-	291,563
Totals	<u>\$ 9,571,123</u>	<u>\$ 28,244,814</u>	<u>\$ 27,827,439</u>	<u>\$ 9,988,498</u>

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

CITY OF SCOTTSBURG
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, general administrative services, water, wastewater, electric, storm water, trash, broadband, 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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, food and beverage tax, county economic development income tax, boat and trailer excise 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, 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 SCOTTSBURG
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: copies of public records, copy machine charges, accident report copies, gun permit applications, recycling fees, dog pound fees, park rental fees, cable tv receipts, internet services, ordinance violations, and fines and fees.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

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.

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 SCOTTSBURG
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 SCOTTSBURG
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 Capitol 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 SCOTTSBURG
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 Capitol 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 SCOTTSBURG
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of funds being set up for reimbursable services. The reimbursement for the expenditures related to the services made by the City was not received by December 31, 2012.

Note 8. Subsequent Events

Ordinance 2013-7 was approved on September 3, 2013, increasing the rates for the City's wastewater. The rate increase was to be effective the first full billing period following the adoption of the ordinance.

Sewage Works Anticipation Notes (BANS) were issued on November 13, 2013, in the amount of \$1,410,000 with an interest rate of 3.50 percent to fund improvements to the wastewater system. The BANS will mature on November 19, 2015.

On October 15, 2013, a Note in the amount of \$875,000 with a rate of 2.80 percent was issued by the City for the purchase of land. The Note is due to mature on October 14, 2014.

Note 9. Other Postemployment Benefits

The City provides to eligible police retirees and their spouses health insurance benefits. These benefits pose a liability to the City for this year and in future years. Information regarding the benefits can be obtained by contacting the City.

Note 10. Combined Funds

Funds related to payroll withholdings were reported individually in the current financial statement but were combined into one fund for the prior year financial statement.

(This page intentionally left blank.)

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 SCOTTSBURG
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Economic & Industrial Development	Animal Shelter Donations	Law Enforcement Continuing Education	Parks And Recreation
Cash and investments - beginning	\$ 767,897	\$ 328,454	\$ 334,531	\$ 142,400	\$ -	\$ 56,359	\$ 32,061
Receipts:							
Taxes	1,442,359	-	-	-	-	-	293,898
Licenses and permits	48,143	-	-	-	-	2,340	-
Intergovernmental	1,055,832	167,991	32,187	-	-	-	19,644
Charges for services	445,649	3,000	-	-	-	4,511	19,230
Fines and forfeits	162	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	108,731	6,949	-	89,944	20,257	-	9,672
Total receipts	3,100,876	177,940	32,187	89,944	20,257	6,851	342,444
Disbursements:							
Personal services	1,606,714	121,819	-	-	-	-	133,236
Supplies	178,225	37,591	-	-	-	-	35,704
Other services and charges	892,311	33,225	62,851	-	-	2,162	61,490
Capital outlay	138,182	14,096	-	-	-	-	11,058
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	88,502	23,000	-	-	-	-	7,995
Total disbursements	2,903,934	229,731	62,851	-	-	2,162	249,483
Excess (deficiency) of receipts over disbursements	196,942	(51,791)	(30,664)	89,944	20,257	4,689	92,961
Cash and investments - ending	\$ 964,839	\$ 276,663	\$ 303,867	\$ 232,344	\$ 20,257	\$ 61,048	\$ 125,022

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

	Rainy Day	Local Asset Forfeiture	Levy Excess Property Taxes	Certified Technology Park	Cumulative Capital Development	Cumulative Fire	Cumulative Capital Improvement
Cash and investments - beginning	\$ 337,539	\$ 19,129	\$ 64,223	\$ -	\$ 268,488	\$ 6,324	\$ 133,564
Receipts:							
Taxes	-	-	-	146,177	78,241	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	5,230	-	17,895
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	9,944	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	18,375	3,062	-	-
Total receipts	-	9,944	-	164,552	86,533	-	17,895
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	306	-	-	-	-	-
Other services and charges	-	-	-	164,552	-	-	-
Capital outlay	-	645	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	64,223	-	-	-	-
Total disbursements	-	951	64,223	164,552	-	-	-
Excess (deficiency) of receipts over disbursements	-	8,993	(64,223)	-	86,533	-	17,895
Cash and investments - ending	\$ 337,539	\$ 28,122	\$ -	\$ -	\$ 355,021	\$ 6,324	\$ 151,459

