B43517

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF EVANSVILLE
VANDERBURGH COUNTY, INDIANA

January 1, 2012 to December 31, 2012

FILED
05/28/2014

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SCHEDULE OF OFFICIALS

Office	Official	Term
Controller	Russell Lloyd Jr.	01-01-12 to 12-31-14
Mayor	Lloyd Winnecke	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Bill Nix	01-01-12 to 12-31-12
	Marty Amsler	01-01-13 to 12-31-14
President of the Common Council	Connie Robinson	01-01-12 to 12-31-13
	John Friend	01-01-14 to 12-31-14
General Manager of Utilities	Allen Mounts	01-01-12 to 12-31-14

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Evansville (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 2, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

Included in the financial statement are the receipts and disbursements activity from emergency telephone system fees (IC 36-8-16), enhanced wireless emergency telephone fees (IC 36-8-16.5), and statewide 911 services fees (IC 36-8-16.7). In accordance with Indiana Code 36-8-16-14, Indiana Code 36-8-16.5-41, and Indiana Code 36-8-16.7-38, these fees have been subject to an annual audit performed by the Indiana State Board of Accounts and, in our opinion, are fairly stated, in all material respects, in relation to the financial statement taken as a whole.

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

May 2, 2014

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

TO: THE OFFICIALS OF THE CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the City of Evansville (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated May 2, 2014, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1, 2012-2, 2012-3, and 2012-4 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1, 2012-2, 2012-3, and 2012-4.

City of Evansville's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

May 2, 2014

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF EVANSVILLE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	$ 3,855,675	$ 74,350,606	$ 75,903,950	$ 2,302,331
Motor Vehicle Highway	1,569,666	4,443,419	5,095,430	917,655
Local Road And Street	5,685,919	2,256,243	1,626,337	6,315,825
Area Plan Commission	207	208	-	415
Parking	341,339	184,917	488,764	37,492
Parks And Recreation	3,288,879	7,906,627	10,135,625	1,059,881
Rainy Day	3,076,077	3,413	-	3,079,490
Riverboat Capital Project	14,103,186	15,485,982	14,318,108	15,271,060
Cumulative Capital Improvement	-	311,452	311,452	-
Purchasing Internal Service	(28,441)	510,756	507,244	(24,929)
Police Pension	4,256,510	6,764,610	6,789,732	4,231,388
Fire Pension	4,709,473	5,223,712	5,364,323	4,568,862
Jacobsville TIF Projects	1,319,088	912,118	70,441	2,160,765
Melzer Trust	50,002	-	-	50,002
Evansville Community Trust	12,802	17	-	12,819
Evansville Redevelopment	11,080	93,381	96,716	7,745
Parking Garage 2004	5,350	3,289	8,639	-
Berry Plastics	1	768,328	766,116	2,213
CDBG - Metro SBAC	583	78	-	661
American Gen Project 2010	4,002	481,162	481,862	3,302
2011 Berry Plastics Econ Dev	22,225,000	200,000	22,425,000	-
Recovery Grant	15,366	136,398	13,182	138,582
Rental Housing Inspection	1,380	148	-	1,528
Redevelopment TIF Project	86,746	-	-	86,746
Park Bond Refunding 2012	-	126,045	109,963	16,082
Evansville Park 03 Escrow	-	28,208,225	14,929,802	13,278,423
Evansville Park 12 Sinking	-	782,394	781,525	869
Evansville Park Refunding 2010	-	535,139	535,139	-
Arena Bond	-	3,968,784	-	3,968,784
Donations	101,528	66,597	163,367	4,758
Fire Donation	387	-	-	387
Miscellaneous Grant	735,635	2,162,625	1,372,092	1,526,168
Law Enforcement	99,530	125,977	128,982	96,525
Golf Course	308,506	1,442,648	1,515,784	235,370
Local County Option Income Tax	8,187,270	18,097,068	16,132,861	10,151,477
Greenway Project	1,482,663	301,425	878,368	905,720
Sports Non-Reverting	70,029	267,301	330,967	6,363
Zoo Animal Revolving	38,062	469	12,764	25,767
Rental Rehab	74,274	-	-	74,274
Certified Tech Park	172,907	-	110,062	62,845
Eda Revolving Loan	872,782	114,938	200,192	787,528
Home Admin Investment Trust	25,067	1,120,770	1,044,862	100,975
Community Dev Block Grant	(1,266,277)	4,038,644	2,820,960	(48,593)
Old Post Office	235,401	5,796	206,407	34,790
Economic Development Loan	1,053,788	232,873	271,801	1,014,860
Emergency Shelter Grant	(156,515)	317,078	318,463	(157,900)
Building Code Books	2,593	10	-	2,603
Bicycle License Revolving	2,721	401	-	3,122
Sidewalk Program	179,249	58,951	52,902	185,298

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

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

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
Erc Capital Non Reverting	1,812,390	46,699	657,982	1,201,107
Housing Trust	244,238	7,752	208,286	43,704
Hud Fair Housing	88,880	39,144	32,706	95,318
Equal Emp Opportunity Commission	138,970	66,800	68,816	136,954
Master Tif Projects	8,776,194	8,024,921	7,954,101	8,847,014
Food And Beverage Tax Distribution	191,440	1,272,349	1,124,886	338,903
Locust Hill Perpetual Care	129,132	2,413	-	131,545
Oakhill Perpetual Care	723,793	6,813	1,513	729,093
EMA Revolving Donation	2,567	-	-	2,567
Coleman Trust	11,936	9	-	11,945
Mattie J Bayard Trust	6,058	-	-	6,058
R T Legler Trust	2,280	2	-	2,282
CDBG-City Bank Of Evansville	251,897	963	-	252,860
CDBG-EDA Revolving Loan Fifth Third	678,290	569	101	678,758
Historic Preservation	5,031	285	27	5,289
General Obligation Bond 2006	(918)	918	-	-
Park District Bond Refunding 2010	(283,643)	1,759,182	1,071,029	404,510
TIF Redevelopment Bond	589,324	-	422,009	167,315
Park Bond Refunding of 2003	104,528	-	19,238	85,290
Redevelopment Bond Retirement	(31,898)	31,898	-	-
Redevelopment Bond of 1998	26,446	-	-	26,446
General Obligation # 2	319,215	33,915	21,215	331,915
Sidewalk Improvement Bond	78,419	-	-	78,419
Redevelopment Arena Ban 2008	32,151	-	1,000	31,151
Unemployment	392,779	99,903	39,152	453,530
Workers Compensation	313,836	895,006	1,031,169	177,673
Liability	1,164,816	2,601,107	3,051,864	714,059
Hospitalization	5,668,108	16,421,629	21,623,797	465,940
Evansville Civil City Payroll	656,175	64,620,998	65,276,990	183
Accounts Receivable Clearing	(11,458)	223,954	259,342	(46,846)
Oakhill Lease Escrow	5,377	-	-	5,377
Electronic Tax Payments	(192)	487,179	486,987	-
Levee Grant	-	1,479,883	1,479,883	-
Sewer Bond	4,892,547	15,874,760	14,163,953	6,603,354
Sewer Improvement	1,518,936	2,769,222	3,001,942	1,286,216
Sewer Bond Construction	17,639,591	15,339,844	24,588,069	8,391,366
Sewer Reserve	9,761,224	17,490,354	16,971,396	10,280,182
Sewer Payroll	-	1,766,013	1,660,239	105,774
Sewer Operating	5,853,811	47,844,977	47,093,979	6,604,809
Water Improvement	-	570	570	-
Waterworks Payroll	-	2,412,433	2,342,026	70,407
Water Utility-Operating	7,813,886	37,589,019	41,793,240	3,609,665
Water Utility-Bond & Int Sinking	-	3,646,641	7,492	3,639,149
Water Utility-Consumer Meter Deposit	966,906	1,243,554	1,202,183	1,008,277
Water Utility-Construction	3,019,242	3,861,407	5,238,822	1,641,827
Totals	$ 150,361,794	$ 429,974,107	$ 449,216,188	$ 131,119,713

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, trash, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

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

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution, or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. *Interfund Transfers*

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. *Fund Accounting*

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

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

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

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

B. 1925 Police Officers' Pension Plan

Plan Description

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

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

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

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. Two of the funds are a result of those funds being set up for reimbursable grants. The reimbursements for expenditures made by the City were not received by December 31, 2012. The Purchasing Internal Service fund and the Accounts Receivable Clearing fund have a cash balance deficit due to the nature of the funds.

Note 8. Restatements

For the year ended December 31, 2012, certain changes have been made to some of the beginning balances of the financial statement to more appropriately reflect financial activity of the City. The following schedule presents a summary of restated beginning balances.

Fund Name	Balance as of December 31, 2011	Prior Period Adjustment	Balance as of January 1, 2012
General	$ 4,356,121	$ (500,446)	$ 3,855,675
Motor Vehicle Highway	1,569,733	(67)	1,569,666
Parks And Recreation	3,289,232	(353)	3,288,879
Riverboat Capital Project	14,102,927	259	14,103,186
Arena Bond 2010B	2,595,949	(2,595,949)	-
Arena Bond 2010A	8,216,847	(8,216,847)	-
Arena Bond 2010B Sinking	3,888,903	(3,888,903)	-
Arena 2010 Additional Projects	3,251,411	(3,251,411)	-
Total Monies	1,179,897	(1,179,897)	-
Payroll Checking	4,617	(4,617)	-
Miscellaneous Grant	(1,269,634)	2,005,269	735,635
Local County Option Income Tax	9,396,863	(1,209,593)	8,187,270
Old Post Office	240,672	(5,271)	235,401
Sewer Operating	39,344,712	(33,490,901)	5,853,811
2007 SRF Reserve Fund	13,919,396	(13,919,396)	-
Sewer Bond	-	4,892,547	4,892,547
Sewer Improvement	-	1,518,936	1,518,936
Sewer Bond Construction	-	17,639,591	17,639,591
Sewer Reserve	-	9,761,224	9,761,224
Water Utility-Operating	8,204,358	(390,472)	7,813,886
Water Utility-Bond & Int Sinking	187,361	(187,361)	-
Water Utility-Consumer Meter Deposit	-	966,906	966,906
Water Utility-Construction	-	3,019,242	3,019,242

Note 9. Subsequent Events

Water Utility - Rate Increase

The proposed three-phase across-the-board rate increase was approved by the IURC on February 13, 2013, pursuant to IURC Order in Cause No. 44137. Phase I of the increase is a 15.83 percent increase over the present rates effective March 18, 2013, Phase II of the increase is an 8.54 percent increase over the Phase I rates effective January 1, 2014, and Phase III of the increase is an 7.85 percent increase over the Phase II rates to be effective January 1, 2015.

