

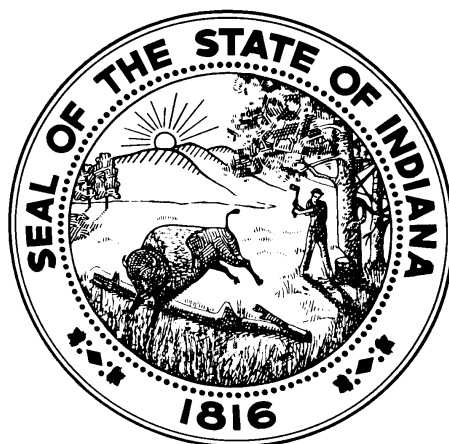
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2006

CITY OF NORTH VERNON

JENNINGS COUNTY, INDIANA



**FILED**  
12/26/2007



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards .....	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis .....	7
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds .....	8
Proprietary Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Funds.....	9
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Funds .....	10
Notes to Financial Statements .....	11-22
Required Supplementary Information:	
Schedules of Funding Progress .....	23
Schedule of Contributions From the Employer and Other Contributing Entities .....	24
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds.....	25-29
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Agency Funds.....	30
Schedule of Capital Assets.....	31
Schedule of Long-Term Debt .....	32
Audit Results and Comments:	
Uncollectible Accounts .....	33-34
Accounts Receivable Policies.....	34
Rotary Fund .....	34
Receipt Issuance .....	34
Public Works Project Not Bid.....	34-35
Supplemental Audit of Federal Awards:	
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.....	38-39
Schedule of Expenditures of Federal Awards .....	40
Note to Schedule of Expenditures of Federal Awards.....	41
Schedule of Findings and Questioned Costs .....	42
Auditee Prepared Schedule:	
Summary Schedule of Prior Audit Findings .....	43
Exit Conference.....	44

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Roger W. Short	01-01-04 to 12-31-07
Mayor	John G. Hall	01-01-04 to 12-31-07
Chairman of the Utility Service Board	Jack Kelley	01-01-06 to 12-31-07
President of the Common Council	David Shaw	01-01-06 to 12-31-07
Superintendent of Water Utility	Dean Jones	01-01-06 to 12-31-07
Superintendent of Wastewater Utility	David McCorvie	01-01-06 to 12-31-07
Utility Office Manager	Deanna Salyers	01-01-06 to 12-31-07



**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 NORTH VERNON, JENNINGS 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 North Vernon (City), as of and for the year ended December 31, 2006, 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, 2006, 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 required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 10, 2007



**STATE OF INDIANA**  
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Vernon (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

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

Compliance and Other Matters

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

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

October 10, 2007

CITY OF NORTH VERNON  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2006

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		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 636,450	\$ 34,752	\$ 790,951	\$ -	\$ 189,253	\$ -	\$ 189,253
Public safety	1,677,835	12,218	68,306	-	(1,597,311)	-	(1,597,311)
Highways and streets	538,752	-	286,665	-	(252,087)	-	(252,087)
Sanitation	212,447	112,408	-	-	(100,039)	-	(100,039)
Economic development	282,638	-	103,494	-	(179,144)	-	(179,144)
Culture and recreation	258,413	87,825	31,226	-	(139,362)	-	(139,362)
Urban redevelopment	522,287	-	-	462,010	(60,277)	-	(60,277)
Aviation	316,922	253,170	-	91,611	27,859	-	27,859
Debt service	731,169	-	-	-	(731,169)	-	(731,169)
Capital outlay	2,907,968	-	-	847,886	(2,060,082)	-	(2,060,082)
Total governmental activities	8,084,881	500,373	1,280,642	1,401,507	(4,902,359)	-	(4,902,359)
Business-type activities:							
Water	1,904,532	1,787,508	-	-	-	(117,024)	(117,024)
Wastewater	2,050,618	1,500,086	-	-	-	(550,532)	(550,532)
Total business-type activities	3,955,150	3,287,594	-	-	-	(667,556)	(667,556)
Total primary government	\$ 12,040,031	\$ 3,787,967	\$ 1,280,642	\$ 1,401,507	(4,902,359)	(667,556)	(5,569,915)
General receipts:							
Property taxes					3,515,264	-	3,515,264
Unrestricted intergovernmental receipts					168,508	-	168,508
Gaming taxes					40,997	-	40,997
Bond proceeds					2,000,000	879,356	2,879,356
Other operating receipts					166,339	-	166,339
Unrestricted investment earnings					245,604	199,219	444,823
Net customer deposit					-	(1,104)	(1,104)
Transfers					(179,092)	179,092	-
Total general receipts and transfers					5,957,620	1,256,563	7,214,183
Change in net assets					1,055,261	589,007	1,644,268
Net assets - beginning					6,495,521	5,107,169	11,602,690
Net assets - ending					\$ 7,550,782	\$ 5,696,176	\$ 13,246,958
<b>Assets</b>							
Cash and investments					\$ 869,972	\$ 1,152,302	\$ 2,022,274
Cash with fiscal agent					2,365,978	-	2,365,978
Restricted assets:							
Cash and investments					4,314,832	4,543,874	8,858,706
Total assets					\$ 7,550,782	\$ 5,696,176	\$ 13,246,958
<b>Net Assets</b>							
Restricted for:							
General government					\$ 35,076	\$ -	\$ 35,076
Public safety					94,015	-	94,015
Highways and streets					643,836	-	643,836
Sanitation					56,558	-	56,558
Culture and recreation					85,950	-	85,950
Urban redevelopment					23,000	-	23,000
Economic development					407,494	-	407,494
Aviation					84,178	-	84,178
Debt service					110,043	1,575,139	1,685,182
Capital outlay					5,140,660	2,911,479	8,052,139
Customer deposit					-	57,256	57,256
Unrestricted					869,972	1,152,302	2,022,274
Total net assets					\$ 7,550,782	\$ 5,696,176	\$ 13,246,958