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

	SE Redevelopment District Capital	Non-Reverting Insurance Fund	Police Pension	Stormwater Retainage 2011	Bacala Center	Historic Review Board	Revolving Loan City/County
Cash and investments - beginning	\$ 1,063,002	\$ 425,116	\$ 645,111	\$ 29,820	\$ 5,517	\$ 220	\$ 135,913
Receipts:							
Taxes	423,114	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	20	-
Intergovernmental	-	-	169,344	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	21,685	728,391	-	15,408	-	-	68,506
Total receipts	444,799	728,391	169,344	15,408	-	20	68,506
Disbursements:							
Personal services	-	-	21,832	-	-	-	-
Supplies	2,004	-	-	-	-	-	-
Other services and charges	8,993	-	139,281	-	1,702	-	-
Capital outlay	1,981	-	-	45,228	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	171,625	642,164	-	-	-	-	125,000
Total disbursements	184,603	642,164	161,113	45,228	1,702	-	125,000
Excess (deficiency) of receipts over disbursements	260,196	86,227	8,231	(29,820)	(1,702)	20	(56,494)
Cash and investments - ending	\$ 1,323,198	\$ 511,343	\$ 653,342	\$ -	\$ 3,815	\$ 240	\$ 79,419

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

	Rural Development Revolving Loan	Scottsburg Heritage Station Depot	Tie Center EDA Grant 2009	Federal Asset Forfeiture	Drug Enforcement Grant 2009	Interurban Maintenance Fund 2009
Cash and investments - beginning	\$ 45,533	\$ 22,867	\$ 295,648	\$ 162,540	\$ 27,962	\$ 2,345
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	9,050	-	-	-	-
Fines and forfeits	-	-	-	2,593	-	-
Utility fees	-	-	-	-	-	-
Other receipts	5	-	-	-	-	-
Total receipts	5	9,050	-	2,593	-	-
Disbursements:						
Personal services	-	-	-	-	2,920	-
Supplies	-	397	-	-	-	-
Other services and charges	-	6,181	-	-	-	-
Capital outlay	-	-	-	42,501	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	400	-	-	14,827	-
Total disbursements	-	6,978	-	42,501	17,747	-
Excess (deficiency) of receipts over disbursements	5	2,072	-	(39,908)	(17,747)	-
Cash and investments - ending	\$ 45,538	\$ 24,939	\$ 295,648	\$ 122,632	\$ 10,215	\$ 2,345

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

	Ogle Grant 2010	Tie Center Retainage	Stormwater IOCRA Grant Fund 2010	Operation Pullover	Police Donation	Brownfield Grant Fund
Cash and investments - beginning	\$ 7,430	\$ 43,870	\$ 25,387	\$ -	\$ 11,923	\$ 148,737
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	199,804	4,843	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	5,250	13,668
Total receipts	-	-	199,804	4,843	5,250	13,668
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	1,000	43,870	192,758	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	32,433	4,843	5,800	71,067
Total disbursements	1,000	43,870	225,191	4,843	5,800	71,067
Excess (deficiency) of receipts over disbursements	(1,000)	(43,870)	(25,387)	-	(550)	(57,399)
Cash and investments - ending	\$ 6,430	\$ -	\$ -	\$ -	\$ 11,373	\$ 91,338

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

	Safe Street Task Force	Casa - Cease	NW Redevelopment District Capital	Park Donations Restricted	Employee Share Deferred Comp	Medicare W/H
Cash and investments - beginning	\$ (3,800)	\$ 7,789	\$ 806,420	\$ 8,000	\$ -	\$ -
Receipts:						
Taxes	-	-	870,740	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	19,322	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	6,700	2,199	-	93,297	91,222
Total receipts	19,322	6,700	872,939	-	93,297	91,222
Disbursements:						
Personal services	17,946	-	-	-	-	-
Supplies	-	-	2,846	-	-	-
Other services and charges	-	-	572,233	-	-	-
Capital outlay	-	-	350,978	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	7,690	-	-	93,297	91,222
Total disbursements	17,946	7,690	926,057	-	93,297	91,222
Excess (deficiency) of receipts over disbursements	1,376	(990)	(53,118)	-	-	-
Cash and investments - ending	\$ (2,424)	\$ 6,799	\$ 753,302	\$ 8,000	\$ -	\$ -

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

	Net Salaries	Direct Deposit	United Way	Companion Life	Boston Life	Grange Life Ins
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	1,476,060	836,533	1,973	8,146	18,483	7,155
Total receipts	1,476,060	836,533	1,973	8,146	18,483	7,155
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	1,476,060	836,533	1,973	8,146	18,483	7,287
Total disbursements	1,476,060	836,533	1,973	8,146	18,483	7,287
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	(132)
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

