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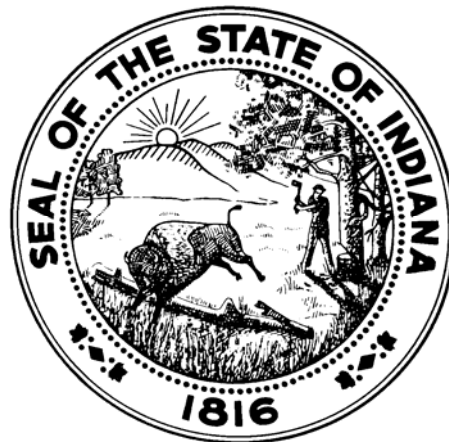
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

CITY OF WOODBURN

ALLEN COUNTY, INDIANA



FILED
11/27/2006

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	William D. Basting Vacant Lesa Meadows	01-01-04 to 07-17-06 07-18-06 to 08-20-06 08-21-06 to 12-31-07
Mayor	Richard A. Hoepfner	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Richard A. Hoepfner	01-01-04 to 12-31-07
President of the Common Council	Richard A. Hoepfner	01-01-04 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF WOODBURN, ALLEN 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 Woodburn (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. 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.

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 Schedule, as listed in the table of contents and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Combining Schedule, as listed in the table of contents, has 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 Long-Term Debt has 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 it.

STATE BOARD OF ACCOUNTS

October 30, 2006

CITY OF WOODBURN
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	Governmental Activities	Business-Type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 111,887	\$ 67,506	\$ 4,337	\$ (40,044)	\$ -	\$ (40,044)
Public safety	121,266	1,790	3,000	(116,476)	-	(116,476)
Highways and streets	125,466	1,583	69,450	(54,433)	-	(54,433)
Sanitation	61,724	-	-	(61,724)	-	(61,724)
Economic development	134,738	-	116,775	(17,963)	-	(17,963)
Interest on long-term debt	9,908	-	-	(9,908)	-	(9,908)
Total governmental activities	<u>564,989</u>	<u>70,879</u>	<u>193,562</u>	<u>(300,548)</u>	<u>-</u>	<u>(300,548)</u>
Business-type activities:						
Water	583,956	278,486	-	-	(305,470)	(305,470)
Wastewater	285,544	170,790	-	-	(114,754)	(114,754)
Total business-type activities	<u>869,500</u>	<u>449,276</u>	<u>-</u>	<u>-</u>	<u>(420,224)</u>	<u>(420,224)</u>
Total primary government	<u>\$ 1,434,489</u>	<u>\$ 520,155</u>	<u>\$ 193,562</u>	<u>(300,548)</u>	<u>(420,224)</u>	<u>(720,772)</u>
General receipts:						
Property taxes				145,836	-	145,836
Other state sources				20,704	-	20,704
Other local sources				61,851	-	61,851
Unrestricted investment earnings				6,898	12,001	18,899
Refunds and reimbursements				1,583	3,367	4,950
Other				35,164	39,002	74,166
Transfers				(40,000)	40,000	-
Total general receipts and transfers				<u>232,036</u>	<u>94,370</u>	<u>326,406</u>
Change in net assets				(68,512)	(325,854)	(394,366)
Net assets - beginning				<u>616,023</u>	<u>572,973</u>	<u>1,188,996</u>
Net assets - ending				<u>\$ 547,511</u>	<u>\$ 247,119</u>	<u>\$ 794,630</u>
<u>Assets</u>						
Cash and investments				\$ 177,827	\$ (23)	\$ 177,804
Restricted assets:						
Cash and investments				<u>369,684</u>	<u>247,142</u>	<u>616,826</u>
Total assets				<u>\$ 547,511</u>	<u>\$ 247,119</u>	<u>\$ 794,630</u>
<u>Net Assets</u>						
Restricted for:						
Public safety				\$ (832)	\$ -	\$ (832)
Highways and streets				134,369	-	134,369
Economic development				212,223	-	212,223
Sanitation				27,087	-	27,087
Debt service				(3,163)	58,865	55,702
Customer deposits				-	3,557	3,557
Capital asset expansion and replacement				-	184,720	184,720
Unrestricted				<u>177,827</u>	<u>(23)</u>	<u>177,804</u>
Total net assets				<u>\$ 547,511</u>	<u>\$ 247,119</u>	<u>\$ 794,630</u>