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

CITY OF NORTH VERNON  
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, 2006

	General	Redevelopment Commission Number 1	Redevelopment Commission Number 2	Other Governmental Funds	Totals
<b>Receipts:</b>					
Taxes	\$ 1,491,896	\$ 1,385,925	\$ -	\$ 637,443	\$ 3,515,264
Intergovernmental	950,312	824,611	-	1,114,676	2,889,599
Charges for services	36,663	-	-	463,710	500,373
Other	88,911	126,887	117,183	81,017	413,998
<b>Total receipts</b>	<b>2,567,782</b>	<b>2,337,423</b>	<b>117,183</b>	<b>2,296,846</b>	<b>7,319,234</b>
<b>Disbursements:</b>					
General government	588,310	-	-	48,140	636,450
Public safety	1,599,300	-	-	78,535	1,677,835
Highways and streets	86,397	-	-	452,355	538,752
Sanitation	135,463	-	-	76,984	212,447
Culture and recreation	66,089	-	-	192,324	258,413
Urban redevelopment	-	-	-	522,287	522,287
Economic development	-	76,682	106,127	99,829	282,638
Aviation	-	-	-	316,922	316,922
Debt service:					
Principal	-	-	75,000	323,277	398,277
Interest	-	-	241,519	44,200	285,719
Bond issuance costs	-	-	47,173	-	47,173
Capital outlay	-	857,779	1,987,148	63,041	2,907,968
<b>Total disbursements</b>	<b>2,475,559</b>	<b>934,461</b>	<b>2,456,967</b>	<b>2,217,894</b>	<b>8,084,881</b>
Excess (deficiency) of receipts over disbursements	92,223	1,402,962	(2,339,784)	78,952	(765,647)
<b>Other financing sources (uses):</b>					
Bond proceeds	-	-	2,000,000	-	2,000,000
Interfund loans	-	-	143,552	(143,552)	-
Transfers in	31,671	730,110	641,970	443,672	1,847,423
Transfers out	(148,800)	(642,070)	(909,202)	(326,443)	(2,026,515)
<b>Total other financing sources (uses)</b>	<b>(117,129)</b>	<b>88,040</b>	<b>1,876,320</b>	<b>(26,323)</b>	<b>1,820,908</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(24,906)	1,491,002	(463,464)	52,629	1,055,261
Cash and investment fund balance - beginning	790,927	1,135,466	2,829,442	1,739,686	6,495,521
Cash and investment fund balance - ending	\$ 766,021	\$ 2,626,468	\$ 2,365,978	\$ 1,792,315	\$ 7,550,782
<b>Cash and Investment Assets - December 31</b>					
Cash and investments	\$ 766,021	\$ -	\$ -	\$ 103,951	\$ 869,972
Cash with fiscal agent	-	-	2,365,978	-	2,365,978
Restricted assets:					
Cash and investments	-	2,626,468	-	1,688,364	4,314,832
<b>Total cash and investment assets - December 31</b>	<b>\$ 766,021</b>	<b>\$ 2,626,468</b>	<b>\$ 2,365,978</b>	<b>\$ 1,792,315</b>	<b>\$ 7,550,782</b>
<b>Cash and Investment Fund Balance - December 31</b>					
<b>Restricted for:</b>					
General government	\$ -	\$ -	\$ -	\$ 35,076	\$ 35,076
Public safety	-	-	-	94,015	94,015
Highways and streets	-	-	-	643,836	643,836
Sanitation	-	-	-	56,558	56,558
Culture and recreation	-	-	-	85,950	85,950
Urban redevelopment	-	-	-	23,000	23,000
Economic development	-	-	-	407,494	407,494
Aviation	-	-	-	84,178	84,178
Debt service	-	-	-	110,043	110,043
Capital outlay	-	2,626,468	2,365,978	148,214	5,140,660
Unrestricted	766,021	-	-	103,951	869,972
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 766,021</b>	<b>\$ 2,626,468</b>	<b>\$ 2,365,978</b>	<b>\$ 1,792,315</b>	<b>\$ 7,550,782</b>

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

CITY OF NORTH VERNON  
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, 2006