	ID Theft	Health Insurance	Broker's National	AFLAC - 125 Pretax	AFLAC	Employee 457 Disbursement
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	4,112	119,816	4,827	40,514	7,223	2,173
Total receipts	4,112	119,816	4,827	40,514	7,223	2,173
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	4,112	119,816	4,827	40,514	7,223	2,173
Total disbursements	4,112	119,816	4,827	40,514	7,223	2,173
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

	Child Support/ A.	457 Plan	Federal W/H	Fica W/H	County W/H	Perf Civil
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	3,941	116,023	386,397	267,880	43,011	233,086
Total receipts	3,941	116,023	386,397	267,880	43,011	233,086
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	3,941	116,023	386,397	267,880	43,011	196,884
Total disbursements	3,941	116,023	386,397	267,880	43,011	196,884
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	36,202
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,202

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

	Police Perf Convtee	State W/H	Garnishment - A	Garnishment - B	Garnishment - C	Cops Hiring Grant 2012
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	50,000
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	122,847	111,409	1,604	234	3,604	10,000
Total receipts	122,847	111,409	1,604	234	3,604	60,000
Disbursements:						
Personal services	-	-	-	-	-	18,377
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	122,196	111,409	1,604	234	3,604	-
Total disbursements	122,196	111,409	1,604	234	3,604	18,377
Excess (deficiency) of receipts over disbursements	651	-	-	-	-	41,623
Cash and investments - ending	\$ 651	\$ -	\$ -	\$ -	\$ -	\$ 41,623

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

	JAG Equipment Grant 2012	Wastewater CDBG Grant 2012	Electric Petty Cash	Electric Customer Deposit	Electric Utility - Operating	Electric Utility - Depreciation/ Improvement
Cash and investments - beginning	\$ -	\$ -	\$ 400	\$ 114,404	\$ 1,144,281	\$ 73,502
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	5,000	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	48,250	12,101,853	-
Other receipts	-	171,625	200	-	335,264	-
Total receipts	5,000	171,625	200	48,250	12,437,117	-
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	5,000	5,600	-	-	535,252	-
Utility operating expenses	-	-	-	-	11,433,251	-
Other disbursements	-	-	-	46,025	738,537	-
Total disbursements	5,000	5,600	-	46,025	12,707,040	-
Excess (deficiency) of receipts over disbursements	-	166,025	200	2,225	(269,923)	-
Cash and investments - ending	\$ -	\$ 166,025	\$ 600	\$ 116,629	\$ 874,358	\$ 73,502

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

	Electric Utility - Construction	B/B Operating	Broadband Customer Deposits	WWTP Operating	Wastewater Utility - Construction	Water Operating
Cash and investments - beginning	\$ 399,000	\$ 91,577	\$ 27,199	\$ 249,589	\$ 7,082	\$ 438,774
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	948,229	-	-	-	-
Fines and forfeits	-	2,907	5,900	-	-	-
Utility fees	-	-	-	1,266,323	-	2,172,232
Other receipts	-	21,274	-	947	-	29,260
Total receipts	-	972,410	5,900	1,267,270	-	2,201,492
Disbursements:						
Personal services	-	405,515	-	-	-	-
Supplies	-	258,190	-	-	-	-
Other services and charges	-	241,938	-	-	-	-
Capital outlay	-	-	-	23,998	-	66,168
Utility operating expenses	-	-	-	1,223,103	-	1,530,722
Other disbursements	-	20,117	5,400	914	-	576,179
Total disbursements	-	925,760	5,400	1,248,015	-	2,173,069
Excess (deficiency) of receipts over disbursements	-	46,650	500	19,255	-	28,423
Cash and investments - ending	\$ 399,000	\$ 138,227	\$ 27,699	\$ 268,844	\$ 7,082	\$ 467,197

