

**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765**

ANNUAL FINANCIAL REPORT

2005

CITY OF MADISON

JEFFERSON COUNTY, INDIANA



FILED
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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Beverly Armstrong	01-01-05 to 12-31-07
Mayor	Albert G. Huntington	01-01-05 to 12-31-07
President of the Board of Public Works and Safety	Albert G. Huntington	01-01-05 to 12-31-07
President of the Common Council	Albert G. Huntington	01-01-05 to 12-31-07
Superintendent of Utilities	Donald Barnes Vacant James Turner	01-01-05 to 02-26-05 02-27-05 to 08-14-05 08-15-05 to 12-31-06



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

TO: THE OFFICIALS OF THE CITY OF MADISON, JEFFERSON COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Madison (City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2005, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

The Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

STATE BOARD OF ACCOUNTS

June 21, 2006



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

TO: THE OFFICIALS OF THE CITY OF MADISON, JEFFERSON COUNTY, INDIANA

We have audited the financial statements of the City of Madison (City), as of and for the year ended December 31, 2005, and have issued our report thereon dated June 21, 2006. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 21, 2006

CITY OF MADISON
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2005

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,580,589	\$ 150,610	\$ 590,383	\$ -	\$ (839,596)	\$ -	\$ (839,596)
Public safety	1,888,514	40,299	57,758	12,500	(1,777,957)	-	(1,777,957)
Highways and streets	1,511,027	-	466,982	-	(1,044,045)	-	(1,044,045)
Sanitation	782,596	708,574	12,777	-	(61,245)	-	(61,245)
Culture and recreation	1,467,725	411,179	60,504	-	(996,042)	-	(996,042)
Urban redevelopment	595,411	155,340	343,107	-	(96,964)	-	(96,964)
Aviation	441,198	6,545	3,355	417,270	(14,028)	-	(14,028)
Debt service	214,750	-	-	-	(214,750)	-	(214,750)
Capital outlay	1,288,166	-	-	37,108	(1,251,058)	-	(1,251,058)
Total governmental activities	<u>9,769,976</u>	<u>1,472,547</u>	<u>1,534,866</u>	<u>466,878</u>	<u>(6,295,685)</u>	<u>-</u>	<u>(6,295,685)</u>
Business-type activities:							
Water	1,426,104	1,483,899	-	11,303	-	69,098	69,098
Wastewater	6,325,584	2,554,877	-	-	-	(3,770,707)	(3,770,707)
Total business-type activities	<u>7,751,688</u>	<u>4,038,776</u>	<u>-</u>	<u>11,303</u>	<u>-</u>	<u>(3,701,609)</u>	<u>(3,701,609)</u>
Total primary government	<u>\$ 17,521,664</u>	<u>\$ 5,511,323</u>	<u>\$ 1,534,866</u>	<u>\$ 478,181</u>	<u>(6,295,685)</u>	<u>(3,701,609)</u>	<u>(9,997,294)</u>
General receipts:							
Property taxes					5,814,401	-	5,814,401
Other local sources					165,668	15,300	180,968
Unrestricted intergovernmental receipts					282,825	-	282,825
Riverboat revenue sharing					75,694	-	75,694
Bonds and loans					-	4,028,352	4,028,352
Insurance proceeds					18,037	-	18,037
Unrestricted investment earnings					169,205	15,897	185,102
Total general receipts					<u>6,525,830</u>	<u>4,059,549</u>	<u>10,585,379</u>
Change in net assets					230,145	357,940	588,085
Net assets - beginning					<u>9,530,000</u>	<u>2,377,878</u>	<u>11,907,878</u>
Net assets - ending					<u>\$ 9,760,145</u>	<u>\$ 2,735,818</u>	<u>\$ 12,495,963</u>
<u>Assets</u>							
Cash and investments					\$ 4,198,478	\$ 1,079,625	\$ 5,278,103
Restricted assets:							
Cash and investments					<u>5,561,667</u>	<u>1,656,193</u>	<u>7,217,860</u>
Total assets					<u>\$ 9,760,145</u>	<u>\$ 2,735,818</u>	<u>\$ 12,495,963</u>
<u>Net Assets</u>							
Restricted for:							
General government					\$ 22,099	\$ -	\$ 22,099
Public safety					34,651	-	34,651
Highways and streets					410,383	-	410,383
Sanitation					14,280	-	14,280
Culture and recreation					787,688	-	787,688
Urban redevelopment					3,836,802	-	3,836,802
Aviation					114,032	-	114,032
Debt service					6,665	1,485,925	1,492,590
Capital outlay					335,067	97,842	432,909
Customer deposits					-	72,426	72,426
Unrestricted					<u>4,198,478</u>	<u>1,079,625</u>	<u>5,278,103</u>
Total net assets					<u>\$ 9,760,145</u>	<u>\$ 2,735,818</u>	<u>\$ 12,495,963</u>