	Water Utility	Wastewater Utility	Totals
Operating receipts:			
Metered water receipts	\$ 1,307,616	\$ -	\$ 1,307,616
Fire protection receipts	321,296	-	321,296
Penalties	28,171	-	28,171
Other water receipts	93,805	-	93,805
Measured revenue	-	1,327,597	1,327,597
Storm water receipts	-	93,885	93,885
Other	-	78,604	78,604
	<u>1,750,888</u>	<u>1,500,086</u>	<u>3,250,974</u>
Total operating receipts			
Operating disbursements:			
Equipment and capital improvements	309,767	35,555	345,322
Water treatment disbursements - operations and maintenance	352,066	-	352,066
Transmission and distribution	325,299	-	325,299
Collection system - operations and maintenance	-	474,734	474,734
Treatment and disposal disbursements - operations and maintenance	-	659,209	659,209
Customer accounts	14,679	9,119	23,798
Administration and general	250,512	203,561	454,073
Insurance claims and premiums	28,498	-	28,498
Other	68,391	-	68,391
	<u>1,349,212</u>	<u>1,382,178</u>	<u>2,731,390</u>
Total operating disbursements			
Excess of operating receipts over operating disbursements	<u>401,676</u>	<u>117,908</u>	<u>519,584</u>
Nonoperating receipts (disbursements):			
Bond proceeds	-	879,356	879,356
Interest and investment receipts	88,463	110,756	199,219
Debt service of principal	(275,000)	(350,000)	(625,000)
Interest on debt	(243,700)	(217,017)	(460,717)
Bond issue costs	-	(101,423)	(101,423)
Net customer deposits	(1,104)	-	(1,104)
	<u>(431,341)</u>	<u>321,672</u>	<u>(109,669)</u>
Total nonoperating receipts (disbursements)			
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(29,665)	439,580	409,915
Transfers in	-	179,092	179,092
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(29,665)	618,672	589,007
Cash and investment fund balance - beginning	<u>2,309,334</u>	<u>2,797,835</u>	<u>5,107,169</u>
Cash and investment fund balance - ending	<u>\$ 2,279,669</u>	<u>\$ 3,416,507</u>	<u>\$ 5,696,176</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 594,974	\$ 557,328	\$ 1,152,302
Restricted assets:			
Cash and investments	<u>1,684,695</u>	<u>2,859,179</u>	<u>4,543,874</u>
Total cash and investment assets - December 31	<u>\$ 2,279,669</u>	<u>\$ 3,416,507</u>	<u>\$ 5,696,176</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 730,805	\$ 844,334	\$ 1,575,139
Capital outlay	896,634	2,014,845	2,911,479
Customer deposits	57,256	-	57,256
Unrestricted	<u>594,974</u>	<u>557,328</u>	<u>1,152,302</u>
Total cash and investment fund balance - December 31	<u>\$ 2,279,669</u>	<u>\$ 3,416,507</u>	<u>\$ 5,696,176</u>

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

CITY OF NORTH VERNON  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For The Year Ended December 31, 2006

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
Additions:		
Contributions:		
Employer	\$ 40,297	\$ -
State	<u>49,821</u>	<u>-</u>
Total contributions	<u>90,118</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>2,437,940</u>
Total additions	<u>90,118</u>	<u>2,437,940</u>
Deductions:		
Benefits	90,295	-
Administrative and general	75	-
Agency fund deductions	<u>-</u>	<u>2,393,773</u>
Total deductions	<u>90,370</u>	<u>2,393,773</u>
Excess (deficiency) of total additions over total deductions	(252)	44,167
Cash and investment fund balance - beginning	<u>80,453</u>	<u>3,275</u>
Cash and investment fund balance - ending	<u>\$ 80,201</u>	<u>\$ 47,442</u>

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

CITY OF NORTH VERNON  
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, culture and recreation, sanitation, municipal airport, public improvements, planning and zoning, general administrative services, water, wastewater, urban redevelopment and economic development.

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

The redevelopment commission number 1 fund accounts for taxes received from a tax increment financing (TIF) district used for the acquisition and redevelopment of property located in the TIF district.

The redevelopment commission number 2 fund is monies held by a trustee to pay indebtedness on revenue bonds benefiting the district and to pay for infrastructure acquisitions within the district. The fund is financed by transfers from the redevelopment commission fund number 1.

CITY OF NORTH VERNON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

Agency funds account for assets held by the City as an agent for employees and for contractors doing business with 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 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 NORTH VERNON  
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, 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.

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 NORTH VERNON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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 and Net Assets – 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.

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

CITY OF NORTH VERNON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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. 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

The City's investments in the reported amount \$2,365,978 are in open end mutual funds. Open end mutual funds are not subject to level of risk categorization. The reported amount is the fair value of the investments.

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 City 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, 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,

CITY OF NORTH VERNON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 City'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, 2006, were as follows:

Transfer From	Transfer To	2006
General Fund	Other governmental	\$ 148,800
Redevelopment Commission Number 1	Redevelopment Commission Number 2	641,970
Redevelopment Commission Number 1	Other governmental	100
Redevelopment Commission Number 2	Redevelopment Commission Number 1	730,110
Redevelopment Commission Number 2	Wastewater Utility	179,092
Other governmental	General Fund	31,671
Other governmental	Other governmental	<u>294,772</u>
Total		<u>\$ 2,026,515</u>

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.

CITY OF NORTH VERNON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 2001, the City joined with other governmental entities to form the Indiana Public Employer's Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of worker compensation claims. The City pays an annual premium to the risk pool for its worker compensation claims. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. City Pledged EDIT Revenues to the County

On October 15, 1996, the Jennings County EDIT Corporation issued \$2,635,000 of Economic Development Income Tax Lease Rental Revenue Bonds of 1996 to provide for constructing road improvements to certain roads located in Jennings County.

The lease agreement is between the Corporation as lessor and Jennings County as lessee, under which the Corporation will lease certain road improvements to the County. The lease payments are payable solely from the County's share of revenues received from Economic Development Income Tax (EDIT) imposed in the County, including a part of the City of North Vernon's and the Town of Vernon's share of EDIT for which the County has been designated as the recipient.

On October 7, 1996, the City Council passed Resolution 487 irrevocably pledging \$125,000 of the City's EDIT revenues to the County for a term beginning with the calendar year 1997 through 2007.