Wastewater Utility - Wastewater Refunding Bonds - Series 2013A

On February 25, 2013, the Common Council approved the issuance of the aggregate principal amount not to exceed $35,400,000 in Sewage Works Revenue Refunding Bonds, Series 2013A. On May 2, 2013, the bonds were issued in the principal amount of $32,440,000 to currently refund $34,408,510 of the outstanding Sewage Works Revenue Bonds of 1998, Series C and the Sewage Works Revenue Bonds of 2003, Series A. Bond proceeds together with funds on hand were used to purchase U.S. government securities and placed in an irrevocable escrow account to refund the outstanding bonds. The reacquisition price exceeded the net carrying value of the prior bonds by $692,308. This amount is being netted against the new bond and expensed over the remaining life of the new bond.

Water Utility - Waterworks Revenue Bonds - Series 2013A

On April 16, 2013, the Water Utility Board approved the issuance of the aggregate principal amount not to exceed $30,909,000 in Waterworks Revenue Bonds, Series 2013A. On October 16, 2013, the bonds were issued in the principal amount of $29,060,000 for the purpose of constructing various waterworks improvement, retiring a portion of the renewed BAN, funding a debt service reserve, and paying capitalized interest.

Wastewater Utility - Rate Increase

The Wastewater Utility had a Cost of Service Study (COSS) conducted during 2012 and 2013. On September 23, 2013, the Common Council approved a three-phase increase, subsequently amended on October 28, 2013, with Phase I effective January 1, 2014, and Phases II and III effective each January 1st thereafter.

Water Utility - Waterworks Revenue Bonds - Series 2013C

On June 25, 2013, the Water Utility Board approved the issuance of the aggregate principal amount not to exceed $15,500,000 in Waterworks Revenue Bonds, Series 2013C. On November 26, 2013, the bonds were issued in the principal amount of $15,500,000 and sold to the EBB pursuant to a Qualified Entity Purchase Agreement for the purpose of funding the Water Utility portion of the JCI GPC, retiring a portion of the renewed BAN, funding a debt service reserve and paying capitalized interest.

Wastewater Utility - Wastewater Revenue Bonds - Series 2013B

On July 8, 2013, the Common Council approved the issuance of the aggregate principal amount not to exceed $33,000,000 in Sewage Works Revenue Bonds, Series 2013B. On November 26, 2013, the bonds were issued in the principal amount of $29,255,000 and sold to the EBB pursuant to a Qualified Entity Purchase Agreement for the purpose of funding the Wastewater Utility portion of the JCI GPC, funding a debt service reserve and paying capitalized interest.

Water Utility - Waterworks Bond Anticipation Note

For the 2013A and 2013C Bonds refinanced portions of the renewed BAN, there was a portion of the BAN not eligible to be refinanced for each respective bond issue in the approximate amount of $1,200,000. The Water Utility Board decided to extend the BAN and to repay with Utility Revenues. The renewed BAN was sold to the EBB with substantive terms similar to that of the prior BANs on November 27, 2013, not to exceed an amount of $1,300,000, due on or before November 15, 2014.

Wastewater Utility - Wastewater Revenue Bonds - Series 2014A

In January 2014, the Wastewater Utility issued in the principal amount of $7,510,000 Sewage Works Revenue Bonds, Series 2014A through the Indiana State Revolving Fund (SRF) Loan program. This bond issue will fund the last two phases of the Cass Avenue Sewer Separation Project. The State placed the proceeds of the 2014A into a trust account in the Wastewater Utility's name. Cash drawdowns are made from this account after approval is given by the State.

Wastewater Settlement of Lawsuit

The City and the Wastewater Utility reached an agreement to settle the lawsuit with the former Wastewater Utility operator Environmental Management Corporation (EMC). The lawsuit resulted from violations related to the Wastewater Utility's NDPES permit, the Clean Water Act, and the recovery of the $490,000 fine the Utility paid in 2011 to Indiana Department of Environmental Management (IDEM) and Environmental Protection Agency (EPA), and litigation fees. The violations occurred during the period that EMC was the day-to-day operator of the Wastewater Utility (1992-2010). The settlement was reached in March 2013 in the amount of $2,500,000, with the Wastewater Utility receiving approximately $1,625,000 and the remainder of the settlement going to the City.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: https://gateway.ifionline.org/.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was prepared by management of the City. It is presented as intended by the City.

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

	General	Motor Vehicle Highway	Local Road And Street	Area Plan Commission	Parking	Parks And Recreation	Rainy Day	Riverboat Capital Project
Cash and investments - beginning	$ 3,855,675	$ 1,569,666	$ 5,685,919	$ 207	$ 341,339	$ 3,288,879	$ 3,076,077	$ 14,103,186
Receipts:								
Taxes	47,493,060	853,264	-	-	-	4,823,540	-	-
Licenses and permits	844,813	-	-	-	-	-	-	-
Intergovernmental	7,365,925	3,139,216	1,742,743	-	-	470,833	-	8,199,730
Charges for services	8,243,307	340,008	10,537	208	184,917	2,190,648	-	5,242,676
Fines and forfeits	127,846	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	10,275,655	110,931	502,963	-	-	421,606	3,413	2,043,576
Total receipts	74,350,606	4,443,419	2,256,243	208	184,917	7,906,627	3,413	15,485,982
Disbursements:								
Personal services	64,578,548	3,287,274	762,268	-	-	5,521,191	-	207,768
Supplies	3,205,982	738,775	14,574	-	-	766,370	-	-
Other services and charges	7,308,238	1,018,376	75,726	-	488,764	3,798,509	-	1,441,491
Debt service - principal and interest	32,685	6,598	-	-	-	-	-	1,606,928
Capital outlay	123,284	44,407	773,769	-	-	20,825	-	6,277,529
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	655,213	-	-	-	-	28,730	-	4,784,392
Total disbursements	75,903,950	5,095,430	1,626,337	-	488,764	10,135,625	-	14,318,108
Excess (deficiency) of receipts over disbursements	(1,553,344)	(652,011)	629,906	208	(303,847)	(2,228,998)	3,413	1,167,874
Cash and investments - ending	$ 2,302,331	$ 917,655	$ 6,315,825	$ 415	$ 37,492	$ 1,059,881	$ 3,079,490	$ 15,271,060

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

	Cumulative Capital Improvement	Purchasing Internal Service	Police Pension	Fire Pension	Jacobsville TIF Projects	Melzer Trust	Evansville Community Trust	Evansville Redevelopment
Cash and investments - beginning	$ -	$ (28,441)	$ 4,256,510	$ 4,709,473	$ 1,319,088	$ 50,002	$ 12,802	$ 11,080
Receipts:								
Taxes	-	-	6,757,388	5,221,194	911,726	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	311,452	-	-	-	-	-	-	-
Charges for services	-	510,756	5,222	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	-	-	2,000	2,518	392	-	17	93,381
Total receipts	311,452	510,756	6,764,610	5,223,712	912,118	-	17	93,381
Disbursements:								
Personal services	-	-	13,670	14,375	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	507,244	6,776,062	5,347,930	70,441	-	-	6,607
Debt service - principal and interest	-	-	-	-	-	-	-	90,109
Capital outlay	-	-	-	2,018	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	311,452	-	-	-	-	-	-	-
Total disbursements	311,452	507,244	6,789,732	5,364,323	70,441	-	-	96,716
Excess (deficiency) of receipts over disbursements	-	3,512	(25,122)	(140,611)	841,677	-	17	(3,335)
Cash and investments - ending	$ -	$ (24,929)	$ 4,231,388	$ 4,568,862	$ 2,160,765	$ 50,002	$ 12,819	$ 7,745

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

	Parking Garage 2004	Berry Plastics	CDBG - Metro SBAC	American Gen Project 2010	2011 Berry Plastics Econ Dev	Recovery Grant	Rental Housing Inspection	Redevelopment TIF Project
Cash and investments - beginning	$ 5,350	$ 1	$ 583	$ 4,002	$ 22,225,000	$ 15,366	$ 1,380	$ 86,746
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	136,398	-	-
Charges for services	-	768,176	-	481,143	200,000	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	3,289	152	78	19	-	-	148	-
Total receipts	3,289	768,328	78	481,162	200,000	136,398	148	-
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	5,351	765,914	-	480,441	22,425,000	13,182	-	-
Debt service - principal and interest	3,288	202	-	1,421	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	8,639	766,116	-	481,862	22,425,000	13,182	-	-
Excess (deficiency) of receipts over disbursements	(5,350)	2,212	78	(700)	(22,225,000)	123,216	148	-
Cash and investments - ending	$ -	$ 2,213	$ 661	$ 3,302	$ -	$ 138,582	$ 1,528	$ 86,746