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

CITY OF WOODBURN
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	MVH	Economic Development Income Tax	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 103,470	\$ 21,897	\$ -	\$ 20,469	\$ 145,836
Licenses and permits	50	-	-	-	50
Intergovernmental	28,524	90,004	116,775	36,163	271,466
Charges for services	67,456	-	-	1,790	69,246
Fines and forfeits	4,337	-	-	-	4,337
Other	20,456	-	-	25,086	45,542
Total receipts	224,293	111,901	116,775	83,508	536,477
Disbursements:					
General government	111,387	-	-	500	111,887
Public safety	97,484	-	-	23,782	121,266
Highways and streets	1,953	79,911	-	23,602	105,466
Sanitation	61,724	-	-	-	61,724
Debt service:					
Principal	-	-	-	25,236	25,236
Interest	-	-	-	9,908	9,908
Capital outlay:					
Economic development	-	-	121,682	7,820	129,502
Total disbursements	272,548	79,911	121,682	90,848	564,989
Excess (deficiency) of receipts over disbursements	(48,255)	31,990	(4,907)	(7,340)	(28,512)
Other financing uses					
Transfers out	-	-	(40,000)	-	(40,000)
Cash and investment fund balance - beginning	201,188	10,754	257,130	146,951	616,023
Cash and investment fund balance - ending	<u>\$ 152,933</u>	<u>\$ 42,744</u>	<u>\$ 212,223</u>	<u>\$ 139,611</u>	<u>\$ 547,511</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 152,933	\$ -	\$ -	\$ 24,894	\$ 177,827
Restricted assets:					
Cash and investments	-	42,744	212,223	114,717	369,684
Total cash and investment assets - December 31	<u>\$ 152,933</u>	<u>\$ 42,744</u>	<u>\$ 212,223</u>	<u>\$ 139,611</u>	<u>\$ 547,511</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ (832)	\$ (832)
Highways and streets	-	42,744	-	91,625	134,369
Economic development	-	-	212,223	-	212,223
Sanitation	-	-	-	27,087	27,087
Debt service	-	-	-	(3,163)	(3,163)
Unrestricted	152,933	-	-	24,894	177,827
Total cash and investment fund balance - December 31	<u>\$ 152,933</u>	<u>\$ 42,744</u>	<u>\$ 212,223</u>	<u>\$ 139,611</u>	<u>\$ 547,511</u>

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

CITY OF WOODBURN
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:			
Measured revenue:			
Residential and commercial	\$ 259,241	\$ 163,917	\$ 423,158
Fire protection receipts	13,000	-	13,000
Penalties	2,719	2,673	5,392
Tap and reconnect fees	3,525	4,200	7,725
Customer deposits	900	-	900
Other	4,677	-	4,677
Total operating receipts	<u>284,062</u>	<u>170,790</u>	<u>454,852</u>
Operating disbursements:			
Equipment and capital improvements	229,337	12,886	242,223
Source of supply and disbursements/collection system expense - operations and maintenance			
Purchased power	14,647	6,583	21,230
Chemicals	839	3,439	4,278
Material and supplies	6,774	5,875	12,649
Contractual services	60,329	89,164	149,493
Repairs	104,161	58,133	162,294
Transportation disbursements	5,154	4,577	9,731
Administration and general:			
Salaries and wages	17,487	17,490	34,977
Employee pensions and benefits	1,693	1,693	3,386
Rents	6,000	6,000	12,000
Sales tax	14,611	-	14,611
Insurance premiums	8,428	6,887	15,315
Customer deposit refund	1,432	-	1,432
Miscellaneous disbursements	8,068	8,984	17,052
Total operating disbursements	<u>478,960</u>	<u>221,711</u>	<u>700,671</u>
Deficiency of operating receipts over operating disbursements	<u>(194,898)</u>	<u>(50,921)</u>	<u>(245,819)</u>
Nonoperating receipts (disbursements):			
Interest and investment receipts	6,764	6,323	13,087
Miscellaneous receipts	-	35,707	35,707
Debt service of principal	(51,043)	(36,043)	(87,086)
Interest and investment disbursement	(53,953)	(27,790)	(81,743)
Total nonoperating receipts (disbursements)	<u>(98,232)</u>	<u>(21,803)</u>	<u>(120,035)</u>
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	<u>(293,130)</u>	<u>(72,724)</u>	<u>(365,854)</u>
Transfers In	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Deficiency of receipts and contributions over disbursements	<u>(253,130)</u>	<u>(72,724)</u>	<u>(325,854)</u>
Cash and investment fund balance - beginning	<u>358,099</u>	<u>214,874</u>	<u>572,973</u>
Cash and investment fund balance - ending	<u>\$ 104,969</u>	<u>\$ 142,150</u>	<u>\$ 247,119</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ (2,993)	\$ 2,970	\$ (23)
Restricted assets:			
Cash and investments	<u>107,962</u>	<u>139,180</u>	<u>247,142</u>
Total cash and investment assets - December 31	<u>\$ 104,969</u>	<u>\$ 142,150</u>	<u>\$ 247,119</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 8,165	\$ 50,700	\$ 58,865
Customer deposits	3,557	-	3,557
Capital asset expansion and replacement	96,240	88,480	184,720
Unrestricted	<u>(2,993)</u>	<u>2,970</u>	<u>(23)</u>
Total cash and investment fund balance - December 31	<u>\$ 104,969</u>	<u>\$ 142,150</u>	<u>\$ 247,119</u>

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

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

	Agency Funds
Additions:	
Agency fund additions	\$ 35,327
Deductions:	
Agency fund deductions	34,654
Excess of total additions over total deductions	673
Cash and investment fund balance - beginning	-
Cash and investment fund balance - ending	\$ 673

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

CITY OF WOODBURN
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, public improvements, planning and zoning, general administrative services, water and wastewater.