C. Transfer In – Wastewater Utility

The Redevelopment Commission received incremental taxes generated for various City economic development projects that were originally financed by the 1996 Series A and B Tax Increment and Sewage Works Revenue Bonds. If surplus incremental taxes were generated, the surplus was transferred to the Wastewater Utility to assist the Utility on its debt service obligation on Series B Issue (refunded in 2006). In 2006, the Redevelopment Commission Fund transferred \$179,092 to the Wastewater Utility.

On April 17, 2006, the Redevelopment Commission approved Resolution 2006-002 irrevocably pledging the "Pledged Tax Increment" to the City for payment of principal and interest on the 2006 Tax Increment and Sewage Works Refunding Revenue Bonds and the 2006 Tax Increment and Sewage Works Revenue Bonds. The "Pledged Tax Increment" is the amount of tax increment remaining after payment of the 2003 Tax Increment Revenue Bonds and any other additional bonds issued on a parity therewith. In 2006, the Redevelopment Commission Fund was to transfer \$232,000 to the Wastewater Utility; however, this transaction was not done until 2007.

CITY OF NORTH VERNON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Forgivable Loan

In 2002, the City agreed to be a recipient for a Community Development Block Grant through the Indiana Housing Finance Authority for North Vernon Senior Housing, Inc., (Senior Housing) for the rehabilitation of 68 rental units. The form of assistance was a forgivable loan. On April 1, 2004, the Senior Housing entered into a loan promising to repay the City the amount of assistance which is \$448,280 and payable at the rate of \$89,656 per year for 5 years. The first payment was due April 1, 2005. As long as the Senior Housing Facility remains a low-income facility, the payments will be forgivable.

E. Subsequent Events

On April 16, 2007, the Redevelopment Commission bought 32 acres for industrial use from the City that was originally purchased for park purposes in the amount \$288,270.

On July 30, 2007, Bradshaw Building Specialties was awarded the construction contract to build the wet labs at the North Vernon Education Training Center in the amount of \$299,900.

On August 27, 2007, the Common Council approved Ordinance 871 establishing an Ordinance Violations Bureau.

F. Postemployment Benefits

In addition to the pension benefits described below, the City provides postemployment health, life, dental and vision insurance benefits, as authorized by Indiana Code 5-10-8, to public safety employees who retire from the City on or after attaining age 55 with at least 20 years of service. Currently, 2 retirees meet these eligibility requirements. The City and retirees provide 75% and 25%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, disbursements of \$29,196 were recognized for postemployment benefits.

G. Rate Structure – Enterprise Funds

Water Utility

On March 3, 1997, the City Council adopted Ordinance 763 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on April 25, 2005.

Wastewater Utility

The current rate structure was approved by the City Council on December 11, 2000.

CITY OF NORTH VERNON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

H. 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 NORTH VERNON  
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.

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

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>
Annual required contribution	\$ 101,163	\$ 100,300
Interest on net pension obligation	(1,504)	43,500
Adjustment to annual required contribution	<u>1,714</u>	<u>(47,400)</u>
Annual pension cost	101,373	96,400
Contributions made	<u>91,778</u>	<u>95,221</u>
Increase in net pension obligation	9,595	1,179
Net pension obligation, beginning of year	<u>(20,741)</u>	<u>644,241</u>
Net pension obligation, end of year	<u>\$ (11,146)</u>	<u>\$ 645,420</u>

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>
Contribution rates:		
City	6.25%	N/A
Plan members	3%	6%
Actuarial valuation date	07-01-06	01-01-06
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	30 years
Amortization period (from date)	07-01-97	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital

N/A = Not available

CITY OF NORTH VERNON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Actuarial Assumptions</u>	<u>PERF</u>	<u>1925 Police Officers' Pension</u>
Investment rate of return	7.25%	6%
Projected future salary increases:		
Total	5%	4%
Attributed to inflation	4%	4%
Attributed to merit/seniority	1%	0%
Cost-of-living adjustments	2%	2.75/4%*

\*2.75% converted members; 4% nonconverted members

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-04	\$ 80,057	96%	\$ (22,955)
	06-30-05	87,488	97%	(20,741)
	06-30-06	101,373	105%	(11,146)
1925 Police Officers' Pension Plan	12-31-03	171,400	50%	588,917
	12-31-04	140,000	60%	644,241
	12-31-05	96,400	99%	645,420

Membership in the 1925 Police Officers' Pension Plan at January 1, 2006, was comprised of the following:

Retirees and beneficiaries currently receiving benefits	5
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2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

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

CITY OF NORTH VERNON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$163,774, \$165,051, and \$166,449, respectively, equal to the required contributions for each year.

CITY OF NORTH VERNON  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 881,149	\$ 1,131,528	\$ (250,379)	78%	\$ 1,341,049	(19%)
07-01-05	948,861	1,277,710	(328,849)	74%	1,393,128	(24%)
07-01-06	932,813	1,440,414	(507,601)	65%	1,361,189	(37%)

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)
01-01-01	\$ 44,363	\$ 1,760,000	\$ (1,715,637)	3%	*	*
01-01-02	94,669	1,489,400	(1,394,731)	6%	*	*
01-01-03	94,946	1,779,900	(1,684,954)	5%	*	*
01-01-04	86,603	1,484,900	(1,398,297)	6%	*	*
01-01-05	74,773	1,429,300	(1,354,527)	5%	*	*
01-01-06	80,453	1,402,800	(1,322,347)	6%	*	*

\* No covered payroll

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

1925 Police Officers' Pension Plan				
	Year Ending		Annual Required Contribution (ARC)	Percentage of ARC Contributed *
1925 Police Officers' Pension Plan	12-31-00	\$	173,400	77%
	12-31-01		177,400	78%
	12-31-02		155,900	59%
	12-31-03		194,100	44%
	12-31-04		169,600	50%
	12-31-05		100,300	95%

\* Information to provide percentage by contributing entity is not available.