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

	Park Bond Refunding 2012	Evansville Park 03 Escrow	Evansville Park 12 Sinking	Evansville Park Refunding 2010	Arena Bond	Donations	Fire Donation	Miscellaneous Grant
Cash and investments - beginning	$ -	$ -	$ -	$ -	$ -	$ 101,528	$ 387	$ 735,635
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	1,259,577
Charges for services	-	14,104,113	782,375	535,139	-	-	-	13,879
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	126,045	14,104,112	19	-	3,968,784	66,597	-	889,169
Total receipts	126,045	28,208,225	782,394	535,139	3,968,784	66,597	-	2,162,625
Disbursements:								
Personal services	-	-	-	-	-	-	-	14,399
Supplies	-	-	-	-	-	4,122	-	-
Other services and charges	109,963	14,929,802	-	535,139	-	130,705	-	108,220
Debt service - principal and interest	-	-	781,525	-	-	-	-	-
Capital outlay	-	-	-	-	-	27,500	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	1,040	-	1,249,473
Total disbursements	109,963	14,929,802	781,525	535,139	-	163,367	-	1,372,092
Excess (deficiency) of receipts over disbursements	16,082	13,278,423	869	-	3,968,784	(96,770)	-	790,533
Cash and investments - ending	$ 16,082	$ 13,278,423	$ 869	$ -	$ 3,968,784	$ 4,758	$ 387	$ 1,526,168

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

	Law Enforcement	Golf Course	Local County Option Income Tax	Greenway Project	Sports Non-Reverting	Zoo Animal Revolving	Rental Rehab	Certified Tech Park
Cash and investments - beginning	$ 99,530	$ 308,506	$ 8,187,270	$ 1,482,663	$ 70,029	$ 38,062	$ 74,274	$ 172,907
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	16,167,985	301,425	-	-	-	-
Charges for services	125,977	1,441,783	1,071	-	266,151	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	-	865	1,928,012	-	1,150	469	-	-
Total receipts	125,977	1,442,648	18,097,068	301,425	267,301	469	-	-
Disbursements:								
Personal services	-	718,979	-	-	232,499	-	-	-
Supplies	11,640	232,968	151,965	4,102	16,413	-	-	-
Other services and charges	117,342	557,104	7,646,889	-	81,987	-	-	110,062
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	163,089	874,266	-	12,764	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	6,733	8,170,918	-	68	-	-	-
Total disbursements	128,982	1,515,784	16,132,861	878,368	330,967	12,764	-	110,062
Excess (deficiency) of receipts over disbursements	(3,005)	(73,136)	1,964,207	(576,943)	(63,666)	(12,295)	-	(110,062)
Cash and investments - ending	$ 96,525	$ 235,370	$ 10,151,477	$ 905,720	$ 6,363	$ 25,767	$ 74,274	$ 62,845

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

	Eda Revolving Loan	Home Admin Investment Trust	Community Dev Block Grant	Old Post Office	Economic Development Loan	Emergency Shelter Grant	Building Code Books	Bicycle License Revolving
Cash and investments - beginning	$ 872,782	$ 25,067	$ (1,266,277)	$ 235,401	$ 1,053,788	$ (156,515)	$ 2,593	$ 2,721
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	401
Intergovernmental	-	1,010,370	3,819,760	-	-	317,078	-	-
Charges for services	-	-	149,961	-	-	-	10	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	114,938	110,400	68,923	5,796	232,873	-	-	-
Total receipts	114,938	1,120,770	4,038,644	5,796	232,873	317,078	10	401
Disbursements:								
Personal services	-	13,253	-	-	-	-	-	-
Supplies	-	215	-	-	-	-	-	-
Other services and charges	192	971,394	538,891	206,407	191,831	318,463	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	200,000	60,000	2,282,069	-	79,970	-	-	-
Total disbursements	200,192	1,044,862	2,820,960	206,407	271,801	318,463	-	-
Excess (deficiency) of receipts over disbursements	(85,254)	75,908	1,217,684	(200,611)	(38,928)	(1,385)	10	401
Cash and investments - ending	$ 787,528	$ 100,975	$ (48,593)	$ 34,790	$ 1,014,860	$ (157,900)	$ 2,603	$ 3,122

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

	Sidewalk Program	Erc Capital Non Reverting	Housing Trust	Hud Fair Housing	Equal Emp Opportunity Commission	Master Tif Projects	Food And Beverage Tax Distribution	Locust Hill Perpetual Care
Cash and investments - beginning	$ 179,249	$ 1,812,390	$ 244,238	$ 88,880	$ 138,970	$ 8,776,194	$ 191,440	$ 129,132
Receipts:								
Taxes	-	-	-	-	-	6,988,871	1,272,349	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	39,144	66,800	-	-	-
Charges for services	58,440	-	-	-	-	10,091	-	2,413
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	511	46,699	7,752	-	-	1,025,959	-	-
Total receipts	58,951	46,699	7,752	39,144	66,800	8,024,921	1,272,349	2,413
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	2,709	657,982	208,286	-	-	3,230,588	-	-
Debt service - principal and interest	-	-	-	-	-	3,792,084	-	-
Capital outlay	50,193	-	-	-	-	29,999	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	32,706	68,816	901,430	1,124,886	-
Total disbursements	52,902	657,982	208,286	32,706	68,816	7,954,101	1,124,886	-
Excess (deficiency) of receipts over disbursements	6,049	(611,283)	(200,534)	6,438	(2,016)	70,820	147,463	2,413
Cash and investments - ending	$ 185,298	$ 1,201,107	$ 43,704	$ 95,318	$ 136,954	$ 8,847,014	$ 338,903	$ 131,545

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

	Oakhill Perpetual Care	EMA Revolving Donation	Coleman Trust	Mattie J Bayard Trust	R T Legler Trust	CDBG-City Bank Of Evansville	CDBG-EDA Revolving Loan Fifth Third	Historic Preservation
Cash and investments - beginning	$ 723,793	$ 2,567	$ 11,936	$ 6,058	$ 2,280	$ 251,897	$ 678,290	$ 5,031
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	6,813	-	-	-	-	-	168	285
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	-	-	9	-	2	963	401	-
Total receipts	6,813	-	9	-	2	963	569	285
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	1,513	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	101	27
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	1,513	-	-	-	-	-	101	27
Excess (deficiency) of receipts over disbursements	5,300	-	9	-	2	963	468	258
Cash and investments - ending	$ 729,093	$ 2,567	$ 11,945	$ 6,058	$ 2,282	$ 252,860	$ 678,758	$ 5,289

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

	General Obligation Bond 2006	Park District Bond Refunding 2010	TIF Redevelopment Bond	Park Bond Refunding of 2003	Redevelopment Bond Retirement	Redevelopment Bond of 1998	General Obligation # 2	Sidewalk Improvement Bond
Cash and investments - beginning	$ (918)	$ (283,643)	$ 589,324	$ 104,528	$ (31,898)	$ 26,446	$ 319,215	$ 78,419
Receipts:								
Taxes	-	1,601,591	-	-	48	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	157,591	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	33,915	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	918	-	-	-	31,850	-	-	-
Total receipts	918	1,759,182	-	-	31,898	-	33,915	-
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	1,000	-	19,238	-	-	21,215	-
Debt service - principal and interest	-	1,070,029	422,009	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	-	1,071,029	422,009	19,238	-	-	21,215	-
Excess (deficiency) of receipts over disbursements	918	688,153	(422,009)	(19,238)	31,898	-	12,700	-
Cash and investments - ending	$ -	$ 404,510	$ 167,315	$ 85,290	$ -	$ 26,446	$ 331,915	$ 78,419

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

	Redevelopment Arena Ban 2008	Unemployment	Workers Compensation	Liability	Hospitalization	Evansville Civil City Payroll	Accounts Receivable Clearing	Oakhill Lease Escrow
Cash and investments - beginning	$ 32,151	$ 392,779	$ 313,836	$ 1,164,816	$ 5,668,108	$ 656,175	$ (11,458)	$ 5,377
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	165,200	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	-	99,903	895,006	2,601,107	16,256,429	64,620,998	223,954	-
Total receipts	-	99,903	895,006	2,601,107	16,421,629	64,620,998	223,954	-
Disbursements:								
Personal services	-	-	32,586	-	20,648,553	-	-	-
Supplies	-	-	278	-	784	-	400	-
Other services and charges	1,000	39,152	998,305	3,051,864	974,460	-	258,942	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	65,276,990	-	-
Total disbursements	1,000	39,152	1,031,169	3,051,864	21,623,797	65,276,990	259,342	-
Excess (deficiency) of receipts over disbursements	(1,000)	60,751	(136,163)	(450,757)	(5,202,168)	(655,992)	(35,388)	-
Cash and investments - ending	$ 31,151	$ 453,530	$ 177,673	$ 714,059	$ 465,940	$ 183	$ (46,846)	$ 5,377

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

	Electronic Tax Payments	Levee Grant	Sewer Bond	Sewer Improvement	Sewer Bond Construction	Sewer Reserve	Sewer Payroll	Sewer Operating
Cash and investments - beginning	$ (192)	$ -	$ 4,892,547	$ 1,518,936	$ 17,639,591	$ 9,761,224	$ -	$ 5,853,811
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	39,397,662
Other receipts	487,179	1,479,883	15,874,760	2,769,222	15,339,844	17,490,354	1,766,013	8,447,315
Total receipts	487,179	1,479,883	15,874,760	2,769,222	15,339,844	17,490,354	1,766,013	47,844,977
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	4,527,361
Utility operating expenses	-	-	-	-	-	-	-	25,392,486
Other disbursements	486,987	1,479,883	14,163,953	3,001,942	24,588,069	16,971,396	1,660,239	17,174,132
Total disbursements	486,987	1,479,883	14,163,953	3,001,942	24,588,069	16,971,396	1,660,239	47,093,979
Excess (deficiency) of receipts over disbursements	192	-	1,710,807	(232,720)	(9,248,225)	518,958	105,774	750,998
Cash and investments - ending	$ -	$ -	$ 6,603,354	$ 1,286,216	$ 8,391,366	$ 10,280,182	$ 105,774	$ 6,604,809