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

CITY OF MADISON
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2005

	General	Park and Recreation	North Madison Economic Development Area	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 3,412,575	\$ 877,176	\$ 1,101,796	\$ 422,854	\$ 5,814,401
Intergovernmental	352,071	60,504	-	1,947,688	2,360,263
Charges for services	183,970	411,179	-	877,398	1,472,547
Other	225,198	1,195	43,958	82,559	352,910
Total receipts	4,173,814	1,350,054	1,145,754	3,330,499	10,000,121
Disbursements:					
General government	1,575,045	-	-	5,544	1,580,589
Public safety	1,880,596	-	-	7,918	1,888,514
Highways and streets	975,060	-	-	535,967	1,511,027
Sanitation	-	-	-	782,596	782,596
Culture and recreation	-	1,193,482	-	274,243	1,467,725
Urban redevelopment	-	-	241,410	354,001	595,411
Aviation	-	-	-	441,198	441,198
Debt service:					
Principal	-	-	-	200,000	200,000
Interest	-	-	-	14,750	14,750
Capital outlay	-	-	975,390	312,776	1,288,166
Total disbursements	4,430,701	1,193,482	1,216,800	2,928,993	9,769,976
Excess (deficiency) of revenue over (under) disbursements	(256,887)	156,572	(71,046)	401,506	230,145
Other financing sources (uses)					
Interfund services provided and used	-	(2,622)	-	2,622	-
Transfers in	51,502	-	-	88,511	140,013
Transfers out	-	-	-	(140,013)	(140,013)
Total other financing sources (uses)	51,502	(2,622)	-	(48,880)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(205,385)	153,950	(71,046)	352,626	230,145
Cash and investment fund balance - beginning	2,738,136	621,521	3,051,255	3,119,088	9,530,000
Cash and investment fund balance - ending	<u>\$ 2,532,751</u>	<u>\$ 775,471</u>	<u>\$ 2,980,209</u>	<u>\$ 3,471,714</u>	<u>\$ 9,760,145</u>
Cash and Investment Assets - December 31					
Cash and investments	\$ 2,532,751	\$ -	\$ -	\$ 1,665,727	\$ 4,198,478
Restricted assets:					
Cash and investments	-	775,471	2,980,209	1,805,987	5,561,667
Total cash and investment assets - December 31	<u>\$ 2,532,751</u>	<u>\$ 775,471</u>	<u>\$ 2,980,209</u>	<u>\$ 3,471,714</u>	<u>\$ 9,760,145</u>
Cash and Investment Fund Balance - December 31					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ 22,099	\$ 22,099
Public safety	-	-	-	34,651	34,651
Highways and streets	-	-	-	410,383	410,383
Sanitation	-	-	-	14,280	14,280
Culture and recreation	-	775,471	-	12,217	787,688
Urban redevelopment	-	-	2,980,209	856,593	3,836,802
Aviation	-	-	-	114,032	114,032
Debt service	-	-	-	6,665	6,665
Capital outlay	-	-	-	335,067	335,067
Unrestricted	2,532,751	-	-	1,665,727	4,198,478
Total cash and investment fund balance - December 31	<u>\$ 2,532,751</u>	<u>\$ 775,471</u>	<u>\$ 2,980,209</u>	<u>\$ 3,471,714</u>	<u>\$ 9,760,145</u>

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

CITY OF MADISON
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Total
Operating receipts:			
Metered water receipts	\$ 1,367,614	\$ -	\$ 1,367,614
Fire protection receipts	96,518	-	96,518
Other water receipts	19,767	-	19,767
Measured revenue	-	2,507,867	2,507,867
Other	-	47,010	47,010
	<u>1,483,899</u>	<u>2,554,877</u>	<u>4,038,776</u>
Total operating receipts			
Operating disbursements:			
Equipment and capital improvements	-	4,039,665	4,039,665
Source of supply and disbursements - operations and maintenance	344,603	-	344,603
Water treatment disbursements - operations and maintenance	46,540	-	46,540
Transmission and distribution	223,968	-	223,968
Collection system - operations and maintenance	-	81,546	81,546
Pumping - operations and maintenance	-	253,544	253,544
Treatment and disposal disbursements - operations and maintenance	-	804,574	804,574
Customer accounts	2,037	27,447	29,484
Administration and general	298,272	390,278	688,550
Insurance claims and premiums	61,070	64,987	126,057
Other	55,357	-	55,357
	<u>1,031,847</u>	<u>5,662,041</u>	<u>6,693,888</u>
Total operating disbursements			
Excess (deficiency) of receipts over (under) disbursements	<u>452,052</u>	<u>(3,107,164)</u>	<u>(2,655,112)</u>
Nonoperating receipts (disbursements):			
State revolving loan fund proceeds	-	4,028,352	4,028,352
Interest and investment receipts	4,135	11,762	15,897
Miscellaneous receipts	15,300	-	15,300
Debt service of principal	(242,000)	(548,500)	(790,500)
Interest and investment disbursement	(137,141)	(114,863)	(252,004)
Miscellaneous disbursements	(15,116)	(180)	(15,296)
	<u>(374,822)</u>	<u>3,376,571</u>	<u>3,001,749</u>
Total nonoperating receipts (disbursements)			
Excess of receipts over disbursements and nonoperating receipts	77,230	269,407	346,637
Capital contributions	<u>11,303</u>	<u>-</u>	<u>11,303</u>
Excess of receipts, contributions and transfers in over disbursements and transfers out	88,533	269,407	357,940
Cash and investment fund balance - beginning	<u>692,230</u>	<u>1,685,648</u>	<u>2,377,878</u>
Cash and investment fund balance - ending	<u>\$ 780,763</u>	<u>\$ 1,955,055</u>	<u>\$ 2,735,818</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 145,149	\$ 934,476	\$ 1,079,625
Restricted assets:			
Cash and investments	<u>635,614</u>	<u>1,020,579</u>	<u>1,656,193</u>
Total cash and investment assets - December 31	<u>\$ 780,763</u>	<u>\$ 1,955,055</u>	<u>\$ 2,735,818</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 555,752	\$ 930,173	\$ 1,485,925
Capital outlay	15,000	82,842	97,842
Customer deposits	64,862	7,564	72,426
Unrestricted	<u>145,149</u>	<u>934,476</u>	<u>1,079,625</u>
Total cash and investment fund balance - December 31	<u>\$ 780,763</u>	<u>\$ 1,955,055</u>	<u>\$ 2,735,818</u>