CITY OF NORTH VERNON  
 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, 2006

	Motor Vehicle Highway	Local Road and Street	Economic Development Income Tax	Park and Recreation	Cemetery	Aviation	Riverboat
<b>Receipts:</b>							
Taxes	\$ 202,693	\$ -	\$ -	\$ 112,881	\$ 31,508	\$ -	\$ -
Intergovernmental	258,560	28,105	103,494	10,988	936	-	40,997
Charges for services	-	-	-	1,985	3,906	102,354	-
Other	-	3,000	-	17	367	2,818	-
<b>Total receipts</b>	<b>461,253</b>	<b>31,105</b>	<b>103,494</b>	<b>125,871</b>	<b>36,717</b>	<b>105,172</b>	<b>40,997</b>
<b>Disbursements:</b>							
General government	-	-	-	-	34,393	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	401,834	50,521	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	126,264	-	-	3,750
Urban redevelopment	-	-	-	-	-	-	-
Economic development	-	-	80,000	-	-	-	-
Aviation	-	-	-	-	-	82,126	-
Debt service:							
Principal	-	-	-	-	-	18,277	-
Interest	-	-	-	-	-	5,782	-
Capital outlay	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>401,834</b>	<b>50,521</b>	<b>80,000</b>	<b>126,264</b>	<b>34,393</b>	<b>106,185</b>	<b>3,750</b>
Excess (deficiency) of receipts over disbursements	59,419	(19,416)	23,494	(393)	2,324	(1,013)	37,247
<b>Other financing sources (uses):</b>							
Interfund loans	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	59,419	(19,416)	23,494	(393)	2,324	(1,013)	37,247
Cash and investment fund balance - beginning	150,104	97,709	129,144	74,648	16,593	63,650	37,834
Cash and investment fund balance - ending	\$ 209,523	\$ 78,293	\$ 152,638	\$ 74,255	\$ 18,917	\$ 62,637	\$ 75,081
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,081
Restricted assets:							
Cash and investments	209,523	78,293	152,638	74,255	18,917	62,637	-
<b>Total cash and investment assets - December 31</b>	<b>\$ 209,523</b>	<b>\$ 78,293</b>	<b>\$ 152,638</b>	<b>\$ 74,255</b>	<b>\$ 18,917</b>	<b>\$ 62,637</b>	<b>\$ 75,081</b>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ 18,917	\$ -	\$ -
Public safety	-	-	-	-	-	-	-
Highways and streets	209,523	78,293	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	74,255	-	-	-
Urban redevelopment	-	-	-	-	-	-	-
Economic development	-	-	152,638	-	-	-	-
Aviation	-	-	-	-	-	62,637	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	75,081
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 209,523</b>	<b>\$ 78,293</b>	<b>\$ 152,638</b>	<b>\$ 74,255</b>	<b>\$ 18,917</b>	<b>\$ 62,637</b>	<b>\$ 75,081</b>

CITY OF NORTH VERNON  
 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, 2006  
 (Continued)

	Park Land Purchase	Aviation Grant	Fire Dept. Nonreverting	Cumulative Capital Development	Park Bond Debt Service	Park Nonreverting Operating	Aviation Rotary
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ 84,314	\$ 206,047	\$ -	\$ -
Intergovernmental	-	-	-	8,211	20,238	-	-
Charges for services	-	-	-	-	-	59,606	150,816
Other	716	-	2,152	-	-	2,503	-
<b>Total receipts</b>	<b>716</b>	<b>-</b>	<b>2,152</b>	<b>92,525</b>	<b>226,285</b>	<b>62,109</b>	<b>150,816</b>
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	-	-	2,038	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	62,310	-
Urban redevelopment	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Aviation	-	58	-	-	-	-	151,239
Debt service:							
Principal	-	-	-	-	305,000	-	-
Interest	-	-	-	-	38,418	-	-
Capital outlay	-	-	-	63,041	-	-	-
<b>Total disbursements</b>	<b>-</b>	<b>58</b>	<b>2,038</b>	<b>63,041</b>	<b>343,418</b>	<b>62,310</b>	<b>151,239</b>
Excess (deficiency) of receipts over disbursements	716	(58)	114	29,484	(117,133)	(201)	(423)
Other financing sources (uses):							
Interfund loans	-	(3)	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	(57,047)	-	-	(222,220)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(57,047)</b>	<b>(3)</b>	<b>-</b>	<b>(222,220)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(56,331)	(61)	114	(192,736)	(117,133)	(201)	(423)
Cash and investment fund balance - beginning	56,331	61	1,279	279,533	227,176	11,896	21,964
Cash and investment fund balance - ending	\$ -	\$ -	\$ 1,393	\$ 86,797	\$ 110,043	\$ 11,695	\$ 21,541
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	-	-	1,393	86,797	110,043	11,695	21,541
<b>Total cash and investment assets - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,393</b>	<b>\$ 86,797</b>	<b>\$ 110,043</b>	<b>\$ 11,695</b>	<b>\$ 21,541</b>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	1,393	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	11,695	-
Urban redevelopment	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Aviation	-	-	-	-	-	-	21,541
Debt service	-	-	-	-	110,043	-	-
Capital outlay	-	-	-	86,797	-	-	-
Unrestricted	-	-	-	-	-	-	-
<b>Total cash and investment fund balance - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,393</b>	<b>\$ 86,797</b>	<b>\$ 110,043</b>	<b>\$ 11,695</b>	<b>\$ 21,541</b>

