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October 17, 2013

Board of Directors
Evansville Local Public Improvement Bond Bank
300 Civic Center Complex
1 NW Martin Luther King
Evansville, IN 47708-1833

We have reviewed the audit report prepared by Harding, Shymanski & Company, P.S.C., Independent Public Accountants, for the period January 1, 2012 to December 31, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Evansville Local Public Improvement Bond Bank, as of December 31, 2012 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

***THE EVANSVILLE LOCAL PUBLIC
IMPROVEMENT BOND BANK***

(A COMPONENT UNIT OF THE CITY OF EVANSVILLE)

Financial Report

December 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT



**HARDING, SHYMANSKI
& COMPANY, P.S.C.**

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and Consultants

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McGladrey Alliance

Board of Directors
The Evansville Local Public Improvement Bond Bank
300 Civic Center Complex
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Evansville, Indiana 47708-1833

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of The Evansville Local Public Improvement Bond Bank, which comprise the statements of net assets – cash basis as of December 31, 2012 and 2011, the related statements of activities – cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of cash receipts and disbursements; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility (Continued)



Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, except as noted in the following paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Evansville Local Public Improvement Bond Bank and the changes in its net assets for the years then ended, on the basis of accounting as described in Note 1.

Management has elected not to include management's discussion and analysis which is supplementary information required by the Governmental Accounting Standards Board. Accordingly, the omission of management's discussion and analysis is a departure from the basis of cash receipts and disbursements.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash receipts and disbursements basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, on our consideration of The Evansville Local Public Improvement Bond Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Evansville Local Public Improvement Bond Bank's internal control over financial reporting and compliance.

Harding, Shymanski & Company, P.S.C.

Evansville, Indiana

September 25, 2013

THE EVANSVILLE LOCAL PUBLIC IMPROVEMENT BOND BANK
(A COMPONENT UNIT OF THE CITY OF EVANSVILLE)

STATEMENTS OF ACTIVITIES – CASH BASIS

Years Ended December 31, 2012 and 2011

	2012	2011
Receipts:		
Repayment of principal from bond anticipation notes	0	1,245,540
Repayment of principal from energy savings performance contracts	101,628	0
Repayment of principal for fire truck lease/purchase agreement	69,516	4,914
Interest income from cash investments	7,658	8,306
Interest income from energy savings performance contracts	20,203	0
Interest income from bond anticipation notes	7,492	9,937
Interest income for fire truck lease/purchase agreement	11,524	35,606
	<u>218,021</u>	<u>1,304,303</u>
Disbursements:		
Professional fees	157,350	166,783
Payments for services from non-profit organizations	325,000	379,000
Investment in certificates of deposit with maturity dates greater than 90 days	2,000,000	0
Investment in lease/purchase agreement for a fire truck with the City of Evansville	0	818,961
Guaranteed Energy Savings Performance Contracts by the City of Evansville	1,794,266	169,291
Purchase of Evansville, Indiana Taxable Bond Anticipation Notes from:		
Evansville Redevelopment Commission - Arts District, Series 2011	0	142,752
Evansville Water and Sewer, Series 2011	2,375,000	100,000
	<u>6,651,616</u>	<u>1,776,787</u>
Total disbursements	6,651,616	1,776,787
Deficiency of receipts over disbursements	(6,433,595)	(472,484)
Net assets at beginning of year	<u>13,400,856</u>	<u>13,873,340</u>
Net assets at end of year	<u><u>6,967,261</u></u>	<u><u>13,400,856</u></u>

See notes to financial statements.

THE EVANSVILLE LOCAL PUBLIC IMPROVEMENT BOND BANK
(A COMPONENT UNIT OF THE CITY OF EVANSVILLE)

STATEMENTS OF NET ASSETS – CASH BASIS

Years Ended December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	<u>6,967,261</u>	<u>13,400,856</u>
NET ASSETS		
Net Assets		
Unrestricted	<u>6,967,261</u>	<u>13,400,856</u>

See notes to financial statements.

THE EVANSVILLE LOCAL PUBLIC IMPROVEMENT BOND BANK
(A COMPONENT UNIT OF THE CITY OF EVANSVILLE)
NOTES TO FINANCIAL STATEMENTS – CASH BASIS
December 31, 2012 and 2011

Note 1 – Nature of Business and Significant Accounting Policies

Nature of Business

The Evansville Local Public Improvement Bond Bank (Bond Bank), a component unit of the City of Evansville (City), was created pursuant to Indiana Code 5-1.4 and Section 3.30.700 of the City codes, as supplemented and amended. The Bond Bank is an instrumentality of the City but is not a City agency and has no taxing power. It has separate corporate and sovereign capacity.

The Bond Bank was funded in 2006 with a \$15,000,000 payment made pursuant to agreements between the City of Evansville and Aztar Indiana Gaming Company L.L.C. The Bond Bank's primary purpose is to purchase securities issued by "qualified entities" under Indiana Code 5-1.4, including the City and the City's Redevelopment District, and to fund capital investments among other things.

Financial Statement Presentation

The Bond Bank's policy is to prepare its financial statements on the cash basis of accounting; consequently, interest income is recognized when received rather than when earned and disbursements are recognized when cash is disbursed rather than when the obligation is incurred. Investments, which do not meet the criteria of a cash equivalent, are recorded as a disbursement in the period expended. Therefore, certain investments, receivables and payables, and accrued income and expenses, which would be recognized under accounting principles generally accepted in the United States of America, and which may be material in amount, are not recognized in the accompanying financial statements.