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

Primary Government:	City of Woodburn
Blended Component Unit:	Woodburn Development Corporation

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

Blended Component Unit

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the City's governing body or the component unit provides services entirely to the City. The component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

Component Unit	Description/Inclusion Criteria	Fund Included In
Woodburn Development Corporation	Economic development corporation supported entirely by the City	Other Governmental Funds/Woodburn Development Corporation

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, 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.

CITY OF WOODBURN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 motor vehicle fund is used to account for financial resources and expenses for construction, operation and maintenance of local and arterial roads and street system.

The economic development income tax fund is used to account for financial resources and expenses or projects related to the county economic development income tax (CEDIT).

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

Agency funds account for assets held by the City as an agent for employee payroll withholdings.

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 between the utility funds and the governmental funds for goods and services received such as water and wastewater services provided. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

CITY OF WOODBURN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The City does not have any internal service funds.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. 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, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

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.

CITY OF WOODBURN
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

Proprietary funds are used to account for activities similar to those funds 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).

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. 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

A. Budgetary Information

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

CITY OF WOODBURN
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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

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

B. Cash and Investment Balance Deficits

At December 31, 2005, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and State statute:

Fund	2005
Donation Fund	\$ (500)
Law Enforcement Grant Fund	(1,231)
1992 Street Bond Fund	(3,336)
Police Dog Donations Fund	(1,391)
Water Utility Operating Fund	(2,993)

Cash and investment deficits arose primarily from disbursements exceeding receipts due to poor bookkeeping and fraudulent activity of the prior Clerk-Treasurer.

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2005, the bank balance held at National City Bank in the amount of \$829,829 was insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

CITY OF WOODBURN
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

B. Interfund Transfers

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

Transfer From	Transfer To	2005
Economic Development Income Tax Fund	Water Bond and Interest Fund	\$ <u>40,000</u>

There was no explanation found for the above transfer.

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 1993, the City joined together with other governmental entities in the Indiana Public Employer's Plan Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The City pays an annual premium to the risk pool for its coverage. 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. Rate Structure – Enterprise Funds

Water Utility

On July 11, 1988, the City Council adopted Ordinance G-88-1029 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by City Council on April 21, 2003.

Wastewater Utility

The current rate structure was approved by the City Council on August 29, 1994.

CITY OF WOODBURN
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Accounts Receivable – Enterprise Funds

Water Utility

At December 31, 2005, the City has a customer accounts receivable balance of \$20,767 for the Water Utility.

Wastewater Utility

At December 31, 2005, the City has a customer accounts receivable balance of \$15,700 for the Wastewater Utility

D. Repayments from William D. Basting

The City of Woodburn has a receivable from the prior Clerk-Treasurer, William D. Basting for monies received for fictitious invoices and other questionable activity. See the Supplemental Report for more details. The total amount due to the City, as of December 31, 2005, is \$283,949.77. Subsequently, William D. Basting turned over uncashed checks and bank account balances totaling \$62,697.95 and repaid \$221,251.82, satisfying the entire receivable.

CITY OF WOODBURN
 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

	Local Road and Street	Donation	Law Enforcement Grant	Rainy Day	Law Enforcement Continuing Education	1992 Street Bond	Industrial Loan Repayment
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,306	\$ -
Intergovernmental	18,952	-	-	-	-	1,222	-
Charges for services	-	-	-	-	1,790	-	-
Other	-	-	-	-	-	-	21,989
Total receipts	18,952	-	-	-	1,790	10,528	21,989
Disbursements:							
General government	-	500	-	-	-	-	-
Public safety	-	-	4,923	-	-	-	-
Highways and streets	15,052	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	20,000	5,236
Interest	-	-	-	-	-	938	8,970
Capital outlay:							
Economic development	-	-	-	-	-	-	7,610
Total disbursements	15,052	500	4,923	-	-	20,938	21,816
Excess (deficiency) of receipts over disbursements	3,900	(500)	(4,923)	-	1,790	(10,410)	173
Cash and investment fund balance - beginning	42,202	-	3,692	6,814	-	7,074	-
Cash and investment fund balance - ending	<u>\$ 46,102</u>	<u>\$ (500)</u>	<u>\$ (1,231)</u>	<u>\$ 6,814</u>	<u>\$ 1,790</u>	<u>\$ (3,336)</u>	<u>\$ 173</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ -	\$ (500)	\$ -	\$ 6,814	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	46,102	-	(1,231)	-	1,790	(3,336)	173
Total cash and investment assets - December 31	\$ 46,102	\$ (500)	\$ (1,231)	\$ 6,814	\$ 1,790	\$ (3,336)	\$ 173
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Public safety	\$ -	\$ -	\$ (1,231)	\$ -	\$ 1,790	\$ -	\$ -
Highways and streets	46,102	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	(3,336)	173
Unrestricted	-	(500)	-	6,814	-	-	-
Total cash and investment fund balance - December 31	\$ 46,102	\$ (500)	\$ (1,231)	\$ 6,814	\$ 1,790	\$ (3,336)	\$ 173