CITY OF NORTH VERNON  
 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, 2006  
 (Continued)

	Aviation Grant No. 3-18-0063-05	Aviation A.W.O.S.	North Vernon Education and Training Center	Rainy Day Fund	Greensburg Street Phase I and II	Hayden Pike
<b>Receipts:</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	85,101	6,510	-	-	-	-
Charges for services	-	-	22,530	-	-	-
Other	-	-	276	-	-	-
<b>Total receipts</b>	<b>85,101</b>	<b>6,510</b>	<b>22,806</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Disbursements:</b>						
General government	-	-	13,747	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Aviation	79,629	3,870	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
<b>Total disbursements</b>	<b>79,629</b>	<b>3,870</b>	<b>13,747</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts over disbursements	5,472	2,640	9,059	-	-	-
<b>Other financing sources (uses):</b>						
Interfund loans	(84,365)	(59,184)	-	-	-	-
Transfers in	-	-	100	-	187,220	168,800
Transfers out	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(84,365)</b>	<b>(59,184)</b>	<b>100</b>	<b>-</b>	<b>187,220</b>	<b>168,800</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(78,893)	(56,544)	9,159	-	187,220	168,800
Cash and investment fund balance - beginning	78,893	56,544	-	28,870	-	-
Cash and investment fund balance - ending	\$ -	\$ -	\$ 9,159	\$ 28,870	\$ 187,220	\$ 168,800
<b><u>Cash and Investment Assets - December 31</u></b>						
Cash and investments	\$ -	\$ -	\$ -	\$ 28,870	\$ -	\$ -
Restricted assets:						
Cash and investments	-	-	9,159	-	187,220	168,800
<b>Total cash and investment assets - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,159</b>	<b>\$ 28,870</b>	<b>\$ 187,220</b>	<b>\$ 168,800</b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>						
<b>Restricted for:</b>						
General government	\$ -	\$ -	\$ 9,159	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	187,220	168,800
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Aviation	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	-	-	-	28,870	-	-
<b>Total cash and investment fund balance - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,159</b>	<b>\$ 28,870</b>	<b>\$ 187,220</b>	<b>\$ 168,800</b>

CITY OF NORTH VERNON  
 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, 2006  
 (Continued)

	Waste Disposal and Recycling Fee	North Vernon Community Development	Cumulative Capital Improvement	North Vernon Grant Fund	Police Donation	Hillcrest Cemetery
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	23,275	-	-	-
Charges for services	112,408	-	-	-	-	-
Other	-	25,000	-	-	1,000	-
<b>Total receipts</b>	<b>112,408</b>	<b>25,000</b>	<b>23,275</b>	<b>-</b>	<b>1,000</b>	<b>-</b>
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	94	-
Highways and streets	-	-	-	-	-	-
Sanitation	76,984	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment	-	-	-	-	-	-
Economic development	-	19,829	-	-	-	-
Aviation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
<b>Total disbursements</b>	<b>76,984</b>	<b>19,829</b>	<b>-</b>	<b>-</b>	<b>94</b>	<b>-</b>
Excess (deficiency) of receipts over disbursements	<b>35,424</b>	<b>5,171</b>	<b>23,275</b>	<b>-</b>	<b>906</b>	<b>-</b>
Other financing sources (uses):						
Interfund loans	-	-	-	-	-	-
Transfers in	-	57,552	-	-	-	-
Transfers out	-	(15,000)	(15,000)	(505)	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>42,552</b>	<b>(15,000)</b>	<b>(505)</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<b>35,424</b>	<b>47,723</b>	<b>8,275</b>	<b>(505)</b>	<b>906</b>	<b>-</b>
Cash and investment fund balance - beginning	<b>21,134</b>	<b>207,133</b>	<b>53,142</b>	<b>505</b>	<b>2,760</b>	<b>7,000</b>
Cash and investment fund balance - ending	<b>\$ 56,558</b>	<b>\$ 254,856</b>	<b>\$ 61,417</b>	<b>\$ -</b>	<b>\$ 3,666</b>	<b>\$ 7,000</b>
<b><u>Cash and Investment Assets - December 31</u></b>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	56,558	254,856	61,417	-	3,666	7,000
<b>Total cash and investment assets - December 31</b>	<b>\$ 56,558</b>	<b>\$ 254,856</b>	<b>\$ 61,417</b>	<b>\$ -</b>	<b>\$ 3,666</b>	<b>\$ 7,000</b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,000
Public safety	-	-	-	-	3,666	-
Highways and streets	-	-	-	-	-	-
Sanitation	56,558	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment	-	-	-	-	-	-
Economic development	-	254,856	-	-	-	-
Aviation	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	61,417	-	-	-
Unrestricted	-	-	-	-	-	-
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 56,558</b>	<b>\$ 254,856</b>	<b>\$ 61,417</b>	<b>\$ -</b>	<b>\$ 3,666</b>	<b>\$ 7,000</b>

CITY OF NORTH VERNON  
 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, 2006  
 (Continued)