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

	Water Bond & Interest	Water Utility- Depreciation/ Improvement	Water Meter Deposits	Water Utility-Other #1	Water Debt Service Reserve	Totals
Cash and investments - beginning	\$ 166,178	\$ 34,370	\$ 64,753	\$ 60,000	\$ 291,563	\$ 9,571,123
Receipts:						
Taxes	-	-	-	-	-	3,254,529
Licenses and permits	-	-	-	-	-	50,503
Intergovernmental	-	-	-	-	-	1,747,092
Charges for services	-	-	-	-	-	1,429,669
Fines and forfeits	-	-	-	-	-	21,506
Utility fees	-	-	26,200	-	-	15,614,858
Other receipts	316,615	-	-	121,100	-	6,126,657
Total receipts	316,615	-	26,200	121,100	-	28,244,814
Disbursements:						
Personal services	-	-	-	-	-	2,328,359
Supplies	-	-	-	-	-	515,263
Other services and charges	-	-	-	-	-	2,186,919
Capital outlay	-	-	-	-	-	1,478,315
Utility operating expenses	-	-	-	156,100	-	14,343,176
Other disbursements	339,817	-	24,000	-	-	6,975,407
Total disbursements	339,817	-	24,000	156,100	-	27,827,439
Excess (deficiency) of receipts over disbursements	(23,202)	-	2,200	(35,000)	-	417,375
Cash and investments - ending	\$ 142,976	\$ 34,370	\$ 66,953	\$ 25,000	\$ 291,563	\$ 9,988,498

CITY OF SCOTTSBURG
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Electric	\$ 20,602	\$ 71,896
Internet	7,399	-
Wastewater	7,497	18,207
Water	20,738	20,959
Governmental activities	<u>113,327</u>	<u>343,163</u>
Totals	<u>\$ 169,563</u>	<u>\$ 454,225</u>

CITY OF SCOTTSBURG
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Internet: Broadband Towers	43 Tower Rentals	\$ 70,874	1/1/2012	12/31/2012
Water: Kubota Leasing	Snow removal	5,843	11/26/2012	11/26/2016
Total of annual lease payments		<u>\$ 76,717</u>		

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities: General obligation bonds	Lease Rental Bond	\$ 281,289	\$ 198,500
Water:			
Revenue bonds	Water Utility Bonds USDA Series A	1,552,000	103,840
Revenue bonds	Water Utility Bonds USDA Series B	466,000	31,970
Revenue bonds	State Revolving Loan #1	1,158,000	147,582
Revenue bonds	State Revolving Loan #2	<u>324,086</u>	<u>33,200</u>
Total Water		<u>3,500,086</u>	<u>316,592</u>
Totals		<u>\$ 3,781,375</u>	<u>\$ 515,092</u>

CITY OF SCOTTSBURG
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	\$ 3,836,574
Infrastructure	11,373,744
Buildings	7,703,224
Improvements other than buildings	2,045,201
Machinery, equipment, and vehicles	4,184,489
Construction in progress	<u>8,403,685</u>
Total governmental activities	<u>37,546,917</u>
Electric:	
Infrastructure	5,720,000
Buildings	1,077,981
Improvements other than buildings	51,157
Machinery, equipment, and vehicles	983,072
Construction in progress	<u>500,000</u>
Total Electric	<u>8,332,210</u>
Internet:	
Infrastructure	800,350
Machinery, equipment, and vehicles	<u>94,939</u>
Total Internet	<u>895,289</u>
Wastewater:	
Infrastructure	4,733,502
Buildings	1,363,000
Improvements other than buildings	2,002,211
Machinery, equipment, and vehicles	<u>1,729,940</u>
Total Wastewater	<u>9,828,653</u>
Water:	
Infrastructure	6,406,533
Buildings	6,541,999
Improvements other than buildings	1,790,947
Machinery, equipment, and vehicles	967,403
Construction in progress	<u>15,708,981</u>
Total Water	<u>31,415,863</u>
Total capital assets	<u><u>\$ 88,018,932</u></u>

CITY OF SCOTTSBURG
AUDIT RESULT AND COMMENT

Credit Cards

A review of financial activity associated with purchases made with the City's credit cards identified the following deficiencies in regards to the purchases and the documentation procedures to support those purchases:

1. Outside entities were allowed use the City credit card. In addition, employees were allowed to use the City's credit card for personal use. Outside entities and employees provided the City personal checks payable to the credit card company that accompanied the City's payment to the credit card vendor.
2. In some instances documentation to support charges was not the original receipt but was a photocopy of the receipt.
3. Credit card purchases for meals, lodging, etc., associated with travel did not always contain information documenting the person responsible for the travel, travel dates approved, and the business nature of the travel. In addition, the City's travel policy did not contain information to indicate when an employee is considered to be in travel status in order to determine allowable travel expenditures.
4. Instances were noted in which checks were issued for credit card purchases prior to the credit card statement being received.
5. Procedures were not in place requiring receipts associated with credit card purchases to be immediately submitted and filed documenting purchases made. As a result of failing to timely submit receipts documenting charges, credit card payments could not be paid timely and finance charges were incurred.

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

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.