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

CITY OF MADISON
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2005

	Pension Trust Funds	Agency Funds
Additions:		
Contributions:		
Employer	\$ 247,113	\$ -
Plan members	<u>4,550</u>	<u>-</u>
Total contributions	<u>251,663</u>	<u>-</u>
Other (state relief)	<u>169,374</u>	<u>-</u>
Investment earnings:		
Interest	<u>904</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>6,714,619</u>
Total additions	<u>421,941</u>	<u>6,714,619</u>
Deductions:		
Benefits	357,843	-
Refunds of contributions	95	-
Administrative and general	1,100	-
Agency fund deductions	<u>-</u>	<u>6,712,204</u>
Total deductions	<u>359,038</u>	<u>6,712,204</u>
Excess of total additions over total deductions	62,903	2,415
Cash and investment fund balance - beginning	<u>400,904</u>	<u>133,122</u>
Cash and investment fund balance - ending	<u>\$ 463,807</u>	<u>\$ 135,537</u>

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

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

The City's financial reporting entity is composed of the primary government.

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

The park and recreation fund is to account for the operating receipts and disbursements made in connection with the city providing recreation programs and facilities.

The north madison economic development area fund accounts for urban redevelopment of certain areas financed by tax increment financing.

The City reports the following major proprietary funds:

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

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

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the City reports the following fund types:

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

Agency funds account for assets held by the City as an agent for various entities for whom payroll deductions are withheld and serve as control of accounts for certain cash transactions during the time they are a liability to the City.

C. Measurement Focus and Basis of Accounting

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

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City and the utilities. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The City does not have any internal service funds.

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

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

3. Long-Term Debt

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

4. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The City does not have any internal service funds.

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

On or before August 31, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the City had the following investments:

Investment Type	Primary Government Market Value
Open End Mutual Funds	\$ <u>6,872,405</u>

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of or interest in an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940,

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of or interest in an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, were as follows:

Transfer From	Transfer To	2005
Other Governmental	General Fund	\$ 51,502
Other Governmental	Other Governmental	88,511
Total		\$ 140,013

IV. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Job Related Illnesses or Injuries to Employees

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

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

and administration of worker's compensation claims. The City pays an annual premium to the risk pool for its job related illnesses or injuries to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. City Pledged EDIT Revenues for County Jail Project

On July 6, 2004, the City Council adopted Ordinance No. 2004-9 irrevocably pledging a portion of the City's distributive share of Economic Development Income Tax (EDIT) revenues to the payment of a lease to be entered into by Jefferson County to finance the renovation of the county's current jail facilities and to construct additions to the current jail facility. The amount pledged is the lesser of: (1) 20% of the city's distributive share; (2) \$128,177; or (3) 15% of the lease rental payments due under the lease; ("Lease Pledge"). The "Lease Pledge" is irrevocable during the term of the lease.

C. Subsequent Events

1. On December 6, 2005, the City Council adopted Ordinance No. 2005-18 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The ordinance became effective 60 days after adoption.
2. In February and March of 2006, the Board of Public Works awarded contracts on the wastewater rehabilitation project for Division A, wastewater collection system, to Infrastructure, Inc., for \$473,975 and Division B, wastewater treatment plant, to Dunlap & Company, Inc., for \$1,665,000.
3. On May 16, 2006, the Board of Public Works awarded a contract on the Ivy Tech road rehabilitation and Cecil Dorton Drive new road construction project to Dave O'Mara Contracting for \$883,148.

D. Loans Receivable – Indiana Department of Commerce

The City had loans receivable in the amount of \$407,665 at December, 31, 2005. The loans receivable consisted of nine loans to local businesses for the purpose of promoting economic development.

Payments on seven of these loans totaling \$177,034 are currently in delinquent status and are doubtful of collection. The value of the property securing the debts may not be sufficient to satisfy all liens.

E. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 27, 2000.

Wastewater Utility

The current rate structure for the Madison division customers was approved by the City Council on January 21, 2003. The rate structure for customers in the division of the former Jefferson County Regional Sewage District was approved October 3, 1994.