CITY OF WOODBURN
 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)

	Cumulative Capital Improvement	Cumulative Capital Development	Riverboat Wagering	Police Dog Donations	Havenwood Utilities Receivership	Woodburn Development Corporation	Totals
Receipts:							
Taxes	\$ -	\$ 11,163	\$ -	\$ -	\$ -	\$ -	\$ 20,469
Intergovernmental	4,881	1,151	9,957	-	-	-	36,163
Charges for services	-	-	-	-	-	-	1,790
Other	-	-	-	3,000	97	-	25,086
Total receipts	4,881	12,314	9,957	3,000	97	-	83,508
Disbursements:							
General government	-	-	-	-	-	-	500
Public safety	-	-	11,318	7,541	-	-	23,782
Highways and streets	8,550	-	-	-	-	-	23,602
Debt service:							
Principal	-	-	-	-	-	-	25,236
Interest	-	-	-	-	-	-	9,908
Capital outlay:							
Economic development	-	-	-	-	-	210	7,820
Total disbursements	8,550	-	11,318	7,541	-	210	90,848
Excess (deficiency) of receipts over disbursements	(3,669)	12,314	(1,361)	(4,541)	97	(210)	(7,340)
Cash and investment fund balance - beginning	31,610	5,268	19,941	3,150	26,990	210	146,951
Cash and investment fund balance - ending	<u>\$ 27,941</u>	<u>\$ 17,582</u>	<u>\$ 18,580</u>	<u>\$ (1,391)</u>	<u>\$ 27,087</u>	<u>\$ -</u>	<u>\$ 139,611</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ 18,580	\$ -	\$ -	\$ -	\$ 24,894
Restricted assets:							
Cash and investments	27,941	17,582	-	(1,391)	27,087	-	114,717
Total cash and investment assets - December 31	<u>\$ 27,941</u>	<u>\$ 17,582</u>	<u>\$ 18,580</u>	<u>\$ (1,391)</u>	<u>\$ 27,087</u>	<u>\$ -</u>	<u>\$ 139,611</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ (1,391)	\$ -	\$ -	\$ (832)
Highways and streets	27,941	17,582	-	-	-	-	91,625
Economic development	-	-	-	-	27,087	-	27,087
Debt service	-	-	-	-	-	-	(3,163)
Unrestricted	-	-	18,580	-	-	-	24,894
Total cash and investment fund balance - December 31	<u>\$ 27,941</u>	<u>\$ 17,582</u>	<u>\$ 18,580</u>	<u>\$ (1,391)</u>	<u>\$ 27,087</u>	<u>\$ -</u>	<u>\$ 139,611</u>

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

CAPITAL LEASES:

	Present Value of Net Minimum Lease Payments	Ending Balance	Due Within One Year
Governmental activities:			
2002 Police vehicle	\$ 9,312	\$ 9,312	\$ 6,300
2005 Police vehicle	16,873	16,873	5,798
Business-type activities:			
2006 Utility vehicle	<u>19,243</u>	<u>19,243</u>	<u>3,129</u>
Total capital leases	<u>\$ 45,428</u>	<u>\$ 45,428</u>	<u>\$ 15,227</u>

LOAN PAYABLE:

	Ending Balance	Due Within One Year
Governmental activities:		
2005 Loan payable	<u>\$ 194,764</u>	<u>\$ 15,036</u>

REVENUE BONDS PAYABLE:

	Ending Balance	Due Within One Year
Business-type activities:		
Water utility		
2003 Water utility revenue bonds	<u>\$ 1,270,000</u>	<u>\$ 50,000</u>
Wastewater utility		
1994 Wastewater utility revenue bonds	225,000	20,000
2002 Wastewater utility revenue bonds	<u>275,000</u>	<u>15,000</u>
Total wastewater utility	<u>500,000</u>	<u>35,000</u>
Total business-type activities:	<u>\$ 1,770,000</u>	<u>\$ 85,000</u>

CITY OF WOODBURN
OTHER REPORT

The annual report presented herein was prepared in addition to another official report listed below:

City of Woodburn Supplemental Report

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS

SUMMARY OF SUPPLEMENTAL REPORT

See, also, the City of Woodburn Supplemental Report for more details.