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

	Water Improvement	Waterworks Payroll	Water Utility-Operating	Water Utility-Bond & Int Sinking	Water Utility-Consumer Meter Deposit	Water Utility-Construction	Totals
Cash and investments - beginning	$ -	$ -	$ 7,813,886	$ -	$ 966,906	$ 3,019,242	$ 150,361,794
Receipts:							
Taxes	-	-	-	-	-	-	75,923,031
Licenses and permits	-	-	-	-	-	-	845,214
Intergovernmental	-	-	-	-	-	-	44,506,027
Charges for services	-	-	-	-	-	-	35,875,382
Fines and forfeits	-	-	-	-	-	-	127,846
Utility fees	-	-	21,870,519	-	-	-	61,268,181
Other receipts	570	2,412,433	15,718,500	3,646,641	1,243,554	3,861,407	211,428,426
Total receipts	570	2,412,433	37,589,019	3,646,641	1,243,554	3,861,407	429,974,107
Disbursements:							
Personal services	-	-	-	-	-	-	96,045,363
Supplies	-	-	-	-	-	-	5,150,101
Other services and charges	-	-	-	-	-	-	86,548,536
Debt service - principal and interest	-	-	-	-	-	-	7,806,878
Capital outlay	-	-	662,487	-	-	-	13,589,491
Utility operating expenses	-	-	19,090,160	-	-	3,183,653	47,666,299
Other disbursements	570	2,342,026	22,040,593	7,492	1,202,183	2,055,169	192,409,520
Total disbursements	570	2,342,026	41,793,240	7,492	1,202,183	5,238,822	449,216,188
Excess (deficiency) of receipts over disbursements	-	70,407	(4,204,221)	3,639,149	41,371	(1,377,415)	(19,242,081)
Cash and investments - ending	$ -	$ 70,407	$ 3,609,665	$ 3,639,149	$ 1,008,277	$ 1,641,827	$ 131,119,713

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

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	$ 734,260	$ 13,728,694
Wastewater	1,130,604	3,442,378
Waterworks	392,541	1,354,491
Totals	$ 2,257,405	$ 18,525,563

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

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Evansville Local Improvement Bond Bank	Energy savings contract - Fire Dept.	$ 23,991	08-04-11	08-01-26
Evansville Local Improvement Bond Bank	Energy savings contract - Transportation & Services Dept.	7,613	08-04-11	08-01-26
Evansville Local Improvement Bond Bank	Energy savings contract - Evansville Redevelopment Commission	35,118	08-04-11	08-01-21
Evansville Local Improvement Bond Bank	Energy savings contract - Dept. of Parks and Recreation	41,864	09-13-11	08-01-26
Evansville Local Improvement Bond Bank	Energy savings contract - City County Central Dispatch	7,678	09-30-11	08-01-26
Evansville Local Improvement Bond Bank	Energy savings contract - Evansville Vanderburtgh Co. Building Authority	5,566	12-29-11	11-01-21
Evansville Local Improvement Bond Bank	Fire truck	40,520	03-08-11	12-31-21
IKON Office Solutions	IKON IR3045 Copier	1,187	11-27-07	11-28-12
Indiana Bell Telephone Co.	Maintain utility poles	235	06-22-78	12-31-50
Inland Marina	Ohio River dock lease for U.S. Navy LST (Landing Ship Tank) 325 World War II historic vessel	47,320	05-01-05	04-30-15
Kenny Kent Toyota	2012 Toyota Highlander	496	02-01-12	12-31-15
Key Government Finance	Computer software and licenses - Phase II	97,519	07-15-11	07-15-15
Key Government Finance Inc.	Panasonic Notebook computers (EPD w/IT)	54,872	03-31-11	03-31-15
Key Government Finance Inc.	Storage computer local area network	61,876	08-15-11	07-15-14
Key Government Finance Inc.	Computer refresh new hardware software - Phase I	259,363	01-01-09	01-01-13
Key Government Finance Inc.	Lease of Dell Laptops - EPD	27,487	12-31-08	12-31-12
Key Government Finance Inc.	Lease of Dell Laptops (IT portion w/ EPD)	16,230	08-15-11	03-31-15
Key Government Finance Inc.	Network Refresh/schedule 01	88,017	03-06-08	03-06-13
Muenstermans Service Center	1415 W. Franklin Street Evansville IN	16,800	10-01-02	02-08-16
Old National Bank	2 Fire trucks	71,588	04-22-09	04-22-19
PNC Equipment Finance	Computer equipment hardware and software new	57,823	02-28-04	07-30-13
PNC Equipment Finance	2 Fire trucks (BB)	80,840	01-01-09	12-31-19
PNC Equipment Finance LLC	8 Fire vehicles	40,759	09-04-12	10-15-16
PNC Financing Inc.	33 Police vehicles	252,897	09-04-12	10-15-16
Sigeco	Attach and Equip Utility Poles	5,996	11-15-78	11-15-13
Southern Railway Co.	Maintain 66 in. sewer pipe	780	06-02-88	12-31-50
U.S. Bancorp	Konica Minolta copier	1,853	10-09-08	10-09-13
Evansville Redevelopment Authority	Real Estate/The Ford Center	6,651,642	03-09-10	02-01-39
Total governmental activities		7,997,930		
Total of annual lease payments		$ 7,997,930		

Description of Debt Type	Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	Park District Refunding Bonds of 2010	$ 7,995,000	$ 1,075,791
General obligation bonds	Parks District Refunding Bonds 2012 Mesker Zoo 2003	13,085,000	1,558,550
Revenue bonds	Taxable Economic Development Revenue Bonds Series 2011 Berry Plastics Project)	22,235,000	430,000
Revenue bonds	Redevelopment Distric Tax Increment Revenue Bonds Series 2010 (American General Project)	4,230,000	481,079
Revenue bonds	Redevelopment Authority Lease Rental Revenue Bonds Series 2010A and Series 2010B	122,410,000	8,075,209
Revenue bonds	Taxable Economic Development Revenue Bonds Series 2008 (Berry Plastic Project)	3,690,000	515,851
Revenue bonds	Tax Increment Revenue Bonds of 2002	3,635,000	421,754
Notes and loans payable	City of Evansville Redevelopment District Taxable Bond Anticipation Notes 2011 (Arts Redevelopment Area)	142,752	-
Total governmental activities		177,422,752	12,558,234
Wastewater:			
Revenue bonds	Sewage Works Revenue Bond Series 2012 E (SRF)	5,975,000	146,790
Revenue bonds	Sewage Works Revenue Bonds Series 2011D (SRF)	1,215,000	40,439
Revenue bonds	Sewage Works Revenue Bonds Series 2011C (SRF)	3,678,000	264,949
Revenue bonds	Sewage Works Revenue Bonds Series 2010 B-1 (Taxable Build America Bonds - Direct Pay Option)	27,450,000	980,812
Revenue bonds	Sewage Works Revenue Bonds Series 2010A (SRF)	7,119,000	220,977
Revenue bonds	Sewage Works Revenue Bonds of 2009 (SRF)	27,749,000	780,747
Revenue bonds	Sewage Works Revenue Bonds of 2008 Series B (SRF)	15,691,000	1,274,527
Revenue bonds	Sewage Works Revenue Bonds of 2007 Series A (SRF)	28,252,000	2,546,015
Revenue bonds	Sewage Works Replacement Revenue Bonds of 2004 (SRF)	5,457,000	493,718
Revenue bonds	Sewage Works Refunding Revenue Bonds of 2003 Series A	28,810,000	2,927,550
Revenue bonds	Sewage Works Revenue Bonds of 1998 Series C (SRF)	5,598,510	1,037,357
Revenue bonds	Sewage Works Revenue Bonds of 1993 Series B (SRF)	140,000	145,600
Revenue bonds	Sewage Works Revenue Bonds Series 2010 B-2 (Tax Exempt Bonds)	625,000	638,125
Total Wastewater		157,759,510	11,497,606
Waterworks:			
Revenue bonds	Waterworks District Bonds Series 2008	34,360,000	2,457,847
Revenue bonds	Waterworks District Refunding Bonds of 2005	4,435,000	970,593
Revenue bonds	Waterworks District Revenue Bonds of 2004	21,140,000	1,515,144
Notes and loans payable	City of Evansville Waterworks District Bond Anticipation Notes of 2011	2,475,000	2,512,125
Total Waterworks		62,410,000	7,455,709
Totals		$ 397,592,262	$ 31,511,549

CITY OF EVANSVILLE
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

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

	Ending Balance
Governmental activities:	
Land	$ 20,863,217
Infrastructure	544,653,131
Buildings	150,663,072
Improvements other than buildings	40,254,488
Machinery, equipment, and vehicles	89,779,208
Construction in progress	20,210
Total governmental activities	846,233,326
Wastewater:	
Land	3,698,959
Infrastructure	174,731,290
Buildings	153,902,467
Improvements other than buildings	1,844,609
Machinery, equipment, and vehicles	7,388,633
Construction in progress	25,516,661
Total Wastewater	367,082,619
Waterworks:	
Land	432,435
Infrastructure	101,449,202
Buildings	36,443,554
Improvements other than buildings	390,172
Machinery, equipment, and vehicles	26,808,609
Construction in progress	816,542
Total Waterworks	166,340,514
Total capital assets	$ 1,379,656,459

BANK ACCOUNT RECONCILIATIONS (City, Water Utility, and Wastewater Utility)

City cash and investment fund balances, including Water and Wastewater funds, were not properly reconciled to bank balances.