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

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

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

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

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

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension
Annual required contribution	\$ 66,022	\$ 748,800
Interest on net pension obligation	(4,826)	148,800
Adjustment to annual required contribution	5,500	(248,200)
Annual pension cost	66,696	649,400
Contributions made	93,764	169,571
Increase (decrease) in net pension obligation	(27,068)	479,829
Net pension obligation, beginning of year	(66,566)	2,204,435
Net pension obligation, end of year	\$ (93,634)	\$ 2,684,264
Contribution rates:		
City	4.25%	403%
Plan members	3%	6%
Actuarial valuation date	07-01-05	01-01-04
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	40 years
Amortization period (from date)	07-01-97	12-31-77
Asset valuation method	4 year smoothed market	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%	7%
Projected future salary increases:		
Total	5%	5%
Attributed to inflation	4%	4%
Attributed to merit/seniority	1%	1%
Cost-of-living adjustments	2%	0%

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 90,556	94%	\$ (56,022)
	06-30-04	76,869	114%	(66,566)
	06-30-05	66,696	122%	(93,634)
1925 Police Officers' Pension Plan	12-31-01	628,600	71%	2,002,514
	12-31-02	616,800	67%	2,204,235
	12-31-03	649,400	26%	2,684,064

Membership in the 1925 Police Officers' Pension Plan at January 1, 2005, was comprised of the following:

	<u>1925 Police Officers' Pension</u>
Retires and beneficiaries currently receiving benefits	18
Current active employees	4

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

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

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

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

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

CITY OF MADISON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2005, 2004, and 2003, were \$202,035, \$160,692, and \$162,651, respectively, equal to the required contributions for each year.

CITY OF MADISON
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (Unfunded) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 2,319,491	\$ 2,044,769	\$ 274,722	113%	\$ 2,143,862	13%
07-01-04	2,328,411	1,982,439	345,972	117%	2,021,232	17%
07-01-05	2,402,634	2,408,707	(6,073)	100%	2,244,206	0%

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 186,592	\$ 6,060,000	\$ (5,873,408)	3%	\$ 223,100	(2,633%)
01-01-00	285,545	5,859,100	(5,573,555)	5%	198,800	(2,804%)
01-01-01	243,568	6,501,400	(6,257,832)	4%	170,700	(3,666%)
01-01-02	424,620	6,286,100	(5,861,480)	7%	177,500	(3,302%)
01-01-03	552,137	6,410,200	(5,858,063)	9%	219,500	(2,669%)
01-01-04	437,971	6,443,300	(6,005,329)	7%	185,900	(3,230%)

CITY OF MADISON
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan				
	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
			1925 Police Officers' Pension Plan	12-31-98
	12-31-99	625,500	31%	16%
	12-31-00	617,000	15%	16%
	12-31-01	695,100	23%	41%
	12-31-02	698,100	33%	26%
	12-31-03	748,800	0%	23%

CITY OF MADISON
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005

	Riverboat	Levy Excess	Motor Vehicle Highway	Local Road and Street	Aviation	Parking Meter	Police Asset Forfeiture
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 48,637	\$ -	\$ -
Intergovernmental	75,694	-	363,619	57,852	3,355	-	-
Charges for services	-	-	-	-	6,545	-	-
Other	-	-	1,111	1,111	7,206	-	-
Total receipts	75,694	-	364,730	58,963	65,743	-	-
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	379,201	118,383	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment	-	-	-	-	-	-	-
Aviation	-	-	-	-	88,017	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total disbursements	-	-	379,201	118,383	88,017	-	-
Excess (deficiency) of revenue over (under) disbursements	75,694	-	(14,471)	(59,420)	(22,274)	-	-
Other financing sources (uses)							
Interfund services provided and used	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	(47,891)	-	-	-	-	-
Total other financing sources (uses)	-	(47,891)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	75,694	(47,891)	(14,471)	(59,420)	(22,274)	-	-
Cash and investment fund balance - beginning	151,599	51,901	319,277	157,820	54,428	2,830	8
Cash and investment fund balance - ending	<u>\$ 227,293</u>	<u>\$ 4,010</u>	<u>\$ 304,806</u>	<u>\$ 98,400</u>	<u>\$ 32,154</u>	<u>\$ 2,830</u>	<u>\$ 8</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ 227,293	\$ 4,010	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	-	-	304,806	98,400	32,154	2,830	8
Total cash and investment assets - December 31	<u>\$ 227,293</u>	<u>\$ 4,010</u>	<u>\$ 304,806</u>	<u>\$ 98,400</u>	<u>\$ 32,154</u>	<u>\$ 2,830</u>	<u>\$ 8</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	2,830	8
Highways and streets	-	-	304,806	98,400	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment	-	-	-	-	-	-	-
Aviation	-	-	-	-	32,154	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	227,293	4,010	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 227,293</u>	<u>\$ 4,010</u>	<u>\$ 304,806</u>	<u>\$ 98,400</u>	<u>\$ 32,154</u>	<u>\$ 2,830</u>	<u>\$ 8</u>