On July 17, 2006, the prior Clerk-Treasurer, William D. Basting resigned after it was discovered that money was misappropriated from the City of Woodburn via two fictitious vendors created specifically for this purpose. Claims, accompanied by nonrelated invoices, quotes, schedules, pictures, maps and diagrams, were created in support of payments made to these vendors. No goods or services were received for these claims. The State Board of Accounts was notified of the situation, immediately started an investigative audit and, soon thereafter, discovered two additional fictitious vendors by which money was misappropriated from the City. Seventy-seven checks, over the time period of April 2005 to July 2006, were written to the four fictitious vendors totaling \$278,557.47. Four separate bank accounts were set up under the fictitious vendor names, in order to deposit and subsequently spend the misappropriated funds.

During the audit, we also discovered: reimbursements for personal travel including hotels, meals, and mileage; reimbursements for personal items such as check endorsement stamps for two of the fictitious companies and undocumented or duplicate reimbursements for items already paid for by the City; direct payments for personal travel; late payment penalties on withholding taxes and debt payments; personal long-distance phone calls; was additional and excessive wireless telephone charges; and that cash was necessary to balance the petty cash fund and the checking account. All of these additional items total \$5,392.30.

Additional audit costs incurred by the City of Woodburn, due to the investigation of misappropriations, totaled \$16,403.94.

In summary, \$300,353.71 was due to the City of Woodburn, in relation to these irregularities.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS

Controls for making changes to financial records through the use of adjusting entries are insufficient. The City's system allows the user to directly change a fund's balance. This occurred on at least four occasions in 2005 and in 2006. This is not a proper accounting practice and should not be allowed in the setup controls over the accounting software.

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)

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

CASH NECESSARY TO BALANCE, BANK RECONCILIATIONS

A comparison of the records to the bank account at July 31, 2006, indicated cash necessary to balance of \$240.14. We reconciled the records to the bank as of July 31, 2006. The previous Clerk-Treasurer resigned on July 17, 2006.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCES

The cash balance of the Donation Fund, Law Enforcement Grant Fund, 1992 Street Bond Fund, Police Dog Donations Fund and the Water Operating Fund were overdrawn at December 31, 2005.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The City did not comply with directives of the Indiana Department of Revenue by not remitting withholding taxes timely and by not filing the WH-3 Annual State Withholding Statement.

The City did not comply with the directives of the Internal Revenue Service by not remitting withholding taxes and employer matching taxes timely.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANNUAL REPORT

An annual report for 2005 was not presented for audit.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-3-1-3 provides the Clerk-Treasurer or Controller of each city and town shall have published an annual report of the receipts and expenditures of such city or town, showing the same "by funds and appropriations," within sixty days after the close of each calendar year. The total indebtedness at December 31 of such municipality must also be shown in this published report. (Accounting and Compliance Guidelines Manual for Cities and Towns, Chapter 7)

LOCAL TAX DISTRIBUTIONS

County Option Income Tax (COIT) and Excise Tax local distributions for 2005 and 2006 were not posted to the correct funds:

1. In 2005, the COIT distribution was to be posted entirely to the General Fund, but was instead split between the General and Motor Vehicle Highway (MVH) Funds.
2. The last Excise Tax distribution in 2005 for \$11,138.13 was posted entirely to the MVH Fund, instead of being posted to the General, 1992 Street Bond, and Cumulative Capital Development Funds, as well.
3. In 2006, the COIT distribution was again incorrectly posted with one-half going to the General Fund and one-half going to the MVH Fund.
4. Also, in 2006, \$969.54 of the Excise Tax distribution for the MVH distribution was posted to the 1992 Street Bond Fund.

These incorrect distribution postings need to be reviewed and corrected for 2005 and 2006 by the City Officials and appropriate transfers should be made via a council resolution.

Local tax distributions should be distributed as per the Tax Levy and the Local Budget Ordinance.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PHONE EXPENSES PAID ENTIRELY BY THE UTILITIES

During 2005 and 2006, all of the AT&T long distance and Verizon Wireless costs were paid for out of the Water Utility and Wastewater Utility. Many of these expenses pertained to general City business and should be charged to the General Fund. We recommend that a more appropriate allocation of future billings be made between the Water, Wastewater and City (General).

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility and not related to the operation of a city or town. Surplus utility funds can be transferred to the city or town general fund from a utility cash reserve fund pursuant to the provisions of IC 8-1.5-3-11 and used for any governmental purpose after appropriation in the regular legal manner, which requires both advertising to the taxpayers and approval of the Department of Local Government Finance. (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2006)

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

PROMOTION OF CITY

The Woodburn Volunteer Fire Department was given \$1,000 to pay for fireworks for the fall festival (Check 6243, August 2005). This was paid from the Economic Development Income Tax (EDIT) Fund (444) and should have been paid from the General Fund Promotion Account (101-000-421010). The General Fund should reimburse the EDIT Fund for this expense.

