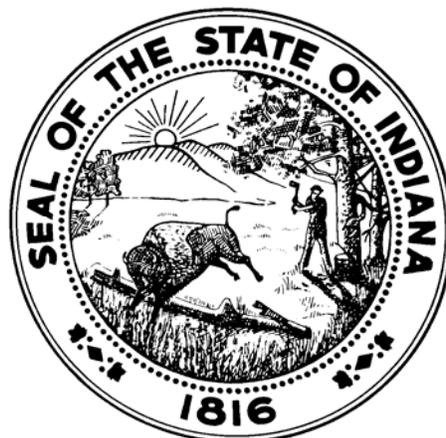


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

EXAMINATION REPORT
OF
TOWN OF HUDSON
STEUBEN COUNTY, INDIANA
January 1, 2004 to December 31, 2005



FILED
11/17/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials.....	2
Independent Accountant's Report.....	3
Schedule of Receipts, Disbursements, and Cash and Investment Balances.....	4-5
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances.....	6
Notes to Schedules.....	7
Examination Results and Comments:	
Ordinances and Resolutions.....	8
Computer Billing Report Inadequacies.....	8
Computer Output.....	8
Loan of Utility Funds.....	9
Exit Conference.....	10

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Atta E. Hayes	01-01-04 to 12-31-07
President of Town Council	Sean Walker	01-01-04 to 12-31-07
Superintendent of Utilities	Edward Miller	01-01-04 to 12-31-06
Town Manager	Ward Odom	01-01-04 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF HUDSON, STEUBEN COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Town of Hudson (Town), for the period of January 1, 2004 to December 31, 2005. The Town of Hudson's management is responsible for the schedules. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the schedule of receipts, disbursements, and cash and investment balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedules referred to above present fairly, in all material respects, the cash transactions of the Town of Hudson for the year's ended December 31, 2004 and 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

October 25, 2006

TOWN OF HUDSON
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2004 And 2005

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 7,555	\$ 150,856	\$ 150,531	\$ 7,880
Motor Vehicle Highway	5,761	44,287	48,814	1,234
Local Road and Street	3,818	4,584	8,402	-
Tax Incremental Financing	29,442	100,991	127,840	2,593
Law Enforcement Continuing Education	364	5,665	5,833	196
Park Donation	454	731	689	496
Fremont Grant	2,191	250	656	1,785
FEMA Grant	(1,158)	1,158	-	-
OPO-DUI Grant	2,562	22,796	25,358	-
Local Law Enforcement Block Grant	-	3,346	-	3,346
Debt Service	-	5,311	5,311	-
Cumulative Capital Improvement	-	2,715	2,715	-
Cumulative Capital Development	5,815	4,365	10,180	-
County Economic Development Income Tax	22,104	42,772	63,543	1,333
Proprietary Funds:				
Water Utility - Operating	28,519	229,332	231,898	25,953
Water Utility - Bond and Interest	47,665	10,376	8,350	49,691
Water Utility - Reserve Fund	20,846	-	-	20,846
Water Utility - Customer Deposits	9,030	1,950	3,275	7,705
Wastewater Utility - Operating	61,345	133,365	138,783	55,927
Wastewater Utility - Bond and Interest	14,943	10,507	10,030	15,420
Wastewater Utility - Reserve Fund	5,948	-	-	5,948
Fiduciary Fund:				
Payroll	-	143,107	143,107	-
Totals	<u>\$ 267,204</u>	<u>\$ 918,464</u>	<u>\$ 985,315</u>	<u>\$ 200,353</u>

The accompanying notes are an integral part of the schedules.