CITY OF MADISON
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Law Enforcement Continuing Education	Police Donation	Community Development Complex	Park Special Nonreverting	Madison Transit System	Broadway Foundation Donation	Park Donation
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	2,610	400	-	-	-	-	-
Charges for services	6,939	-	-	155,340	-	-	-
Other	-	1,554	-	3,746	-	-	3,312
Total receipts	9,549	1,954	-	159,086	-	-	3,312
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	6,909	727	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	171,943	-	-	18,088
Urban redevelopment	-	-	-	-	-	-	-
Aviation	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total disbursements	6,909	727	-	171,943	-	-	18,088
Excess (deficiency) of revenue over (under) disbursements	2,640	1,227	-	(12,857)	-	-	(14,776)
Other financing sources (uses)							
Interfund services provided and used	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	(3,355)	-	(51)	-	-
Total other financing sources (uses)	-	-	(3,355)	-	(51)	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,640	1,227	(3,355)	(12,857)	(51)	-	(14,776)
Cash and investment fund balance - beginning	23,136	4,810	3,355	19,182	51	2,190	15,814
Cash and investment fund balance - ending	<u>\$ 25,776</u>	<u>\$ 6,037</u>	<u>\$ -</u>	<u>\$ 6,325</u>	<u>\$ -</u>	<u>\$ 2,190</u>	<u>\$ 1,038</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	25,776	6,037	-	6,325	-	2,190	1,038
Total cash and investment assets - December 31	<u>\$ 25,776</u>	<u>\$ 6,037</u>	<u>\$ -</u>	<u>\$ 6,325</u>	<u>\$ -</u>	<u>\$ 2,190</u>	<u>\$ 1,038</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	25,776	6,037	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	6,325	-	2,190	1,038
Urban redevelopment	-	-	-	-	-	-	-
Aviation	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 25,776</u>	<u>\$ 6,037</u>	<u>\$ -</u>	<u>\$ 6,325</u>	<u>\$ -</u>	<u>\$ 2,190</u>	<u>\$ 1,038</u>

CITY OF MADISON
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Madison State Hospital Reuse Study	Tree Board	Donation City Employee	Real Estate Sales Proceeds	Community of Compassion	Micro- Enterprise Grant	Aviation Nonreverting Operating
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	30,000	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Other	-	384	4,206	-	13,915	-	10,923
Total receipts	30,000	384	4,206	-	13,915	-	10,923
Disbursements:							
General government	-	300	1,991	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment	30,000	-	-	-	-	-	-
Aviation	-	-	-	-	-	-	41,556
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total disbursements	30,000	300	1,991	-	-	-	41,556
Excess (deficiency) of revenue over (under) disbursements	-	84	2,215	-	13,915	-	(30,633)
Other financing sources (uses)							
Interfund services provided and used	-	-	-	-	-	-	-
Transfers in	-	-	-	-	1,091	-	72,420
Transfers out	-	-	(1,091)	-	-	-	-
Total other financing sources (uses)	-	-	(1,091)	-	1,091	-	72,420
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	-	84	1,124	-	15,006	-	41,787
Cash and investment fund balance - beginning	-	245	4,518	14,360	-	29,973	6,866
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ 329</u>	<u>\$ 5,642</u>	<u>\$ 14,360</u>	<u>\$ 15,006</u>	<u>\$ 29,973</u>	<u>\$ 48,653</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	-	329	5,642	14,360	15,006	29,973	48,653
Total cash and investment assets - December 31	<u>\$ -</u>	<u>\$ 329</u>	<u>\$ 5,642</u>	<u>\$ 14,360</u>	<u>\$ 15,006</u>	<u>\$ 29,973</u>	<u>\$ 48,653</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
General government	\$ -	\$ 329	\$ 5,642	\$ -	\$ 15,006	\$ -	\$ -
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment	-	-	-	14,360	-	29,973	-
Aviation	-	-	-	-	-	-	48,653
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ -</u>	<u>\$ 329</u>	<u>\$ 5,642</u>	<u>\$ 14,360</u>	<u>\$ 15,006</u>	<u>\$ 29,973</u>	<u>\$ 48,653</u>

CITY OF MADISON
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Investment Incentive Program	Economic Development Commission	Aviation Grant	Owner Occupied Rehab Fund	Historic Madison	County Tax Fund	Micro Loan
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	417,270	9,780	275,401	584,668	27,026
Charges for services	-	-	-	-	-	-	-
Other	414	-	-	-	-	-	-
Total receipts	414	-	417,270	9,780	275,401	584,668	27,026
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	74,212	-
Urban redevelopment	22,500	150	-	13,600	262,751	-	25,000
Aviation	-	-	311,625	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total disbursements	22,500	150	311,625	13,600	262,751	74,212	25,000
Excess (deficiency) of revenue over (under) disbursements	(22,086)	(150)	105,645	(3,820)	12,650	510,456	2,026
Other financing sources (uses)							
Interfund services provided and used	-	-	-	-	-	-	-
Transfers in	-	-	-	15,000	-	-	-
Transfers out	-	-	(72,420)	-	-	-	-
Total other financing sources (uses)	-	-	(72,420)	15,000	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(22,086)	(150)	33,225	11,180	12,650	510,456	2,026
Cash and investment fund balance - beginning	45,583	113,813	-	-	-	-	96,186
Cash and investment fund balance - ending	<u>\$ 23,497</u>	<u>\$ 113,663</u>	<u>\$ 33,225</u>	<u>\$ 11,180</u>	<u>\$ 12,650</u>	<u>\$ 510,456</u>	<u>\$ 98,212</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 510,456	\$ -
Restricted assets:							
Cash and investments	23,497	113,663	33,225	11,180	12,650	-	98,212
Total cash and investment assets - December 31	<u>\$ 23,497</u>	<u>\$ 113,663</u>	<u>\$ 33,225</u>	<u>\$ 11,180</u>	<u>\$ 12,650</u>	<u>\$ 510,456</u>	<u>\$ 98,212</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment	23,497	113,663	-	11,180	12,650	-	98,212
Aviation	-	-	33,225	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	510,456	-
Total cash and investment fund balance - December 31	<u>\$ 23,497</u>	<u>\$ 113,663</u>	<u>\$ 33,225</u>	<u>\$ 11,180</u>	<u>\$ 12,650</u>	<u>\$ 510,456</u>	<u>\$ 98,212</u>