The City made a \$500 contribution toward the lobby effort of the Fort to Port Effort (Check 6629, January 2006). This came out of the Donation Fund (217), a new fund in 2005 without any cash balance, thus creating a negative fund balance at December 31, 2005. The City should use the General Fund Promotion Account (101-000-421010) for this type of expenditure. The General Fund Promotion Account should reimburse the Donation Fund for this expense.

The City paid for many of the Council or City employees to attend a Mayor's Roundtable Christmas Party (Check. 6505, December 2005) from an account other than General Fund Promotion Account (101-000-421010). This should not have been paid from a regular General Fund Expense Account (101-000-421009).

The City should also pass a Home Rule Ordinance enabling officials to pay for such expenses from a promotion account under Indiana Code 36-7-2-7.

Indiana Code 36-7-2-7 allows cities and towns to promote economic development and tourism. Such statute replaced a prior law which authorized cities and towns to budget and appropriate funds from the general fund to pay the expense of, or to reimburse city or town officials as the case may be, for expenses incurred in promoting the best interest of the city or town. Accordingly, a Home Rule ordinance needs to be adopted in accordance with Indiana Code 36-1-3 in order to enable a city or town to pay for such expenses. Additionally, an appropriation for such expenses must also be obtained. In an effort to assist cities and towns that have not passed an enabling ordinance but who wish to establish the promotion of business ordinance, we are repeating wording contained in the old statute. Many municipalities have used similar wording in their enabling ordinance.

"City and town councils are authorized to budget and appropriate funds from the general fund of the city, or town, to pay the expense of or to reimburse city officials or town officials, as the case may be, for expenses incurred in promoting the best interest of the city or town. Such expenses may include, but not necessarily be limited to, rental of meeting places, meals, decorations, memorabilia, awards, expenses incurred in promoting industrial, commercial, and residential development, expenses incurred in developing relations with other units of government and any other expenses of a civic or governmental nature deemed by the mayor or the town council to be in the interest of the city or town."

This is furnished only for your information. Each city and town should establish, by ordinance, the parameters for such appropriations and expenditures. Such ordinance should list the specific types of promotional expenses which can be paid from monies appropriated for such purpose. Please note that excessive amounts expended for employee meals, awards, gifts and similar expenses could be considered an audit result and comment item in an audit. (Cities and Towns Bulletins and Uniform Compliance Guidelines, December 2005)

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

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

1. Claims were not prepared for all disbursements.
2. Claims were not adequately itemized (copies, faxes and statements used).
3. Claims did not have board approval or approval was not documented in a detailed manner in the City Council minutes.
4. Claims or invoices were not accompanied by evidence in support of the receipt of goods or services.

Indiana Code 5-11-10-1.6 states in part:

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

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

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

MILEAGE CLAIMS

Prescribed Form 101 or its approved equivalent for mileage reimbursements was not used. This form is designed to serve as a claim for mileage to be presented to the board for allowance.

Officers and employees may be reimbursed for actual miles traveled in their own motor vehicles on official business of the city or town at a reasonable rate per mile as fixed by ordinance or resolution of the board. Reimbursement mileage shall not include travel to and from the officer's or employee's home and the office. If two or more persons ride in the same motor vehicle, only one mileage reimbursement is allowable. The speedometer reading columns on this form are to be used only when distance between points cannot be determined by fixed mileage or official state highway map. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

The Economic Development Income Tax Fund was overspent by \$21,682 for 2005. This is a fund that is to be budgeted locally; therefore, the City Council should have passed an additional appropriation for the additional expenditures.

The following is a list of funds which require city/town council approval of an appropriation. Due to the nature of the funds, the Indiana Department of Local Government Finance does not require submission of an additional appropriation request before the local appropriation can be approved.

1. Clerk's Record Perpetuation Fund (IC 33-19-6-1.5)
2. Cumulative Capital Improvement Fund - Cigarette Tax (IC 6-7-1-31.1)
3. Deferral Program (IC 34-28-5-1)
4. Economic Development Income Tax (EDIT) Fund (IC 6-3.5-7)
5. Electronic Map Generation Fund (IC 5-14-3-8.3)
6. Enhanced Access Fund (IC 5-14-3-8.5)
7. Local Law Enforcement Continuing Education Fund (IC 5-2-8)
8. Park Nonreverting Capital Fund (IC 36-10-3-20)
9. Park Nonreverting Operating Fund (IC 36-10-3-22)
10. Riverboat Fund (IC 36-1-8-9)

(Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2000)

TRANSFERS

Various transfers were made for 2005 and 2006:

1. Transfers were made from the Water and Wastewater Utilities Operating Funds to the Water and Wastewater Utilities Bond and Interest Funds for bond ordinance requirements, but in amounts that did not comply with the ordinances.
2. A transfer was made to close out the Havenwood Utilities Receivership Fund to the Economic Development Income Tax Fund. The amount was then transferred to the Wastewater Operating Fund. Both transfers were made without a resolution or ordinance.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

PAYROLL SERVICE RECORDS (FORM 99A)

Service records were not maintained for full time employees for the audit period. A similar comment was included in prior Report B25448. When service records are not being maintained, tracking paid employee leave is not possible. This may allow an employee to take more leave than they are entitled to, resulting in an overpayment of wages or salary. The Clerk-Treasurer should maintain service records for each employee entitled to paid leave.