Multiple bank reconcilements were presented for audit. Errors noted on the City's bank reconcilements included:

1. One bank account was not included in the City's original bank reconcilement.

2. The wrong balances from some of the bank statements were used in the City's reconcilement.

3. Outstanding checks at December 31, 2012, were overstated.

4. Fund transactions were withdrawn from the incorrect bank account.

5. Random adjustments were added and later deleted from reconcilements presented for audit.

As a result of incomplete and inaccurate reconcilements, improper accounting for cash and investments and incorrect postings to the records remained undiscovered by the City. When aggregated, the errors and discrepancies noted on the bank reconcilement resulted in a difference between the record balance and bank balance that was not considered material.

In addition, prior to 2012, most cash and investments of the Water and Wastewater Utilities were accounted for in the City's bank account. During 2012, separate bank accounts were established; however, the exact cash and investment balance of each Utility was not moved to the new bank accounts at that time. Some of the cash and investment balances were moved to the new bank accounts in 2013, but the remaining amount had not been moved as of May 2, 2014. The City should determine the exact amount due to each Utility and transfer the balances to the appropriate bank account.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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

ANNUAL REPORT (City, Water Utility, and Wastewater Utility)

The Annual Report submitted through the Gateway system for 2012 contained material errors. Several adjustments to the beginning balances, receipts and disbursements were proposed during the audit and made by the City. A similar comment appeared in prior Report B41037.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under Indiana Code 5-14-3.8-7."

BUY MONEY - POLICE (City)

As stated in several prior reports, the Common Council has not passed an ordinance allowing the buy money program and the related expenditures.

The following procedure, among others, should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

Under Indiana Code 36-1-3, an ordinance should be passed allowing this type of program and associated expenditures. (Cities and Towns Bulletins September 2004, Page 9)

PARKING METER FEES (City)

As stated in several prior reports, parking meter fees are deposited into the General fund instead of a special fund.

Indiana Code 36-9-12-4(a) states:

"A municipality must provide, by ordinance, that:

(1) all license fees collected from parking meters shall be deposited with the municipal fiscal officer;

(2) the fees shall be deposited to the credit of the municipality in a special fund; and

(3) disbursements from the special fund may be made only on orders of the municipal works board, or board of transportation, and only for the purposes listed in subsection (b)."

SEPARATE BANK ACCOUNTS (City)

As stated in several prior reports, Vanderburgh County Solid Waste District funds were accounted for in the bank account of the City of Evansville.

A single bank account should be provided for all city or town funds, separate bank accounts for the funds belonging to each utility, and possibly a separate bank account for other funds if required by ordinance or regulation. Some bond ordinances and federal regulations require separate bank accounts for various funds and must be followed. Funds of other entities held by the city or town's fiscal officer must be accounted for in separate bank accounts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OVERDRAWN CASH BALANCES (City)

The cash balances of the Purchasing Internal Service, Community Dev Block Grant, Emergency Shelter Grant, and Accounts Receivable Clearing funds were overdrawn at December 31, 2012. A similar comment appeared in the prior Report B41037.

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

COMPENSATORY TIME IN EXCESS OF FEDERAL MAXIMUM ALLOWED (City)

As of December 31, 2012, 52 of the City's employees had accrued compensatory leave balances in excess of the maximum allowed by the Federal Labor Standards Act. Of these employees, 1 person was an Emergency Management Agency employee, 4 were police officers, and the remaining 47 were firefighters. The current total liability of compensatory leave in excess of the federal maximum was approximately $1,100,000 as of December 31, 2012.

The U.S. Department of Labor, Wage and Hour Division, The Fair Labor Standards Act of 1938, As Amended Sec. 207(o)(3)(A) provides: "If the work of an employee for which compensatory time may be provided included work in a public safety activity, an emergency response activity, or a seasonal activity, the employee engaged in such work may accrue not more than 480 hours of compensatory time for hours worked after April 15, 1986. If such work was any other work, the employee engaged in such work may accrue not more than 240 hours of compensatory time for hours worked after April 15, 1986. Any such employee who, after April 15, 1986, has accrued 480 or 240 hours, as the case may be, of compensatory time off shall, for additional overtime hours of work, be paid overtime compensation."

PAYMENT BY THE CITY OF EVANSVILLE OF CAPITALIZED INTEREST ON THE EVANSVILLE REDEVELOPMENT AUTHORITY LEASE RENTAL REVENUE BONDS SERIES 2010B (City)

On December 22, 2011, the City of Evansville paid the Evansville Redevelopment Authority $1,169,995 from the food and beverage tax fund. In addition, on July 31, 2012, the City of Evansville paid the Evansville Redevelopment Authority $2,527,904 from the Master TIF fund. These payments were deposited into the Evansville Redevelopment Authority 2010B Capitalized Interest Trust Account. The City of Evansville was not responsible for the payment of the capitalized interest. Capitalized interest was an obligation of the Evansville Redevelopment Authority.

As stated in the lease agreement between the City of Evansville and the Evansville Redevelopment Authority Section 2 RENTAL PAYMENTS: "(a) The first rental installment shall be due no earlier than February 1, 2013 and will be identified in an addendum to this Lease as described in Section 2(b) hereof. Thereafter, such rental shall be payable in advance in semi-annual installments on February 1 and August 1 of each year. All such rentals installments shall be deposited by the lessee with Trustee under Indenture three (3) business days in advance of such rental payment date." Per the lease agreement the first lease rental payment was due in January 2013 three (3) business days prior to the February 1, 2013 rental payment date.

The Evansville Redevelopment Authority Lease Rental Revenue Bonds Series 2010B bond prospectus states: "However, pursuant to the terms of the indenture, any such interest accruing after the completion of the Project will be paid only from (i) the proceeds of the series 2010A bonds or (ii) Build America Subsidy payments required to be deposited into the indenture."

The City of Evansville should request repayment of $3,696,899 paid in error to the Evansville Redevelopment Authority.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Manual for Cities and Towns, Chapter 7)

AMOUNT DUE FROM THE EVANSVILLE REDEVELOPMENT AUTHORITY (City)

Per the assignment and assumption of construction contracts agreement between the City of Evansville and the Evansville Redevelopment Authority, $8,917,024 was transferred from the City of Evansville Master TIF fund to the Redevelopment Authority additional project trust account. On December 31, 2012, the additional project trust account had a balance of $1,312,602.

The addendum to assignment and assumption of construction contracts dated November 2, 2011, between the City of Evansville, Redevelopment Commission and the Evansville Redevelopment Authority states: "Assignor shall deposit with Old National Bank, as trustee ("Trustee") the Transfer Amount in order for Trustee to pay, on behalf of the Assignee, payments due for costs related to the project, provided that if any portion of such Transfer Amount is not expended in respect of such costs by one (1) year after the opening of the Arena, then upon a request made by the Assignor, the Assignee shall cause such unused portion of the Transfer Amount to be repaid to the Assignor."

The Arena was substantially completed on September 30, 2011. The City should have requested payment of the remaining balance in October of 2012.

On December 31, 2011, the City of Evansville BANS of 2009 were retired with funds from the additional project fund. The amount redeemed was $495,540. The repayment of the BANS was not included in the assignment contract between the City and the Redevelopment Authority and should not have been paid with additional project funds. The BANS were to be repaid by the Redevelopment Authority from the proceeds of the Evansville Redevelopment Authority Lease Rental Revenue Bonds Series 2010B.

The addendum to assignment and assumption of construction contracts dated November 2, 2011, between the City of Evansville, Redevelopment Commission and the Evansville Redevelopment Authority states: "Whereas, Assignor and Assignee desire to clarify that any and all additional Property Contracts (as defined in the Original Assignment) and any other agreements or costs incurred related to the Project (as defined in the Original Assignment) entered into subsequent to the date of the Original Assignment are included in the scope of the Original Assignment;"

The original assignment and assumption of construction contracts defines the Project as "the acquisition, construction and equipping of a new Multi-Purpose Arena."

The original assignment and assumption of construction contracts defines Property Contracts as "all construction contracts and subcontracts, all architectural contracts, engineering contracts and other design contracts and purchase agreements now existing for the design, development, construction, equipping, operation or maintenance of the Project."

In summary, the City should request payment from the Redevelopment Authority of the balance remaining in the additional project trust account at December 31, 2012, and the amount expended from the trust account by the Authority to retire the 2009 BANS for a total of $1,808,142.

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

SUPPLEMENTAL AUDIT OF

FEDERAL AWARDS

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the City of Evansville's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Adverse Opinion on the CDBG - State-Administered CDBG Cluster

As described in item 2012-5 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Subrecipient Monitoring that are applicable to the CDBG - State-Administered CDBG Cluster. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

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

Adverse Opinion on the CDBG - State-Administered CDBG Cluster

In our opinion, because of the significance of the noncompliance described in the *Basis for Adverse Opinion on the CDBG - State-Administered CDBG Cluster* paragraph, the City did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the CDBG - State-Administered CDBG Cluster for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

Other Matters

The City's response to the noncompliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-5 to be material weaknesses.