CITY OF MADISON
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Heritage Trails	Farmers Market Grant Fund	Urban Forestry Grant	Scenic Byway	Park Debt Service	Cumulative Capital Improvement	Family Service Center
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 177,381	\$ -	\$ -
Intergovernmental	-	5,715	900	43,513	-	37,108	-
Charges for services	-	-	-	-	-	-	-
Other	-	-	-	-	12,234	-	-
Total receipts	-	5,715	900	43,513	189,615	37,108	-
Disbursements:							
General government	-	3,253	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	38,383	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	10,000	-	-	-	-	-	-
Urban redevelopment	-	-	-	-	-	-	-
Aviation	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	200,000	-	-
Interest	-	-	-	-	14,750	-	-
Capital outlay	-	-	-	-	-	48,420	-
Total disbursements	10,000	3,253	-	38,383	214,750	48,420	-
Excess (deficiency) of revenue over (under) disbursements	(10,000)	2,462	900	5,130	(25,135)	(11,312)	-
Other financing sources (uses)							
Interfund services provided and used	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(5,000)	(205)
Total other financing sources (uses)	-	-	-	-	-	(5,000)	(205)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(10,000)	2,462	900	5,130	(25,135)	(16,312)	(205)
Cash and investment fund balance - beginning	10,202	-	222	2,047	31,800	76,976	205
Cash and investment fund balance - ending	<u>\$ 202</u>	<u>\$ 2,462</u>	<u>\$ 1,122</u>	<u>\$ 7,177</u>	<u>\$ 6,665</u>	<u>\$ 60,664</u>	<u>\$ -</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	202	2,462	1,122	7,177	6,665	60,664	-
Total cash and investment assets - December 31	<u>\$ 202</u>	<u>\$ 2,462</u>	<u>\$ 1,122</u>	<u>\$ 7,177</u>	<u>\$ 6,665</u>	<u>\$ 60,664</u>	<u>\$ -</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
General government	\$ -	\$ -	\$ 1,122	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	7,177	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	202	2,462	-	-	-	-	-
Urban redevelopment	-	-	-	-	-	-	-
Aviation	-	-	-	-	-	-	-
Debt service	-	-	-	-	6,665	-	-
Capital outlay	-	-	-	-	-	60,664	-
Unrestricted	-	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 202</u>	<u>\$ 2,462</u>	<u>\$ 1,122</u>	<u>\$ 7,177</u>	<u>\$ 6,665</u>	<u>\$ 60,664</u>	<u>\$ -</u>

CITY OF MADISON
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Community Development Action	Air Refill	Cumulative Capital Development	Revolving Loan	Transfer Station Operating	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ 196,836	\$ -	\$ -	\$ 422,854
Intergovernmental	-	-	-	-	12,777	1,947,688
Charges for services	-	-	-	-	708,574	877,398
Other	-	-	13,577	8,177	689	82,559
Total receipts	-	-	210,413	8,177	722,040	3,330,499
Disbursements:						
General government	-	-	-	-	-	5,544
Public safety	-	282	-	-	-	7,918
Highways and streets	-	-	-	-	-	535,967
Sanitation	-	-	-	-	782,596	782,596
Culture and recreation	-	-	-	-	-	274,243
Urban redevelopment	-	-	-	-	-	354,001
Aviation	-	-	-	-	-	441,198
Debt service:						
Principal	-	-	-	-	-	200,000
Interest	-	-	-	-	-	14,750
Capital outlay	85,275	-	179,081	-	-	312,776
Total disbursements	85,275	282	179,081	-	782,596	2,928,993
Excess (deficiency) of revenue over (under) disbursements	(85,275)	(282)	31,332	8,177	(60,556)	401,506
Other financing sources (uses)						
Interfund services provided and used	2,622	-	-	-	-	2,622
Transfers in	-	-	-	-	-	88,511
Transfers out	-	-	(10,000)	-	-	(140,013)
Total other financing sources (uses)	2,622	-	(10,000)	-	-	(48,880)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(82,653)	(282)	21,332	8,177	(60,556)	352,626
Cash and investment fund balance - beginning	1,006,621	282	253,071	544,881	74,836	3,119,088
Cash and investment fund balance - ending	<u>\$ 923,968</u>	<u>\$ -</u>	<u>\$ 274,403</u>	<u>\$ 553,058</u>	<u>\$ 14,280</u>	<u>\$ 3,471,714</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ 923,968	\$ -	\$ -	\$ -	\$ -	\$ 1,665,727
Restricted assets:						
Cash and investments	-	-	274,403	553,058	14,280	1,805,987
Total cash and investment assets - December 31	<u>\$ 923,968</u>	<u>\$ -</u>	<u>\$ 274,403</u>	<u>\$ 553,058</u>	<u>\$ 14,280</u>	<u>\$ 3,471,714</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,099
Public safety	-	-	-	-	-	34,651
Highways and streets	-	-	-	-	-	410,383
Sanitation	-	-	-	-	14,280	14,280
Culture and recreation	-	-	-	-	-	12,217
Urban redevelopment	-	-	-	553,058	-	856,593
Aviation	-	-	-	-	-	114,032
Debt service	-	-	-	-	-	6,665
Capital outlay	-	-	274,403	-	-	335,067
Unrestricted	923,968	-	-	-	-	1,665,727
Total cash and investment fund balance - December 31	<u>\$ 923,968</u>	<u>\$ -</u>	<u>\$ 274,403</u>	<u>\$ 553,058</u>	<u>\$ 14,280</u>	<u>\$ 3,471,714</u>