Federal Income Taxes

The Bond Bank is exempt from federal income taxes under Internal Revenue Code Section 115.

Cash Equivalents

The Bond Bank considers all certificates of deposit with original maturities of three months or less to be cash equivalents.

Subsequent Events

The Bond Bank has evaluated subsequent events through September 25, 2013, the date the financial statements were available to be issued.

Reclassification

Certain items in the December 31, 2011 financial statements have been reclassified to conform to the December 31, 2012 classifications.

THE EVANSVILLE LOCAL PUBLIC IMPROVEMENT BOND BANK
(A COMPONENT UNIT OF THE CITY OF EVANSVILLE)
NOTES TO FINANCIAL STATEMENTS – CASH BASIS
December 31, 2012 and 2011

Note 2 – Cash and Cash Equivalents

Custodial Credit Risk on Deposits

Custodial credit risk is the risk that in the event of bank failure, the Bond Bank's deposits may not be returned to it. The Bond Bank's deposits are insured up to \$250,000 per financial institution by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits in excess of the \$250,000 FDIC limits are insured by the Public Deposit Insurance Fund which is administered by the Indiana Board for Depositories.

Note 3 – Investment in Indiana Taxable Bond Anticipation Notes

As of December 31, 2011, the Bond Bank agreed to purchase a bond anticipation note issued by the City of Evansville, Indiana Waterworks District for an amount not to exceed \$4,000,000 with principal and interest originally due December 1, 2012. At December 31, 2011, \$100,000 had been acquired. During 2012, the Bond Bank acquired an additional \$2,375,000 of bond anticipation notes and extended the maturity of the 2011 note. The anticipation notes provide for interest at 1.5 percent payable upon maturity and are due upon the earlier of the issuer receiving proceeds from a bond sale or November 15, 2013.

As of December 31, 2011, the Bond Bank agreed to purchase a bond anticipation note issued by the City of Evansville Redevelopment District for an amount not to exceed \$1,000,000 with principal and interest due December 1, 2013 with an option to extend the maturity date to December 1, 2016 if approved by a resolution of the Common Council of the City of Evansville. At December 31, 2012 and 2011, \$142,752 had been acquired. Interest will accrue at 1.5 percent annually. Proceeds from this note were used, in part, to pay off the Evansville, Indiana Redevelopment District Taxable Bond Anticipation Note of 2010.

Note 4 – Investment in Installment Payment Contracts

As of December 31, 2011, the Bond Bank agreed to invest in installment payment contracts with various City departments to provide energy efficient capital improvements from a contractor for an amount not to exceed \$1,993,130. At December 31, 2011, \$169,291 had been disbursed. During 2012, an additional \$1,794,266 was disbursed. The installment payment contracts require semi-annual installment payments from various City departments with interest at 1.5 percent maturing various dates through August 2026.

Note 5 – Investment in Equipment for Lease or Installment Sale

As of December 31, 2011, the Bond Bank financed the purchase of a fire truck for the City for \$818,961. Principal and interest payments are due on February 1 and August 1 of each year. The agreement provides for interest at 1.5 percent and is due February 1, 2022.

THE EVANSVILLE LOCAL PUBLIC IMPROVEMENT BOND BANK
(A COMPONENT UNIT OF THE CITY OF EVANSVILLE)
NOTES TO FINANCIAL STATEMENTS – CASH BASIS
December 31, 2012 and 2011

Note 6 – Related Party Transactions

Administrative expenses related to the Bond Bank were primarily paid by the City.

Related party transactions are included on the statements of activities – cash basis and include all receipts other than interest income from cash investments and all disbursements other than professional fees.

Note 7 – Subsequent Events

During 2012, the City received \$499,148 of grant money that was to be used to fund a portion of the Guaranteed Energy Savings Performance Contracts entered into by the Bond Bank. The Bond Bank had funded this amount in 2012 and then was reimbursed by the City in August 2013.

**INDEPENDENT AUDITOR'S 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**



**HARDING, SHYMANSKI
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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Evansville Local Public Improvement Bond Bank, which comprise the statement of net assets – cash basis as of December 31, 2012 and 2011, and the related statements of activities – cash basis for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S 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)**



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a significant deficiency as discussed in Note 7 of the financial statements.

In August 2013, it was determined that the City had received \$499,148 of grant money that should have been used to fund a portion of the Guaranteed Energy Savings Performance Contracts but instead was funded by the Bond Bank. The City received these funds in 2012 and reimbursed the Bond Bank for these funds in August 2013. This was discovered as a result of our audit procedures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Evansville Local Public Improvement Bond Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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. Other than the significant deficiency in internal control described above, the results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

The Evansville Local Public Improvement Bond Bank response to the findings includes reconciling any outstanding contracts and bond anticipation notes on a quarterly basis beginning in 2013. In addition, management is initiating some policy changes effective in January 2014. A new grants manager position will be created by transferring an experienced manager to the Controller's office. This manager will take supervisory and regulatory responsibility for all City wide grants: documentation, grant provision adherence, accounting and agency reporting. Individual department bookkeepers are still responsible for daily transactions and operations of each grant, while the grants manager is responsible for overall supervision and policy compliance. This will help identify any funding (City wide) that may be available as well as track funding receipts to ensure the proper City departments are accounting for them.

**INDEPENDENT AUDITOR'S 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)**



Purpose of this Report

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

Harding, Shymanski & Company, P.S.C.

Evansville, Indiana
September 25, 2013