CITY OF SCOTTSBURG
AUDIT RESULT AND COMMENT
(Continued)

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

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

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

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

Report on Compliance for the Major Federal Program

We have audited the City of Scottsburg'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 its major federal program for the year ended December 31, 2012. The City's major federal program is 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 the City's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

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 its major federal program for the year ended December 31, 2012.

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

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 items 2012-002 and 2012-003. Our opinion on the 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 2012-002 and 2012-003 to be material weaknesses.

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

July 23, 2014

(This page intentionally left blank.)

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 SCOTTSBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Grantor Agency 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	Footnote
<u>Department of Commerce</u>					
Economic Development Cluster					
Investments for Public Works and Economic Development Facilities TIE Grant	Direct Grant	11.300	06-01-05230	\$ 18,375	
Economic Adjustment Assistance City / CO Revolving Loan Fund	Direct Grant	11.307	06-3902499/06-190267	450,358	(A)
Total - Economic Development Cluster				468,733	
Total - Department of Commerce				468,733	
<u>Department of Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Stormwater IOCRA	Indiana Office of Community and Rural Affairs	14.228	DR2-09-114	199,677	
Total - CDBG - State-Administered CDBG Cluster				199,677	
Total - Department of Housing and Urban Development				199,677	
<u>Department of Justice</u>					
JAG Program Cluster					
Edward Byrne Memorial Justice Assistance Grant Program JAG Equipment Grant	Indiana Criminal Justice Institute	16.738	2010-DJ-BX-0254	5,000	
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government Drug Enforcement Grant	Direct Grant	16.804	2009-SB-B9-2720	17,746	
Total - JAG Program Cluster				22,746	
Public Safety Partnership and Community Policing Grants Cops Hiring Grant	Direct Grant	16.710	2012-UMWX-0077	18,377	
Total - Department of Justice				41,123	
<u>Department of Transportation</u>					
Highway Safety Cluster					
Safety Belt Performance Grants Operation Pullover	Indiana Criminal Justice Institute	20.609	PT-11-04-04-45	4,843	
Total - Highway Safety Cluster				4,843	
Total - Department of Transportation				4,843	
Total federal awards expended				\$ 714,376	

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

(A) Calculation of Economic Adjustment Assistance Federal Expenditures:	
Balance of Outstanding Revolving Loan Funds (RLF) at 12/31/12	\$ 420,979
Revolving Loan Fund (RLF) Cash and Investment Balance at 12/31/12	79,419
Administrative Expenses Paid During 2012	-
Unpaid Principal Loans Written Off During 2012	-
Total Calculation Basis	500,398
Multiplied by Original Federal Share of Revolving Loan Funds (RLF)	90%
Amount Reported in Schedule of Expenditures of Federal Awards	\$ 450,358

CITY OF SCOTTSBURG
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 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. Loans Outstanding

The City had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2012. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2012</u>
Economic Adjustment Assistance	11.307	<u>\$ 420,979</u>

CITY OF SCOTTSBURG
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; Qualified 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 program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
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 Program:

Name of Federal Program or Cluster
Economic Development Cluster

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

Auditee qualified as low-risk auditee?	no
----------------------------------------	----

Section II - Financial Statement Findings

**FINDING 2012-001 - INTERNAL CONTROL AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING**

Deficiencies were noted in the internal control system of the City related to financial transactions and reporting in preparation of the financial statement. Controls were not in place to ensure all financial activity of the City was reported in the financial statement in order to ensure complete and accurate reporting. Financial activity related to the City's Mid-America Science Park (MASP) was not available for audit and was not included in the financial statement. In addition, the City does not have controls in place to provide proper accountability related to the receipt activity at MASP.

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

The City has an agreement with the Scott County Economic Development Corporation (SCEDC), a not-for-profit entity, to manage the City's Mid-America Science Park. Monies are paid to SCEDC for operation of the MASP based upon a budget submitted by SCEDC. Sources of revenue used to finance the budget are from monies paid to SCEDC from the property taxes generated from the City's tax increment financing district accounted for in the Certified Technology Park Fund and rental monies at the MASP collected by the SCEDC on the City's behalf.