CITY OF MADISON
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2005

	<u>Payroll</u>	<u>Cinergy</u>	<u>Total</u>
Additions:			
Agency fund additions	\$ 5,527,570	\$ 1,187,049	\$ 6,714,619
Deductions:			
Agency fund deductions	<u>5,527,084</u>	<u>1,185,120</u>	<u>6,712,204</u>
Excess of total additions over total deductions	486	1,929	2,415
Cash and investment fund balance - beginning	<u>133,122</u>	<u>-</u>	<u>133,122</u>
Cash and investment fund balance - ending	<u>\$ 133,608</u>	<u>\$ 1,929</u>	<u>\$ 135,537</u>

CITY OF MADISON
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
For The Year Ended December 31, 2005

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets completed in the current and prior years have been reported. At this time, the City has no plans to retroactive report general infrastructure assets.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 1,197,440
Infrastructure	886,139
Buildings	3,752,049
Improvements other than buildings	2,252,087
Machinery and equipment	<u>3,767,997</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 11,855,712</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 67,500
Water collection and distribution system	1,229,360
Buildings	6,262,315
Improvements other than buildings	122,403
Machinery and equipment	<u>1,028,278</u>
Total Water Utility capital assets	<u>8,709,856</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Construction in progress	5,822,768
Wastewater collection and distribution system	2,813,792
Buildings	1,855,680
Improvements other than buildings	664,274
Machinery and equipment	<u>2,742,265</u>
Total Wastewater Utility capital assets	<u>13,898,779</u>
Total business-type activities capital assets	<u>\$ 22,608,635</u>

CITY OF MADISON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For The Year Ended December 31, 2005

CAPITAL LEASES

The City has entered into the following capital lease:

Description of Asset	Present Value of Net Minimum Lease Payments	Ending Balance	Due Within One Year
City hall	\$ 321,285	\$ 384,233	\$ 38,644
		Ending Balance	Due Within One Year
Governmental activities:			
Energy savings	\$ 928,350	\$ 42,005	
Loans payable	205,631	11,262	
Total governmental activities long-term debt	\$ 1,133,981	\$ 53,267	
Business-type activities:			
Water Utility:			
State revolving loan (SRF)	\$ 4,608,000	\$ 249,000	
Wastewater Utility:			
1995 sewage works revenue bonds	1,040,000	105,000	
Total business-type activities:	\$ 5,648,000	\$ 354,000	

Note: The 2003 Wastewater Utility's State Revolving Loan (SRF) established a maximum draw of \$9,229,000. As of December 31, 2005, the loan principal balance was \$5,114,401. The final debt balance will not be determined until planned construction projects are completed.

CITY OF MADISON
AUDIT RESULT AND COMMENT

GUARANTEED ENERGY SAVINGS CONTRACTS

The City entered into a guaranteed energy savings contract with Energy Systems Group, LLC on January 4, 2005. The total amount of the contract was \$1,001,850. The total amount of guaranteed energy savings was \$205,900. The total amount of guaranteed operational savings was \$1,111,190. Page two of the contract states the following:

"The parties stipulate and agree that the operational . . . savings shall be considered fully satisfied upon the Owner's Final Acceptance of the Project."

No information was presented for audit to document actual operational savings.

The "Project" included the acquisition and installation of the following items:

1. City Hall HVAC
2. City Hall Lighting
3. Crystal Beach Pool – Liner, Pool Equipment, Raise Floor
4. Crystal Beach Pool – Waterslide
5. Brown Gym Lighting
6. Brown Gym Chiller
7. LED Traffic Signal Lights

Statutory and Other Compliance Guideline Provisions

The Public Works Law, Indiana Code 36-1-12-1(e), states in part: "As an alternative to this chapter, the governing body . . . may . . . enter into a guaranteed energy savings contract as permitted under IC 36-1-12.5."

Effective March 21, 2002, Indiana Code 36-1-12.5-1 states in part: "As used in this chapter, 'energy conservation measure' means a . . . facility alteration or an alteration of a structure (as defined in IC 36-1-10-2) designed to reduce energy consumption costs or other operating costs . . . including future:

- (A) labor costs;
- (B) costs for contracted services; and
- (C) related capital expenditures."