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

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

May 2, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

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

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
Department of Agriculture				
Cooperative Forestry Assistance	Indiana Department of Natural Resources			
Put The Trees Back		10.664	12-1115-0-1-302	$ 9,882
Total - Department of Agriculture				9,882
Department of Housing and Urban Development				
CDBG - Entitlement Grants Cluster				
Community Development Block Grant/Entitlement Grants	Direct grant	14.218	B-10-MC-18-0002	1,141,899
			B-11-MC-18-0002	2,652,805
			B-12-MC-18-0002	4,721
Total Community Development Block Grant/Entitlement Grants				3,799,425
ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	Direct grant	14.253	B-09-MY-18-0002	331,035
Total CDBG - Entitlement Grants Cluster				4,130,460
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Direct grant	14.228	A192-11-DR2-09-131	1,479,883
Total CDBG - State-Administered CDBG Cluster				1,479,883
Emergency Solutions Grant Program	Direct grant	14.231	S-10-MC-18-0002	8,167
			E-11-MC-18-0002	70,739
Total - Emergency Solutions Grant Program				78,906
HOME Investment Partnerships Program	Direct grant	14.239	M-05-MC-18-0201	20,557
			M-06-MC-18-0201	18,726
			M-07-MC-18-0201	111,771
			M-08-MC-18-0201	40,000
			M-09-MC-18-0201	361,812
			M-10-MC-18-0201	364,008
			M-11-MC-18-0201	113,830
Total - HOME Investment Partnership Agreement				1,030,704
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	Direct grant	14.251	B-08-SP-IN-0098	195,844
ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	Direct grant	14.256	B-08-MN-18-003	730,699
ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	Direct grant	14.257	S-09-MY-18-0002	238,173
Fair Housing Initiatives Program	Direct grant	14.408	FF205K115016	6,250
			FF205K125016	32,894
Total - Fair Housing Initiatives Program				39,144
Total - Department of Housing and Urban Development				7,923,813
Department of Justice				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program	Direct grant	16.738	2011-DJ-BX-3343	50,243
			2010-DJ-BX-0811	8,362
Total - Edward Byrne Memorial Justice Assistance Grant Program				58,605
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Governments	Direct grant	16.804	2009-SB-B9-0410	136,398
Total - JAG Program Cluster				195,003
Bulletproof Vest Partnership Program	Direct grant	16.607	Bulletproof Vest FY2	1,306
Public Safety Partnership and Community Policing Grants	Direct grant	16.710		
COPS Secure Our Schools (SOS)			2010-CK-WX-0734	1,226
COPS Hiring Program (CHP)			2010-UM-WX-0119	166,426
Total - Public Safety Partnership and Community Policing Grants				167,652

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

CITY OF EVANSVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012
(Continued)

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
Department of Homeland Security (continued)				
ARRA - Recovery Act - Internet Crimes Against Children Task Force Program (ICAC)	Indiana State Police	16.800	2008-MC-CX-K0006 FY09	10,000
			2008-MC-CX-K0006 FY10	8,500
			2008-MC-CX-K0006 FY11	4,340
Total - ARRA - Recovery Act - Internet Crimes Against Children Force Program (ICAC)				22,840
Total - Department of Justice				386,801
Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction				
Oak Hill Road - Phase II ROW only	Indiana Department of Transportation	20.205	DES 0710494	299,719
Lincoln to Newburgh Road+A76			DES 1006080	122,406
Green River Road and Lincoln Intersection Improvement			DES 9804060	125,012
Washington and Weinbach Intersection Improvement			DES 1006024	93,240
Pedestrian Overpass from Wesselman Park (SR66)			DES 0100574	67,022
Total - Highway Planning and Construction Cluster				707,399
Federal Transit Cluster				
Federal Transit - Formula Grants	Indiana Department of Transportation	20.507	IN-90-X631-00	573,897
			IN-90-X583	16,825
			IN-90-X603-01	770,322
			IN-90-X623(11)	706,922
ARRA - Federal Transit - Formula Grants	Direct grant	20.507	IN-96-X007-01	26
Total - Federal Transit Cluster				2,067,992
Transit Services Program Cluster				
Job Access And Reverse Commute Program	Direct grant	20.516	IN-37-X033-01	99,858
New Freedom Program	Direct grant	20.521	IN-57-X062-00	66,400
Total - Transit Services Program Cluster				166,258
Highway Safety Cluster				
State and Community Highway Safety				
Big City/Big County Seat Belt Enforcement Program	Vanderburgh County	20.600	PT-11-04-04-50	19,963
Big City/Big County Seat Belt Enforcement Program	Vanderburgh County		D3-12-6446	75,849
Total - State and Community Highway Safety				95,812
Alcohol Impaired Driving Countermeasures Incentive Grants I				
Dangerous Driving Enforcement Program	Vanderburgh County	20.601	CA-2011-08-01-19	14,603
	Vanderburgh County		K8-2011-03-03-30	9,863
DUI Task Force Enforcement Program	Vanderburgh County		D3-12-6226	31,868
Total - Alcohol Impaired Driving Countermeasures Incentive Grants I				56,334
Total - Highway Safety Cluster				152,146
ARRA - Transportation Infrastructure Finance and Innovation Act (TIFIA) Program	Indiana Department of Transportation	20.223	DES 0101271	15,309
Total - Department of Transportation				3,109,104
Equal Employment Opportunity Commission				
Employment Discrimination Title VII of the Civil Rights Act of 1964	Indiana Equal Employment Opportunity Commission	30.001	EECN120016	66,800
Total - Equal Employment Opportunity Commission				66,800
Environmental Protection Agency				
Capitalization Grants for Clean Water State Revolving Funds	Indiana Finance Authority	66.458	WW08138205	539,536
			WW11228207	1,491,472
			WW08138205	2,295,089
			WW09128206	2,176,418
			WW09218208	252,454
			WW08138209	1,128,642
Total - Environmental Protection Agency				7,883,611
Department of Energy				
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	Direct grant	81.128	DE-SC0002939	355,999
Total - Department of Energy				355,999

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

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
Department of Health and Human Services				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance				
No Stoner Left Unturned	Substance Abuse Council of Vanderburgh County	93.243	12LE04	6,080
Have You Been Drinking			12LE05	8,914
Total - Department of Health and Human Services				14,994
Department of Homeland Security				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Indiana Department of Homeland Security			
Disaster Recovery/Fence		97.036	IN DR1997-163-UFUYS	2,311
HTG-004 Debris Removal			1997-DR-IN	29,153
Disaster Recovery/Fence			IN-DR-1997-163-02797	1,801
Storm Damage			DR-INP-1997	540,918
Total - Disaster Grants - Public Assistance (Presidentially Declared Disasters)				574,183
Emergency Management Performance Grants	Vanderburgh County	97.042	EDS# C44P-3-310-B	31,148
Assistance to Firefighters Grant Program	Direct grant	97.044	EMW-2010-FR-00260	81,264
State Homeland Security Program (SHSP)	Indiana Dept of Homeland Security	97.073	2010-SS-T0-0038	3,335
Total - Department of Homeland Security				689,930
Total federal awards expended				$ 20,440,934

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

CITY OF EVANSVILLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Evansville (City) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2012:

Program Title	Federal CFDA Number	2012
Community Development Block Grant/Entitlement Grants	14.218	$ 1,071,712
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	1,479,883
HOME Investment Partnerships Program	14.239	964,839
ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	14.256	24,000

Note 3. Loans Outstanding

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

Program Title	Federal CFDA Number	2012
ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	14.256	$ 80,971

CITY OF EVANSVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Adverse - CDBG - State-Administered CDBG Cluster; Unmodified - All other major programs
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	CDBG - State-Administered CDBG Cluster
14.239	HOME Investment Partnerships Program
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: $613,228

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

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

We noted a deficiency in the internal control system of the City related to financial transactions and reporting. We believe the following deficiency constitutes a material weakness:

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

The financial statement of the City was prepared from information entered by the City into the Gateway annual financial report. The City's beginning balances, receipts and disbursements, as originally reported in the annual financial report, did not reflect the actual activity of the City. Therefore, the financial statement presented for audit was not reflective of the financial activity of the City. Subsequent audit adjustments were proposed, accepted by the City, and made to the financial statement presented in this report in order to more accurately reflect the financial activity of the City.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under Indiana Code 5-14-3.8-7."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2012-2 - INTERNAL CONTROLS AND COMPLIANCE OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, errors noted include several instances of each of the following: State and local grants were included on the SEFA, program expenditures were misstated, programs were omitted, program names were incorrect or omitted, CFDA numbers were incorrect, awards received as a subrecipient were presented as direct awards, pass-through entity numbers were incorrect or omitted, pass-through entity names were incorrect or omitted, and separate awards within a program were not presented separately with the pass-through entity's identification number as required. Additionally, one program funded by the American Recovery and Reinvestment Act was not separately identified on the SEFA by the inclusion of the prefix "ARRA-" as required. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section.310."

OMB Circular A-133, Subpart C, section .310(b) states:

"<u>Schedule of expenditures of Federal awards</u>: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

(1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision I the Department of Health and Human Services.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and indentifying number assigned by the pass-through entity shall be included.

(3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

(4) Include notes that describe the significant accounting policies used in preparing the schedule.

(5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.

(6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

2 CFR 176.210(b) states in part:

"For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A–133, 'Audits of States, Local Governments, and Non-Profit Organizations,' recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF–SAC) required by OMB Circular A–133 . . . This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix 'ARRA-' in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC."

FINDING 2012-3 - INTERNAL CONTROL AND COMPLIANCE - BANK ACCOUNT RECONCILIATIONS

City cash and investment fund balances, including Water and Wastewater funds, were not properly reconciled to bank balances. Multiple bank reconcilements were presented for audit. Numerous errors were noted on the City's bank reconcilements. These errors included the following: one bank account was not included in the reconcilements, incorrect bank balances were used, and outstanding check amounts were incorrect. As a result of incomplete and inaccurate reconcilements, improper accounting for cash and investments and incorrect postings to records remained undiscovered. When aggregated, the errors and discrepancies noted on the bank reconcilement resulted in a difference between the record balance and bank balance that was not considered material. As a result, the opinion on the financial statement was not modified with respect to this issue.

New accounting software was implemented during 2011. During 2012, the City implemented various changes to recording procedures. In addition, prior to 2012, most cash and investments of the Water and Wastewater Utilities were accounted for in the City's bank account. During 2012, separate bank accounts were established; however, the exact cash and investment balance of each Utility was not moved to the new bank accounts at that time. Some of the cash and investment balances were moved to the new bank accounts in 2013, but the remaining amount had not been moved as of May 2, 2014. The City should determine the exact amount due to each Utility and transfer the balances to the appropriate bank account.