This form must be kept by each office or department for each employee in order to properly prepare "Payroll Schedule and Voucher, General Form No. 99." It records the hours or days worked, sick leave, vacation and days lost. It may also be used to comply with the requirements of IC 5-11-9-4 regarding recording hours worked each day by an employee. It is suggested that these be arranged alphabetically in a binder. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALARY ORDINANCE

The City did not pass a salary ordinance for the 2006 appointed employees or police officers.

Indiana Code 36-4-7-3 states:

- "(a) This section does not apply to compensation paid by a city to members of its police and fire departments.
- (b) Subject to the approval of the city legislative body, the city executive shall fix the compensation of each appointive officer, deputy, and other employee of the city. The legislative body may reduce but may not increase any compensation fixed by the executive. Compensation must be fixed under this section not later than September 30 of each year for the ensuing budget year.
- (c) Compensation fixed under this section may be increased or decreased by the executive during the budget year for which it is fixed.
- (d) Notwithstanding subsection (b), the city clerk may, with the approval of the legislative body, fix the salaries of deputies and employees appointed under IC 36-4-11-4."

Indiana Code 36-4-7-4 states:

- "(a) Subject to the approval of the city legislative body, the city executive may provide that city officers and employees receive additional compensation for services that: (1) are performed for the city, (2) are not governmental in nature; and (3) are connected with the operation of a municipally owned utility or function.
- (b) Subject to the approval of the executive and legislative body, the administrative agency operating the utility or function shall fix the amount of the additional compensation, which shall be paid from the revenues of the utility or function."

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

In accordance with the provisions of IC 18-2-1-12 [Repealed, See IC 36-4-7-4], the award of compensation shall plainly specify both the amount and the recipient, shall establish that the services performed are other than governmental, shall be awarded by the administrative authority in charge of the utility, and shall be approved by both the common council and the mayor. It is our audit position that if the official records of the utility or function do not show the award of this additional compensation and the official records of the civil city do not show approval of the mayor and common council by ordinance or resolution as the statutes regulating the utility might provide, then there is no authority to make any payment. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2003)

Indiana Code 36-8-3-3(d) states:

"The annual compensation of all members of the police and fire department and other appointees shall be fixed by ordinance of the legislative body before:

- (1) September 20 for a second class city; and
- (2) September 20 for a third class city; of each year for the ensuing budget year. The ordinance may grade the members of the departments and regulate their pay by rank as well as by length of service. If the legislative body fails to adopt an ordinance fixing the compensation of members of the police or fire department, the safety board may fix their compensation, subject to change by ordinance."

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2003)

FUND CREATION

Several funds were created in 2005 without being established through the authority of a Local Home Rule Ordinance under (IC 36-1-3):

Fund 217, Donations Fund

Fund 316, Industrial Loan Repayment Fund

Indiana Code 36-1-3-6 states: "(a) if there is a constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must do so in that manner. (b) If there is no constitutional or statutory provision requiring a specific manner exercising a power, a unit wanting to exercise the power must either: (1) adopt an ordinance prescribing a specific manner for exercising the power; or (2) comply with a statutory provision permitting a specific manner for exercising the power. (c) An ordinance under subsection (b)(1) must be adopted as follows: (1) In a municipality, by the legislative body of the municipality. . . ."

We feel the powers granted by various statutes authorize the Common Council of a city or the Town Council of a town to create, by ordinance, as many funds as they feel necessary to operate their particular city or town.

The enabling ordinance should provide various types of information.

1. The ordinance should clearly indicate the type or types of revenue that is to go into the new fund.

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

2. The ordinance should list the purpose or purposes for which expenditures can be made from the new fund.
3. The ordinance should establish the life of the new fund and indicate if the fund balance is nonreverting at year end or perpetual until terminated either by the terms of the current ordinance or if another subsequent ordinance must be enacted.
4. The ordinance should provide guidance as to disposition of the fund balance on termination of the fund.
5. The ordinance should include any other terms or conditions the city or town attorney deems necessary.

It should be noted that establishing a new fund by diverting revenues that would normally go into the city or town general fund or by transferring by appropriation from the general fund to the new fund creates a possible future problem. After creating and funding the new fund, if the city or town appeals to the local government tax control board of the Indiana Department of Local Government Finance for an excessive levy (pursuant to Indiana Code 6-1.1-18.5-11 et seq), the control board may insist that any balance or balances of such funds must be transferred to the city or town general fund and considered prior to any anticipated relief from the control board. (Cities and Towns Bulletins and Uniform Compliance Guidelines, September 2000)

CONDITION OF RECORDS

Financial records presented for audit were incomplete and not reflective of the activity of the utilities' customer accounts receivable. The accounting system was able to generate an accounts receivable balance for all the utilities as a combined total; however, the records presented did not provide a breakdown of accounts receivable by Water and Wastewater Utility. This comment was included in the prior Report B25448.