Indiana Code 36-1-12.5-5(a) concerning energy savings contracts states in part: "The governing body may enter into . . . a guaranteed energy savings contract with a qualified provider to reduce the . . . the political subdivision's energy consumption costs or operating costs if, after review of the report described in section 6 of this chapter, the governing body finds: (1) that the amount the governing body would spend on the energy conservation measures under the contract and that are recommended in the report is not likely to exceed the amount to be saved in energy consumption costs and other operating costs over ten (10) years from the date of installation if the recommendations in the report were followed; and (2) in the case of a guaranteed energy savings contract, the qualified provider provides a written guarantee as described in subsection (d)(2)."

CITY OF MADISON
AUDIT RESULT AND COMMENT
(Continued)

Indiana Code 36-1-12.5-5(d) states in part: "An agreement to participate in . . . guaranteed energy savings contract under this section must provide that: . . . (2) in the case of the guaranteed energy savings contract: (A) the savings in energy and operating costs due to the energy conservation measures are guaranteed to cover the costs of the payments for the measures; and (B) the qualified provider will reimburse the . . . political subdivision for the difference between the guaranteed savings and the actual savings . . ."

Effective March 21, 2002, Indiana Code 36-1-12.5-0.5 states: "As used in this chapter, 'actual savings' includes stipulated savings."

Indiana Code 36-1-12.5-0.7 states: "As used in this chapter, 'causally connected work' means work that is required to properly implement an energy conservation measure."

Indiana Code 36-1-12.5-3.7 states in part "As used in this chapter, 'stipulated savings' are assumed savings that are documented by industry engineering standards."

Indiana Code 36-1-12.5-11 states in part:

"(a) A guaranteed energy savings contract that includes stipulated savings must specify the methodology used to calculate the savings using industry engineering standards.

(b) Stipulated savings may be used for energy conservation measures including. . . (9) Any work that is causally connected to the energy conservation measures listed in subdivisions (1) through (8).

(c) The guaranteed energy savings contract shall:

(1) describe stipulated savings for:

(A) energy conservation measures; and

(B) work causally connected to the energy conservation measures; and

(2) document assumptions by industry engineering standards."

Repayment of Costs in Excess of Savings

City Officials conveyed that the items shown as "agreed upon" or "stipulated savings" have been pre-determined. Furthermore, City Officials do not have available for audit and conveyed they do not plan in the future to have any additional information to document actual operating or energy savings. Accordingly, with due regards for the remaining contract time for which information may be presented to document actual operating and energy savings (effective March 21, 2002, "stipulated savings" documented by "industry engineering standards"), the City should request reimbursement from Energy Savings Group, LLC for costs which did not result in an actual reduction of energy consumption costs or other operating costs (or effective March 21, 2002, stipulated savings which were not supported by "industry engineering standards") at the end of the contract term in accordance with Indiana Code 36-1-12.5-5(d)(2)(B).

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MADISON
AUDIT RESULT AND COMMENT
(Continued)

Non "Causally connected work"

The project included the acquisition and installation of a pool liner, waterslide, other pool equipment and raising a floor at Crystal Beach Pool which totaled 86% of the total project.

Effective March 21, 2002, Indiana Code 36-1-12.5-12 states in part: "(a) An improvement that is not causally connected to an energy conservation measure may be included in a guaranteed energy savings contract if:

- (1) the total value of the improvement does not exceed fifteen percent (15%) of the total value of the guaranteed energy savings contract. . ."

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF MADISON, JEFFERSON COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Madison (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 21, 2006

CITY OF MADISON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2005

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Direct Grant			
Rural Enterprise Business Grants	10.769	0348-004	\$ <u>25,000</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Office of Community and Rural Affairs			
Community Development Block Grants/State's Program	14.228	CF-04-109	260,221
AME Church Project			
Pass-Through Indiana Housing and Community Authority			
Community Development Block Grants/State's Program	14.228	HD-005-006	<u>9,780</u>
Owner-Occupied Rehabilitation			
Total for federal grantor agency			<u>270,001</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute			
Highway Safety Cluster			
State and Community Highway Safety	20.600	OP 05-02-03-83	2,300
		OP 06-02-03-67	<u>963</u>
Total for cluster			<u>3,263</u>
Direct Grant			
Airport Improvement Program	20.106	AIP 3-18-0052-0604	52,565
		AIP 3-18-0052-0705	40,616
		AIP 3-18-0052-0805	<u>199,649</u>
Total for program			<u>292,830</u>
Pass-Through Indiana Department of Transportation			
Highway Planning and Construction	20.205	STP-9982 (033)	<u>36,513</u>
Ohio River Scenic Byway Interpretive Display Project			
Total for federal grantor agency			<u>332,606</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS18236001	<u>1,695,340</u>
State Revolving Fund (SRF)			
<u>DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security			
Public Assistance Grants	97.036	3197	<u>15,398</u>
Snow Emergency Disaster			
Total federal awards expended			<u>\$ <u>2,338,345</u></u>

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

CITY OF MADISON
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Madison (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF MADISON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants For Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF MADISON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF MADISON
EXIT CONFERENCE

The contents of this report were discussed on June 21, 2006, with Beverly Armstrong, Clerk-Treasurer; and Albert G. Huntington, Mayor.