The City has not identified risks to the preparation of a reliable bank reconciliation and as a result has failed to design effective controls over the preparation of the bank reconciliation to prevent, or detect and correct, material misstatements.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2012-4 - INTERNAL CONTROL AND COMPLIANCE - INCORRECT OR MISSING POSTINGS IN THE PAYROLL FUND

Many payroll transactions tested during the audit were posted incorrectly. Some transactions were not posted to the payroll fund but were disbursed from the payroll bank account. When this information was brought to the City's attention, the City made adjustments to the payroll fund which resulted in the payroll transactions being materially correct as reported on the financial statement.

New financial accounting software was implemented by the City during 2011. In March 2012, the City began using the same software for their payroll processing. The method of handling various payroll transactions changed multiple times throughout 2012.

The City has failed to design effective controls over the postings to the payroll fund to prevent, or detect and correct, material misstatements.

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

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-5 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): A192-11-DR2-09-131
Pass-Through Entity: Direct Grant

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Subrecipient Monitoring compliance requirements that have a direct and material effect to the program. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Subrecipient Monitoring

The City was not aware of their responsibilities as the pass-through entity for the federal funds provided to the Evansville Levee Authority District (ELAD). As a result, the City did not comply with the following federal requirements:

- The City did not have a signed Subrecipient Agreement with the Evansville Levee Authority District (ELAD), the Subrecipient of the federal funds, resulting in the City not making the ELAD aware of the award information (CFDA title and number, award name and number and name of the federal awarding agency) and requirements imposed by laws, regulations, and the provisions of contract or grant agreements.

- The City, as the pass-through entity, did not monitor activities performed during the award by the ELAD to determine reasonable assurance that the Subrecipient used federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.

OMB Circular A-133, Subpart D, section .400 states in part:

"(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements noted above that have a direct and material effect on the program. We also recommended that the City monitor all subrecipients as required.

City of Evansville
Office of the Controller
CIVIC CENTER COMPLEX, Room 300
ONE N. W. MARTIN LUTHER KING JR. BLVD.
EVANSVILLE, IN 47708

Lloyd Winnecke, Mayor

Russell Lloyd Jr. CPA, Controller

May 2, 2014

Indiana State Board of Accounts
302 W. Washington St. Room E418
Indianapolis, IN 46204-2765

CORRECTIVE ACTION PLAN FOR 2012 FEDERAL FINDINGS

Dear State Board Member(s):

Section II Financial Statement Findings

FINDING 2012-1, INTERNAL CONTROLS AND COMPLIANCE ISSUE OVER FINANCIAL TRANSACTIONS AND REPORTING

In 2011 the City of Evansville converted the obsolete 25 year old computer financial accounting software system to the new Tyler Technology MUNIS financial accounting ERP system. During implementation there were errors in fund transactions, pooled cash and bank account set ups combined with inadequate training and personnel project management, therefore the City was unable to reconcile bank accounts and subsequent fund balances for the year 2011 until September 2012. The City engaged Tyler Technology and financial consulting experts to correct set up and install necessary controls over transactions. "Best Practice" standard set up schemes used throughout the Tyler Technology municipal accounting universe have been implemented. The new set up scheme allows accurate accounting and reconcilement of bank accounts and fund balances as well as improved supervisory monitoring. These improvements continue to be implemented and the City believes the accounting for the federal programs for 2012 is in balance and includes all transactions that would limit material risk and correct the material weakness in future years. The City also asserts the bank accounts are reconciled for the federal programs.

FINDING 2012-2, INTERNAL CONTROL AND COMPLIANCE ISSUES – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City has operated for many years using a decentralized management system for financial accounting requirements within the Schedule of Expenditures of Federal Awards (SEFA). Individual City unit and department heads work with the City Controller to supervise and monitor federal and state grant awards, expenditures and record keeping.

During 2013 the Deputy City Controller assumed responsibility for the City's federal and state grant overall compliance and financial reporting. In 2014 the City hired an experienced employee as a Grants Manager with primary responsibility for compliance, monitoring, review and implementation of federal and state grants to further improve performance in this area.

The Deputy City Controller also implemented a quarterly review program to send inquiries to City Departments that receive federal funds through grants and other means to determine status of federal grants and programs. This change in policy with quarterly or semiannual review will allow the Finance Dept. to determine in advance any deficiencies in federal reporting and certifications for appropriate corrective action.

One material exception was noted in the Evansville Wastewater Utility where SEFA funds were not included on the grant schedule. Both City Finance and Utility accounting personnel were informed of current federal and state law and regulations regarding correct reporting on these SEFA items and understand proper reporting.

FEDERAL FINDING 2012-3, INTERNAL CONTROL AND COMPLIANCE ISSUE – BANK ACCOUNT RECONCILIATIONS

The City disputes the auditor's characterization that City fund balances were not properly reconciled to bank accounts. There were some City and Utility payroll accounts that were improperly reconciled with differences to funds that are not material. The City provided the auditor with a City only bank reconcilement and an "all bank to all funds" reconcilement. The starting point was the same and there were changes made in correcting entry columns, outstanding checks and deposits and reconciling adjustments.

As noted above the Tyler Technology MUNIS financial system "Best Practices-Treasury Funds" financial reporting system was implemented effective Oct. 1, 2012. It took several additional months for the City Finance Dept. accounting staff to fully understand the system and make necessary corrections to fully utilize the audit and control features. This includes the bank account reconciliations which are performed monthly.

The benefits of the system were not fully understood or implemented by the Dec. 31, 2012 audit ending date. However, since that time the City has made great progress in preparing balanced bank reconciliations, recording accurate transactions and correcting fund balances in 2013 so all funds are now in balance. The system controls are used on funds and daily cash is reviewed and exceptions identified. The City is using available computer system internal controls and coupled with enhanced control procedures feels the material weaknesses have been corrected although some of these corrections were made after the audit date.

The City Controller and responsible City department directors that use federal funds believe the accounting for all the federal and state grant programs are presented in the fund balances and include all transactions.

FEDERAL FINDING 2012-4, INTERNAL CONTROL AND COMPLIANCE ISSUE – INCORRECT OR MISSING POSTINGS IN THE PAYROLL FUND

The City has reconciled all the payroll funds and corresponding bank accounts as of 2012. As noted above, the City of Evansville converted the previous obsolete computer financial accounting system to the new Tyler Technology MUNIS financial accounting system. The Tyler MUNIS payroll module was implemented in March 2012.

The City's difficulty with the computer system's overall fund transactions and bank reconciliations also applied to payroll accounts. The corrections of the payroll accounting, the fund transactions and bank account set up engendered several correcting initiatives in 2012 and the following year as experience was gained with the operating system.

Separate payroll accounts for the Water District and Wastewater Utility were established. The City has expended substantial resources using Tyler Technology professionals and outside financial consultants to implement improved procedures to correct transaction reporting, disbursing and bank account reconciliation. The payroll funds' correcting entries have been posted in 2012 and in future periods. The City believes the fund balances and bank account reconciliations are largely accurate and any future adjustments are not material.

Section III Federal Award Findings and Questioned Costs

FINDING 2012-5, INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): A192-11-DR2-09-131
Pass Through Entity: Direct Grant

The federal award A192-11-DR2-09-131 was a direct grant awarded to the City of Evansville intended to be awarded as a pass through grant to benefit the Evansville Vanderburgh Levee Authority District (EVLAD), a separate legal entity. The EVLAD was responsible for all reporting and disbursement of the grant and the City had no other responsibility for the award.

City personnel realize a sub recipient agreement should have been enacted between the City of Evansville and the EVLAD. This was discussed with City Finance Dept. staff and the Executive Director of the Evansville Vanderburgh Levee Authority District.

Prior City policy is individual City unit and department heads work with the City Controller to supervise and monitor federal and state grant awards, expenditures and record keeping in a decentralized manner. During 2013 the Deputy City Controller assumed management for the federal and state grant overall compliance and financial reporting. Now in 2014 the City hired an experienced employee as a Grants Manager with primary responsibility for compliance, monitoring, review and implementation of federal and state grants.

The Deputy City Controller also implemented a quarterly review program to send inquiries to City Departments that receive federal and state funds through grants and other means to determine status of federal grants and programs. This change in policy with quarterly or semiannual review will allow the Finance Dept. to determine in advance any deficiencies in federal reporting and certifications for appropriate corrective action.

The City's enhanced procedures for federal and state grant compliance will allow better control, review and monitoring over new and existing grants including those issued to separate entities, such as the EVLAD.

Please contact me at 812-436-4916 or email rlloyd@evansvillegov.org if any questions.

Sincerely,

Russell Lloyd CPA

Russell G. Lloyd Jr., CPA
Controller

City of Evansville
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May 2, 2014

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OFFICIAL RESPONSE TO 2012 AUDIT

Reference: Official Response to 2012 State Board of Accounts Audit of the Financial Statements of the City of Evansville

Dear State Board Member(s):

The City of Evansville ("the City") recognizes the efforts put forward by the Indiana State Board of Accounts ("the State") performing the 2012 financial statement audit for the City. We submit below our responses to your audit findings. Our responses detail our understanding of the issues raised by the State and outline the City's expected course of action to resolve these issues.

For purposes of this letter, we are referring to the financial statement audit for the fiscal year ending 2012. Presented in order are the audit results and comments raised by the State and addressed by the City.

BANK ACCOUNT RECONCILIATIONS (City, Water Utility and Wastewater Utility)

In 2011 the City of Evansville converted the obsolete 25 year old computer financial accounting software system to the new Tyler Technology MUNIS financial accounting ERP system. During implementation there were errors in fund transactions, pooled cash and bank account set ups combined with inadequate training and personnel project management, resulting in the City being unable to reconcile bank accounts and subsequent fund balances for the year 2011 until September 2012. The City engaged Tyler Technology and external financial consulting experts to correct system set ups and install necessary controls over transactions. "Best Practice" standard set up schemes used throughout the Tyler Technology municipal accounting universe have been implemented. The new set up schemes allow accurate accounting and reconcilement of bank accounts and fund balances as well as improved supervisory monitoring.