Not knowing the Accounts Receivable balances of the Water and Wastewater Utilities may have a detrimental effect on management's decisions due to the uncertainty of expected future payments. Also, errors or fraud may not be detected timely.

End of month accounts receivable detailed reports need to be available for audit. Currently, the only detailed reports are after billings, which are around the twenty-first of the month. Numerous days of payments are posted after that date until the end of the month.

An accounts receivable control should be maintained including a breakdown of accounts receivable balances between Water and Wastewater Utilities and the official should have the information available for review.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledgers, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

When utility records are kept on a cash or single-entry basis, a separate control account should be carried on General Ledger Sheet, General Form No. 315, in the front of the Consumer's Ledger. This account will be debited with the total monthly billing to all customers for utility services including penalties and sales tax. This account will be credited with the total accounts receivable collections, penalties and sales tax shown by the Register of Daily Cash Receipts - Consumers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSET RECORDS

The City has capital asset records up to December 31, 2004, but additions and disposals for 2005 were not recorded. The City should determine the 2005 additions and disposals and post these entries on the capital asset records.

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

UTILITY RECEIPTS TAXES

Documentation to support the calculations for quarterly payments made to the Indiana Department of Revenue was not provided for audit. Therefore the reasonableness of the calculations could not be determined.

The annual 2005 Indiana Utility Receipts Tax Return (Form URT-1) was not provided for audit. It was not clear whether the annual return was properly filed with the Indiana Department of Revenue, as required.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES ON LATE PAYMENTS

Instances were noted where penalties on utility late fees were charged more than once. It appears that the computerized Utility Billing System is assessing penalties on penalties. The penalties should only be assessed on the previous month's billing (less taxes and without penalties) that is left unpaid.

This should be discussed with and corrected by the City's software vendor.

It is our audit position that the 10% penalty [on unpaid wastewater bills] specified in Indiana Code 36-9-23-31 should be assessed one time and one time only. Subsequent billings should not include additional assessments on this penalty. Similarly, unless specifically directed by statute, ordinance, or other legal directives, penalties on late fees for municipal utilities organized under IC 8-1.5 should be charged only one time. Future late charges should not include additional charges added to the penalties on late fees. (Cities and Towns Bulletin and Uniform Compliance Guidelines, March 1999)

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

CUSTOMER DEPOSITS

The Water Utility meter deposit fund per the General Ledger (control ledger) did not reconcile to the Guarantee Deposit Register (subsidiary ledger) by \$453.24 at December 31, 2005, due to numerous posting errors. We recommend the City transfer this difference from the Water Operating Fund to the Customer Deposit Fund to correct this situation.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POLICE DEPARTMENT RECEIPTING DEFICIENCIES

The following deficiencies were found regarding receipt procedures for the Police Department:

1. The Police Department is not using prescribed or approved forms.
2. Receipts were not issued for all monies received.
3. Fees were not applied consistently. A few individuals applying for a gun permit were not charged for the City's portion.
4. Receipts for gun permits, accident reports and vehicle inspections were deposited into the General Fund instead of the Law Enforcement Continuing Education Fund (LECE) Fund.
5. Receipts for Woodburn Deferral Fees from the City of New Haven Court should not be put into the LECE Fund.

The following types of revenue shall be deposited into the local LECE Fund established under Indiana Code 5-2-8-2:

1. Law Enforcement Continuing Education fees (IC 33-19-8-4 and IC 33-19-8-6)
2. Inspection of Motor Vehicles fees (IC 9-29-4-2)
3. Vehicle Accident Report fees (IC 9-29-11-1)
4. Handgun Licenses fees (IC 35-47-2-3)
5. Proceeds from the Sale of Confiscated Weapons (IC 35-47-3-2)

(Cities and Towns Bulletins and Uniform Compliance Guidelines, September 2003)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF WOODBURN
AUDIT RESULTS AND COMMENTS
(Continued)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 5)

Handgun Licenses Procedures Indiana Code 35-47 states in part:

"... The law enforcement agency which accepts an application for a handgun license shall collect a ten dollar (\$10) application fee, five dollars (\$5) of which shall be refunded if the license is not issued. The fee shall be deposited into the local law enforcement continuing education fund."

The state board of accounts shall establish rules for the proper accounting and expenditure of funds collected under this subsection. [See IC 35-47-2-3(b)]

(Cities and Towns Bulletins and Uniform Compliance Guidelines, September 2003)

CITY OF WOODBURN
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2006, with Lesa Meadows, Clerk-Treasurer; Richard A. Hoepfner, Mayor; Clarence Reichhart, City Council member; and James W. Norden, City Council member.