The following control deficiencies were identified with the agreement with the SCEDC and have been determined to be material weaknesses:

1. The agreement between the City and SCEDC allows for SCEDC to retain the rental proceeds rather than remit the rental proceeds to the City Clerk-Treasurer. The agreement does not require the SCEDC to report the collection activity to the City. As a result, financial activity related to rental proceeds are not reflected on the City's financial records and are not reported on the City's annual financial statement. Monies related to the City should be handled by the City's fiscal officer in accordance with Indiana Code 36-4-10-4.5(b).
2. Information is not contained in the contract requiring the SCEDC to make any type of financial reporting to the City regarding rental monies collected, tenant's delinquent on rent, rental occupancy rate, etc., in order for the City to assess the financial accountability, stability of the operations, and the adequacy of management of the facility.
3. The agreement does not outline the policies to be followed by the SCEDC for the collection of rent or the handling of delinquent amounts owed by the tenants. The agreement does not provide information regarding who is responsible for determining the amount of rent to be charged, the approval of the related fee structure, and execution of the rental contract agreements.
4. The agreement does not require the SCEDC to maintain insurance coverage or any mechanism for the City to recoup any losses of monies in the event of theft/fraud in handling the collections and operation of the MASP on its behalf.
5. The City's agreement with SCEDC does not require the City to be allowed access to the financial records of SCEDC or an audit of the MASP activity in order to determine proper accountability and reporting of MASP monies.

Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should be managed. The City has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes 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.

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

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)

Indiana Code 36-4-10-4.5(b) states in part:

"The fiscal officer is the head of the city department of finance. The fiscal officer shall do the following:

- (1) Receive and care for all city money and pay the money out only on order of the approving body.
- (2) Keep accounts showing when and from what sources the fiscal officer has received city money and when and to whom the fiscal officer has paid out city money. "

Proceeds generated by the sale or rental of property should be receipted into the fund which originally purchased the property unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III - Federal Award Findings and Questioned Costs

FINDING 2012-002 - INTERNAL CONTROLS AND NONCOMPLIANCE OVER REPORTING

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Numbers: 06-3902499, 06-190267

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements over Reporting. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements.

An internal control system, 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.

The ED-209, Semi-Annual Reports filed for the periods ending March 31, 2012, and September 30, 2012, contained multiple errors. There were reporting errors in 4 of the 12 sections for the reporting period ending March 31, 2012, and 6 of the 12 sections for the reporting period ending September 30, 2012.

The City did not have procedures in place to ensure financial information used in the preparation of the financial reports was verified for accuracy. Information used for financial reporting was based upon information provided by the grant administrator and the City Clerk-Treasurer's Office. However, procedures were not in place to verify the financial activity among the two sources was in agreement with one another and that the final amounts reported were accurate. Once the reports were prepared they were not reviewed by a second party to verify for accuracy.

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

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."

13 CFR 307.14 states:

"Revolving Loan Fund semi-annual report and Income and Expense Statement.

(a) *Frequency of reports.* All RLF Recipients, including those receiving Recapitalization Grants for existing RLFs, must complete and submit a semi-annual report in electronic format, unless EDA approves a paper submission.

(b) *Report contents.* RLF Recipients must certify as part of the semi-annual report to EDA that the RLF is operating in accordance with the applicable RLF Plan. RLF Recipients also must describe (and propose pursuant to §307.9) any modifications to the RLF Plan to ensure effective use of the RLF as a strategic financing tool.

(c) *RLF Income and Expense Statement.* An RLF Recipient using either fifty (50) percent or more (or more than \$100,000) of RLF Income for administrative costs in a six-month (6) Reporting Period must submit to EDA a completed Income and Expense Statement (Form ED-209I or any successor form) for that Reporting Period in electronic format, unless EDA approves a paper submission."

The failure to establish and implement internal controls allowed noncompliance to go undetected. Noncompliance with 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 controls, including segregation of duties, related to the grant agreement and the compliance requirements for Reporting so that accurate financial reports will be prepared and filed in the future.

***FINDING 2012-003 - INTERNAL CONTROLS AND NONCOMPLIANCE
OVER SPECIAL TESTS AND PROVISIONS***

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Numbers: 06-3902499, 06-190267

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements over Special Tests and Provisions. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements.

An internal control system 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, detected and corrected, on a timely basis.

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

The City does not have controls in place to ensure monitoring of compliance with special tests and provisions for the grant program related to "RLF Capital Base and Capital Utilization," and "Loan Documentation" requirements, or monitoring to ensure that the RLF loan applicant provides documentation to support that credit was not otherwise available in order to ensure compliance with the grant program requirements.

The Economic Adjustment Assistance grant provides for the City to make loans to businesses as part of the EDA Revolving Loan Fund (RLF) that are in need of capital that is not otherwise available through normal funding channels. In order for a business to be authorized to receive a loan under the program the business must provide documentation that it was not able to obtain financing via a signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed.