	Downtown Revitalization Project	Law Enforcement Continuing Education	Police Drug Task Force	Police Grant Fund	Levy Excess	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 637,443
Intergovernmental	462,010	3,080	16,536	46,635	-	1,114,676
Charges for services	-	10,105	-	-	-	463,710
Other	14,207	-	28,961	-	-	81,017
<b>Total receipts</b>	<b>476,217</b>	<b>13,185</b>	<b>45,497</b>	<b>46,635</b>	<b>-</b>	<b>2,296,846</b>
Disbursements:						
General government	-	-	-	-	-	48,140
Public safety	-	20,127	27,084	29,192	-	78,535
Highways and streets	-	-	-	-	-	452,355
Sanitation	-	-	-	-	-	76,984
Culture and recreation	-	-	-	-	-	192,324
Urban redevelopment	522,287	-	-	-	-	522,287
Economic development	-	-	-	-	-	99,829
Aviation	-	-	-	-	-	316,922
Debt service:						
Principal	-	-	-	-	-	323,277
Interest	-	-	-	-	-	44,200
Capital outlay	-	-	-	-	-	63,041
<b>Total disbursements</b>	<b>522,287</b>	<b>20,127</b>	<b>27,084</b>	<b>29,192</b>	<b>-</b>	<b>2,217,894</b>
Excess (deficiency) of receipts over disbursements	(46,070)	(6,942)	18,413	17,443	-	78,952
Other financing sources (uses):						
Interfund loans	-	-	-	-	-	(143,552)
Transfers in	30,000	-	-	-	-	443,672
Transfers out	-	-	-	-	(16,671)	(326,443)
<b>Total other financing sources (uses)</b>	<b>30,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16,671)</b>	<b>(26,323)</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(16,070)	(6,942)	18,413	17,443	(16,671)	52,629
Cash and investment fund balance - beginning	39,070	18,468	4,784	36,790	16,671	1,739,686
Cash and investment fund balance - ending	\$ 23,000	\$ 11,526	\$ 23,197	\$ 54,233	\$ -	\$ 1,792,315
<b>Cash and Investment Assets - December 31</b>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,951
Restricted assets:						
Cash and investments	23,000	11,526	23,197	54,233	-	1,688,364
<b>Total cash and investment assets - December 31</b>	<b>\$ 23,000</b>	<b>\$ 11,526</b>	<b>\$ 23,197</b>	<b>\$ 54,233</b>	<b>\$ -</b>	<b>\$ 1,792,315</b>
<b>Cash and Investment Fund Balance - December 31</b>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,076
Public safety	-	11,526	23,197	54,233	-	94,015
Highways and streets	-	-	-	-	-	643,836
Sanitation	-	-	-	-	-	56,558
Culture and recreation	-	-	-	-	-	85,950
Urban redevelopment	23,000	-	-	-	-	23,000
Economic development	-	-	-	-	-	407,494
Aviation	-	-	-	-	-	84,178
Debt service	-	-	-	-	-	110,043
Capital outlay	-	-	-	-	-	148,214
Unrestricted	-	-	-	-	-	103,951
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 23,000</b>	<b>\$ 11,526</b>	<b>\$ 23,197</b>	<b>\$ 54,233</b>	<b>\$ -</b>	<b>\$ 1,792,315</b>

CITY OF NORTH VERNON  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For The Year Ended December 31, 2006

	<u>Payroll</u>	<u>Street Cuts</u>	<u>North Vernon/ Harmon Retainage</u>	<u>Totals</u>
Additions:				
Agency fund additions	\$ 2,389,773	\$ 5,500	\$ 42,667	\$ 2,437,940
Deductions:				
Agency fund deductions	<u>2,389,773</u>	<u>4,000</u>	<u>-</u>	<u>2,393,773</u>
Excess of total additions over total deductions	-	1,500	42,667	44,167
Cash and investment fund balance - beginning	<u>-</u>	<u>3,275</u>	<u>-</u>	<u>3,275</u>
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ 4,775</u>	<u>\$ 42,667</u>	<u>\$ 47,442</u>

CITY OF NORTH VERNON  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS

December 31, 2006

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 (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 2,994,384
Infrastructure	7,592,691
Buildings	4,696,500
Improvements other than buildings	7,894,344
Machinery and equipment	<u>5,258,730</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 28,436,649</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 14,300
Buildings	245,000
Improvements other than buildings	8,771,934
Machinery and equipment	<u>185,050</u>
 Total Water Utility capital assets	 <u>9,216,284</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	91,962
Buildings	325,000
Improvements other than buildings	19,962,142
Machinery and equipment	<u>601,215</u>
 Total Wastewater Utility capital assets	 <u>20,980,319</u>
 Total business-type activities capital assets	 <u>\$ 30,196,603</u>

CITY OF NORTH VERNON  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT

December 31, 2006

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Garbage packer	\$ 58,601	\$ 30,758
Fire rescue truck	31,039	9,883
Notes and loans payable		
Airport terminal structure	126,088	24,059
Police computer equipment	7,192	5,807
Bonds payable:		
General obligation bonds:		
1996 Swimming pool	55,000	56,238
1999 Park	45,000	46,102
2004 Fire truck	330,000	92,245
Revenue bonds:		
2003 Redevelopment district tax increment	4,825,000	353,856
2006 Redevelopment district tax increment	<u>2,000,000</u>	<u>250,548</u>
Total governmental activities long-term debt	<u>\$ 7,477,920</u>	<u>\$ 869,496</u>
Business-type Activities:		
Water Utility		
Revenue bonds:		
1998 Waterworks	\$ 2,680,000	\$ 321,740
2005 Waterworks	<u>2,360,000</u>	<u>199,993</u>
Total Water Utility	<u>5,040,000</u>	<u>521,733</u>
Wastewater Utility		
Revenue bonds:		
2006 Tax increment and sewage works revenue	780,000	74,995
2006 Tax increment and sewage works refunding	<u>6,195,000</u>	<u>493,121</u>
Total Wastewater Utility	<u>6,975,000</u>	<u>568,116</u>
Total business-type activities long-term debt:	<u>\$ 12,015,000</u>	<u>\$ 1,089,849</u>