These improvements continue to be implemented and the City believes the financial accounting for 2012 is now in balance and includes all transactions that would limit material risk and should correct the material weakness identified in future years.

The City disputes the auditor's characterization that City fund balances were not properly reconciled to bank accounts for the full year. There were some City and Utility payroll accounts that were improperly reconciled with differences to funds that are not material. The City provided the auditor with a City only bank reconcilement and an "all bank to all funds" reconcilement that were the complementary. The starting point was the same and there were changes made in correcting entry columns, outstanding checks and deposits and reconciling adjustments during the audit. The City identified automated system payroll entries and separated out manually generated entries and subsequently reconciled to the 2012 year end payroll registers.

As noted above the Tyler Technology MUNIS financial system "Best Practices-Treasury" financial reporting system was implemented effective Oct. 1, 2012. It took several additional months after the audit end date for the City Finance Dept. accounting staff to fully understand the system and make necessary corrections to fully utilize the audit review and control features. This includes the bank account reconciliations which are performed monthly.

The City enacted a long standing State audit recommendation and separated the City general checking account from the Water Utility and the Wastewater Utility accounts during 2012. The documented difficulties encountered by the City accounting staff during 2012 in reconciling the funds and transactions prohibited the City from transferring the exact amount due to the Utilities to the separate accounts as of the audit date. At the current time the City has calculated the approximate amounts due to the Utilities to transfer and is making provisions to do so.

The City accounting staff is now preparing timely balanced bank reconciliations, recording accurate transactions and correcting fund balances so all funds are now in balance. The system controls are used on funds and daily cash entries are reviewed and exceptions identified. The City is using available computer system internal controls, coupled with enhanced control procedures to correct possible material weaknesses and control risk.

ANNUAL REPORT (City, Water Utility and Wastewater Utility)

Unfortunately residual transaction errors from 2011 and computer conversion system incorrect set up and transaction flows contributed to certain inaccurate year end fund balances presented in the City's 2012 annual report. During 2012 the City engaged Tyler Technology and financial consulting experts to correct system set ups and install necessary controls over transactions. The new "Best Practice" standard set up schemes will allow accurate accounting and reconcilement of bank accounts and fund balances as well as improved supervisory monitoring. These improvements continue to be implemented and the City believes the fund accounts and transactions for 2012 is now in balance and includes all transactions that would limit material risk and correct the material weakness in future years' annual reports.

BUY MONEY – POLICE (City)

The Buy Money program is an integral part of police operations and the City administration with the cooperation of the City legal staff will review the options available. The City will look to establish an ordinance allowing this program that also meets law enforcement's flexibility requirements.

PARKING METER FEES (City)

Indiana Code 36-9-12-4(2) states that receipts of this nature should be deposited into a special fund and disbursements should be made against that fund for authorized purchases. The City has considered establishing such a parking meter fund and deposit parking meter receipts into the fund as long as the resulting accounting and reporting requirements are not burdensome. Current parking receipts fall far short of matching the expenditures of the parking meter employees and department. Items such as accounts payable in the new fund have to be investigated to determine the fund does not create reconciliation problems or operate with negative fund balances.

SEPARATE BANK ACCOUNTS (City)

The City while maintaining the funds in the general bank account has accounted for the funds for the Vanderburgh County Solid Waste Management District (VCSWMD) separately and the entity has claim on the cash that is available to that entity when needed and authorized. The City manages the transactions for the VCSWMD which are few due to the small size of the entity. The City will review the costs and benefits determined by using a separate bank account for this entity.

OVERDRAWN CASH BALANCES (City)

The City's long standing cash management policy is to minimize transfers between funds and to evaluate the annual accounting period as a whole, not as a series of 365 days. The City is aware that certain cash balances in particular funds may fall below zero on a given day. This is due to sporadic revenue streams and constant disbursement requests. It is the City's established policy that each department and correlated fund manage their budget throughout the year to ensure all funds begin and end the year with a positive cash balance. In the situation where the City knows in advance a fund will end the period with a negative cash balance, the City will issue a temporary loan to that fund and establish repayment terms no later than June of the following year.

Additionally, some funds such as federal type funds are operated on a reimbursement basis. In these circumstances the City will incur costs and then by reimbursed. On an interim basis the fund balance may fall below zero. It is the City's policy to be aware of these instances and ensure that those funds with a negative balance are offset by receivables (reimbursements) in excess of the shortfall.

COMPENSATORY TIME IN EXCESS OF FEDERAL MAXIMUM ALLOWED (City)

The City's policy is to follow all state and federal employment law and labor regulations. City management is aware of the excess federal compensatory time awarded to individuals as of

December 31, 2012. Much of this was awarded in prior years under prior administrative management guidelines. Current City policy is to limit the awarding of compensatory time where possible and use existing available funds to purchase compensatory time to gradually work off the accumulated balance. For example, one City non bargaining unit employee who was awarded excess compensation time in prior years is now required to use this on a regular schedule to reduce the balance.

The City has to abide by labor contract agreements and sporadic, limited budgeted fund availability. These factors combine to constrain the actual compensatory time purchased during any given year. Additionally, certain collective bargaining rules hinder management's ability to lower compensatory time awarded. When employees are separated from City employment their compensatory time is paid out and the overall balances are lowered. Over time the City believes these hours will diminish below the federal maximum allowed with active management.

PAYMENT BY THE CITY OF EVANSVILLE OF CAPITALIZED INTEREST ON THE EVANSVILLE REDEVELOPMENT AUTHORITY LEASE RENTAL REVENUE BONDS SERIES 2010B (City)

This question is similar to Question 3 included in the Agreed Upon Procedures Report prepared by the State Board of Accounts to the City of Evansville for an examination of the Ford Center Construction Project which analyzed aspects of the Ford Center bond issuance and construction from 2009 to project completion in 2012.

The City does not agree with the substance of this finding and would contend payment by the City of Evansville (Evansville Redevelopment Commission – ERC) to the capitalized interest account is not an issue and the Evansville Redevelopment Authority (ERA) does not owe $ 3,696,899 to the City ERC. The City and the bond trustee agreed to transfer funds to the capitalized interest account as a simpler method of accounting when the construction was winding down. The ERC's legal intent through the bond indenture was to pay out the capitalized interest sub-accounts (to $ 0.00), then pay for the arena construction from the construction accounts with any remaining funds. After completion any remaining funds are being held in the construction accounts and/or in the additional projects fund.

The City transferred available Food and Beverage tax money and other funds to the 2010B capitalized interest account instead of the 2010B construction account. It is the City's position that Food and Beverage tax funds which preferably are used for debt payments should be deposited in capitalized interest as a simpler method of accounting rather than commingled with construction funds.

The City Attorney reviewed the bond indenture and believes that the quoted language was a rephrasing of Section 3.01 (a) (3) thereof. That language is meant for the purpose of describing funds (the Series A Construction Account and the subaccount of the Series B Construction Account into which a Build America Bond Subsidy Payment was required to be and has been deposited) from which bond holders could force the City to make payments on capitalized interest accruing on the bonds. It was not intended to limit the City from making payments on capitalized interest accruing on the bonds from other funds available to the City which the City might determine to use for that purpose.

In the City Attorney's opinion, it is not inappropriate or contrary to the language of the indenture for the City to transfer Food and Beverage or other available funds to pay capitalized interest.

While the State's finding quoting the bond prospectus is technically true in a narrow legal sense, in practicality any money paid by ERA to the City as a "capitalized interest overpayment" would be paid right back to ERA by the City for the next lease payment and bond payments. This was paid in January 2013 for the February bond payment. As noted above the bond indenture calls for the payout of the capitalized interest sub-accounts, and this result was obtained through account transfers made after the substantial completion of the Ford Center Arena. The City does not believe requesting cash repayment from the ERA to reimburse capitalized interest serves a useful purpose. The bondholders and leaseholder have received bond and lease payments since 2010 as per the bond indenture and lease agreement and the City knows of no objections noted by any parties, legal or otherwise. The capitalized interest accounts are now inactive with zero fund balances and the City had considered this matter closed. However, to acknowledge the technical nature of the State's finding the City will draft a resolution to be considered by the ERC describing the payments to the capitalized interest account, the subsequent drawdown and the disposition of the remaining balance.

AMOUNT DUE FROM THE EVANSVILLE REDEVELOPMENT AUTHORITY (City)

The City agrees with the language cited by SBOA that the arena construction project was substantially complete on September 30, 2011. Practically, the redemption of the bond anticipation notes (BANs) was the correct policy and appropriate as well as the normal legal and financial action. Again it should be noted the intent of the ERA and ERC through the bond indenture was to redeem the construction BANs as part of the bond issuance and fund the construction project with remainder amounts to be held in and disbursed through the construction accounts. The retirement of the BANs was stipulated in the financing agreements entered into between the City, ERA, ERC, private financial institutions and within the bond indenture.

The City (ERC) is aware of the remaining $1,312,602 balance in the additional projects trust account fund held by the trustee and could obtain these funds at any time. As a practical matter the ERC and ERA choose to leave the funds with the trustee in the additional projects trust account for later disbursement on a future project that will benefit the Ford Center Arena.

We feel that while this finding may have a narrow technical legal basis, in reality the funds were correctly paid out. The City and City Attorney do not believe the ERA needs to pay these funds direct to the City. The City ERC is the controlling legal authority for these funds and plans to disburse them for the benefit of the Ford Center Arena. However, as noted above, to acknowledge the technical nature of the State's finding the City will draft a resolution to be considered by the ERC describing the redemptions of the BANs and the disposition of the remaining balance.

Please contact me at 812-436-4919 or email rlloyd@evansvillegov.org if any questions.

Respectively submitted,

Russell G. Lloyd CPA

Russell G. Lloyd Jr., CPA

Controller