During 2012, the City approved one loan in the amount of \$125,000 to Lemer Pax USA, Inc., under the City's RLF program. The loan documents that were presented for audit did not include a signed bank turn-down letter. Although alternative documentation was presented, no information was presented for audit to indicate the City had received approval from EDA to accept alternative documentation.

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."

13 CFR section 307.15(b)(2)) states:

"Prior to the disbursement of any EDA funds, the RLF Recipient shall certify that standard RLF loan documents reasonably necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the Grant and applicable State and local law. The standard loan documents must include, at a minimum, the following:

- (i) Loan application;
- (ii) Loan agreement;
- (iii) Board of directors' meeting minutes approving the RLF loan;
- (iv) Promissory note;
- (v) Security agreements(s);
- (vi) Deed of trust or mortgage (as applicable);
- (vii) Agreement of prior lien holder (as applicable); and
- (viii) Signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. EDA will permit the RLF Recipient to accept alternate documentation only if such documentation is allowed in the Recipient's EDA-approved RLF Plan."

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

The failure to establish and implement internal controls allowed noncompliance to go undetected. Noncompliance with 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 controls, including segregation of duties, related to the grant agreement and the compliance requirements for Special Tests and Provisions so that all required loan documents are properly obtained in the future.

KT July 23, 2014

**FINDING 2012-1 INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL
TRANSACTIONS AND REPORTING**

Contact: Kerry Thompson

Title: City Attorney

Phone: 812-752-5920

Expected Completion Date: December 31, 2014

This response is provided by the city attorney. Before addressing the concerns noted by the State Board of Accounts (SBOA) in this Finding, it should be emphasized that nothing in this Finding indicates any misuse of funds and there has been no loss to the City as a result of present practices that are addressed in the Finding. The Mayor does not agree that any corrective action is required. The present practice was previously discussed with SBOA by the Mayor's office and approved by a representative of SBOA, although no written approval was requested or given. If changes are to be made, the City proposes the following changes in procedure.

A. Presently there is a Management Agreement between the City of Scottsburg and SCEDC for MASP. Under that Agreement, SCEDC operates MASP with funds available in part from TIF Funds and from funds distributed by the State to the Certified Technology Park Fund. Transfer of those funds from the City to SCEDC is approved in a Budget submitted annually by SCEDC for review and approval of the Redevelopment Commission and approved for a second time when a claim for those funds is submitted to the Redevelopment Commission by SCEDC. Additional management funds are provided by rents paid by tenants of MASP, which are presently collected by SCEDC and applied to the operating expenses set forth in the Budget for management of MASP.

B. In a revision of the Management Contract, the City will propose that the SCEDC will collect rent at MASP on a monthly basis and remit that to the Clerk Treasurer's office. The SCEDC will also submit to the Board of Works a

monthly report that will contain a list of tenants, the rent paid, and any delinquency that may have occurred. Along with the monthly report, the SCEDC will submit to the Board of Works a monthly claim to have those collected rents paid over to the SCEDC for use in management of MASP. Tenants who are delinquent in rent payments will be noted in the monthly report and the SCEDC will include in that report the efforts made by SCEDC to collect the delinquency and the likelihood of collection. Any tenants who are sixty (60) days or more in arrears in their obligation shall be referred to the City of Scottsburg Board of Works for appropriate legal action. Rental rates for tenants at MASP shall be recommended by SCEDC to the Board of Works. The Board of Works shall approve the rental rate structure at MASP. Proposed leases shall be prepared by SCEDC and submitted to the Board of Works for final execution and approval.

C. SCEDC shall be responsible for any theft or fraud involving funds within its control and the Contract for Management of MASP shall require that SCEDC obtain theft/fraud insurance for loss due to employee theft/fraud.

D. Presently, the City has open access to the records of SCEDC whenever requested as they may pertain to MASP. Also, the City is aware that SCEDC is subject to an annual audit by an independent CPA firm. Results of that audit have always been available to the City. The revised Contract between the City and SCEDC shall state that the City shall have access to the Annual Audit Report of SCEDC and that at any time the City may require access to the records of SCEDC as it pertains to MASP. This provision of the Contract is simply a restatement of what, in fact, is already occurring.