CITY OF NORTH VERNON  
AUDIT RESULTS AND COMMENTS

UNCOLLECTIBLE ACCOUNTS (Applies to Water and Wastewater Utilities)

The Utility Office Manager reclassified accounts that had become delinquent between the years 1980 and the end of the year 2005 as uncollectible. The reclassification was done prior to receiving approval by the Utility Service Board. The Utility Officer, subsequently, presented the list of delinquent accounts to Utility Service Board at our request. The following is a summary of accounts that had been reclassified as uncollectible:

<u>Type of Account</u>	<u>Amount</u>
Water	\$ 56,546
Water – Hydrant Rental	19,009
Wastewater	158,418
Storm Water	682
Trash Pick Up	<u>1,566</u>
Total	<u>\$ 236,221</u>

Water, Hydrant Rental, Trash Pick Up Accounts

After all efforts have been exhausted to effect collection of delinquent accounts, and after service has been discontinued and meter deposits applied, a list of uncollectible accounts should be submitted to the board for approval before being written off and transferred to an uncollectible accounts file. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

Wastewater and Storm Water Accounts

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
  - (B) a description of the premises, as shown by the records of the county auditor; and
  - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent."

CITY OF NORTH VERNON  
AUDIT RESULTS AND COMMENTS  
(Continued)

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

A similar comment was reported in the prior Report B29488.

ACCOUNTS RECEIVABLE POLICIES (Applies to Water and Wastewater Utilities)

The Utilities do not have a written policy for writing off bad debts, uncollectible accounts receivable or for making adjustments to accounts receivable.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs. Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ROTARY FUND (Applies to Aviation Department)

The Rotary Fund had disbursements totaling \$13,607 for items other than fuel and lubricants.

Indiana Code 8-22-2-7(c) states in part: ". . . rotary fund to be used . . . for the sole purpose of purchasing fuels and lubricants for sale to the public in the operation of the airport. . . ."

RECEIPT ISSUANCE (Applies to Aviation Department)

We conducted a cash count on July 31, 2007. There was \$3,400.43 of collections on hand; however, no receipts were written for \$2,103.63 of the collections. The collections for which receipts were written consisted primarily of checks received in the mail. These checks were dated from July 2, 2007 to July 29, 2007.

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 7)

PUBLIC WORKS PROJECT NOT BID (Applies to Aviation Department)

The City's Redevelopment Commission loaned the Aviation Department \$87,000 in 2007 for the construction of a new hangar at the airport. The loan was based on a quote obtained by Bishop Aviation (private company) from a contractor to construct a hanger. Documentation presented for audit indicated the total project cost would be \$87,125. A payment was made to Bishop Aviation on April 24, 2007, in the amount \$61,925.

CITY OF NORTH VERNON  
AUDIT RESULTS AND COMMENTS  
(Continued)

Ryan Curry, Airport Manager, stated the Aviation Department owns the building and that Bishop Aviation is leasing the hanger from the Aviation Department.

Indiana Code 36-1-12-4(b) states in part for public works projects costing in excess of \$50,000:

"The board must comply with the following procedure:

- (1) The board shall prepare general plans and specifications describing the kind of public work required . . .
- (2) The board shall file the plans and specifications in a place reasonably accessible to the public, which shall be specified in the notice required by subdivision (3).
- (3) Upon the filing of the plans and specifications, the board shall publish notice in accordance with IC 5-3-1 calling for sealed proposals for the public work needed. . ."

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

Compliance

We have audited the compliance of the City of North Vernon (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, 2006. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

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

October 10, 2007

CITY OF NORTH VERNON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2006

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 HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Lieutenant Governor Community Development Block Grants/State's Program	14.228	CF-05-117 IDGF-04-657	\$ 462,010 <u>90,000</u>
Total for federal grantor agency			<u>552,010</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct grant Bulletproof Vest Partnership Program	16.607	2003BUBX03019483	2,324
Direct grant Public Safety Partnership and Community Policing Grants COPS In School	16.710	2003-SH-WX-0039	<u>46,836</u>
Total for federal grantor agency			<u>49,160</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster State and Community Highway Safety Operation Pullover	20.600	OP-06-02-03-68	<u>2,400</u>
Direct grant Airport Improvement Program	20.106	AIP 3-18-0063-05 AIP 3-18-0063-06	6,282 <u>232</u>
Total for program			<u>6,514</u>
Pass-Through Indiana Criminal Justice Institute Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	J8-2006-04-04-01	<u>1,962</u>
Total for federal grantor agency			<u>10,876</u>
Total federal awards expended			<u>\$ 612,046</u>

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

CITY OF NORTH VERNON  
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 North Vernon (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 NORTH VERNON  
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
14.228	Community Development Block Grants/State's Program

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF NORTH VERNON  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF NORTH VERNON  
EXIT CONFERENCE

The contents of this report were discussed on October 10, 2007, with Roger W. Short, Clerk-Treasurer; Jack Kelley, Chairman of the Utility Service Board; Deanna Salyers, Utility Office Manager; and Rita L. Elmore, Assistant Clerk-Treasurer. The officials concurred with our audit findings.

The contents of this report were also discussed on October 10, 2007, with John G. Hall, Mayor; David Shaw, President of the Common Council; Charles E. Carson, President of the Aviation Board; and Ryan Curry, Airport Director.