FINDING 2012-3 INTERNAL CONTROLS AND NONCOMPLIANCE OVER SPECIAL TESTS AND PROVISIONS

Contact: *Kerry Thompson*

Title: *City Attorney*

Phone: *812-752-5920*

Expected Completion Date: *December 31, 2014*

This response is provided by the city attorney. As stated similarly in the response to Finding 2012-1, before addressing the concerns noted by the State Board of Accounts (SBOA) in this Finding, it should be emphasized that nothing in this Finding indicates any misuse of funds and there has been no loss to the City as a result of present practices that are addressed in the Finding

A. During 2012, a loan of \$125,000.00 was approved for LEMER PAX USA, INC. under the Revolving Loan Fund (RLF) Program. To my knowledge loan repayment by the borrower is current. My understanding of the concerns of SBOA in this finding is that there was no written loan agreement between the borrower and the City and no specific letter from a bank denying credit to the loan applicant. The other applicable loan documents, noted as being required by SBOA, were all available to the City for the LEMER PAX loan. The payment obligation of LEMER PAX and the loan guaranty are not affected by the lack of a loan agreement. The City has never used a separate loan agreement when the terms of the Note and any Security Agreements or collateral documents set forth the terms of the borrowing. The terms are also included in the minutes of the Economic and Industrial Review Board and City Council as a part of the loan application approval so there has never been a misunderstanding between Borrower and the City regarding terms of the loan. Although the Bank letter submitted with the LEMER PAX application did not specifically say that LEMER PAX was being denied credit, the letter did set forth the conditions under which credit would be extended by the Bank to LEMER PAX USA, and it was clear from the loan application that LEMER PAX USA could not, and did not, meet those conditions. In practical effect, the letter from the Bank to LEMER PAX was a "Turn-Down Letter". Any non-compliance cited by SBOA was not material to this loan and did not have any direct or material effect on the loan program.

B. In order to address the concerns in this Finding, the City will undertake a project of completely rewriting the conditions of its Revolving Loan Fund Program and the elements of that plan. The Program elements were last revised in 2011, and a substantial portion of the statements and conditions contained within the Program in 2011 are no longer relevant or applicable to the City or potential borrowers of RLF funds. The revised plan can include provisions that a checklist of required loan documents be developed and that the attorney for the city either draft or review the required documents and that the clerk treasurer's office release the loan funds only after it has received the originals of the required loan documents for the City file. Thus, both the city attorney and the clerk treasurer will be reviewing the checklist for completion. The loan approval process can continue to go

through two stages, as is currently being done, with an initial review and recommendation by the Economic and Industrial Review Board and final review and approval by the City Council.

C. Regardless of the belief that the findings related to the LEMER PAX loan do not affect the validity or collectability of that loan, the City agrees that the Revolving Loan Fund Program Plan needs to be revised and check lists developed for use and review by more than one office in the loan process. River Hills Economic Development District has previously assisted the City with administering loan funds. Input and drafting assistance may be requested from River Hills, as the grant administrator, and similar loan programs in other cities will be reviewed and advice will be sought on revising the revolving loan program in order to insert more checks and balances into the system.

Kerry Thompson
7-23-14

2 East McClain Ave.
Scottsburg, Indiana 47170

City of Scottsburg

Indiana

JAN HARDY
City Clerk/Treasurer

812-752-4343
Fax 812-752-6585
E-Mail: jhardy@cityofscottsburg.com

FINDING 2012-2 INTERNAL CONTROLS AND NONCOMPLIANCE OVER REPORTING

Contact: *Janetta C. Hardy*

Title: *Clerk-Treasurer*

Phone: *812-752-4343 Ext 222*

Expected Completion Date: *Action plan initiated with March 2014 semi-annual report and will remain in effect indefinitely*

The City will ensure financial information used in the preparation of the semi-annual financial report is verified for accuracy. The Deputy Clerk-Treasurer will provide copies of all receipts and disbursement records to River Hills on a monthly basis. The Clerk-Treasurer will complete monthly cash reconciliation of the Revolving Loan Fund. In addition, the Deputy Clerk-Treasurer will provide a semi-annual summary of all Revolving Loan Fund activity for the semi-annual financial report.

River Hills, the grant administrator, will prepare the semi-annual financial report to be submitted to the U.S. Department of Commerce. A minimum of one week prior to the report due date, River Hills will submit the completed financial report to the Clerk-Treasurer for review and verification of revenues and disbursements. Upon the Clerk-Treasurer's approval, River Hills will submit the completed report to the U.S. Department of Commerce.

Janetta C. Hardy
7-23-14

CITY OF SCOTTSBURG
EXIT CONFERENCE

The contents of this report were discussed on July 23, 2014, with William H. Graham, Mayor; Janetta C. Hardy, Clerk-Treasurer; and Terry Amick, President Pro Tempore of the Common Council.