TOWN OF HUDSON
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2004 And 2005
(Continued)

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 7,880	\$ 217,389	\$ 174,874	\$ 50,395
Motor Vehicle Highway	1,234	72,327	55,610	17,951
Local Road and Street	-	4,514	715	3,799
Tax Incremental Financing	2,593	122,136	54,633	70,096
Law Enforcement Continuing Education	196	1,268	240	1,224
Park Donation	496	3,356	3,123	729
Fremont Grant	1,785	-	-	1,785
Fire Truck Grant	-	170,000	170,000	-
OPO-DUI Grant	-	30,005	25,435	4,570
Local Law Enforcement Block Grant	3,346	574	3,143	777
Cumulative Capital Improvement	-	8,813	368	8,445
Cumulative Capital Development	-	6,238	2,653	3,585
County Economic Development Income Tax	1,333	23,330	19,858	4,805
Proprietary Funds:				
Water Utility - Operating	25,953	234,804	241,803	18,954
Water Utility - Bond and Interest	49,691	20,662	18,329	52,024
Water Utility - Reserve Fund	20,846	-	-	20,846
Water Utility - Customer Deposits	7,705	1,450	1,140	8,015
Wastewater Utility - Operating	55,927	170,155	146,071	80,011
Wastewater Utility - Bond and Interest	15,420	10,448	9,695	16,173
Wastewater Utility - Reserve Fund	5,948	-	-	5,948
Fiduciary Fund:				
Payroll	-	154,836	154,836	-
Totals	<u>\$ 200,353</u>	<u>\$ 1,252,305</u>	<u>\$ 1,082,526</u>	<u>\$ 370,132</u>

The accompanying notes are an integral part of the schedules.

TOWN OF HUDSON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
As Of And For The Years Ended December 31, 2004 And 2005

	Water Utility		Wastewater Utility	
	2004	2005	2004	2005
Operating receipts:				
Measured receipts	\$ 56,393	\$ 59,729	\$ 125,178	\$ 132,825
Penalties	9,629	2,177	5,265	6,851
Fire protection receipts	5,925	5,250	-	-
Connection receipts	1,200	1,200	1,600	1,600
Other	277	2,859	947	249
Total operating receipts	73,424	71,215	132,990	141,525
Operating disbursements:				
Salaries and wages	26,885	30,503	24,991	27,630
Employee pensions and benefits	918	845	918	918
Purchased power	-	-	3,734	4,342
Material and supplies	6,588	3,848	5,321	7,221
Contractual services	28,864	23,786	57,632	58,371
Insurance disbursements	543	743	446	778
Other	3,568	8,068	35,233	7,963
Total operating disbursements	67,366	67,793	128,275	107,223
Excess of operating receipts over operating disbursements	6,058	3,422	4,715	34,302
Nonoperating receipts (disbursements):				
Interest and investment receipts	427	372	374	230
Debt service principal	(4,000)	(4,000)	(4,000)	(4,000)
Debt service interest	(4,350)	(4,150)	(6,030)	(5,695)
Total nonoperating receipts and disbursements	(7,923)	(7,778)	(9,656)	(9,465)
Deficiency of receipts over disbursements and nonoperating receipts and disbursements	(1,865)	(4,356)	(4,941)	24,837
Transfers in	167,807	185,329	10,506	38,848
Transfers out	(167,807)	(185,329)	(10,506)	(38,848)
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(1,865)	(4,356)	(4,941)	24,837
Cash basis fund balance - beginning	106,060	104,195	82,236	77,295
Cash basis fund balance - ending	<u>\$ 104,195</u>	<u>\$ 99,839</u>	<u>\$ 77,295</u>	<u>\$ 102,132</u>

The accompanying notes are an integral part of the schedules.

TOWN OF HUDSON
NOTES TO SCHEDULES

Note 1. Introduction

The Town of Hudson was established under the laws of the State of Indiana. The Town of Hudson provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, urban re-development, water and wastewater.

Note 2. Fund Accounting

The Town of Hudson uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town of Hudson in June and December. 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% 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 become delinquent if not paid by May 10 and November 10, respectively.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were 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 statute (IC 5-13-9) authorizes the Town of Hudson 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 6. Long-Term Debt

The Town of Hudson has entered into the following debts: revenue bonds for the construction of municipal wastewater and waterworks systems, and loans for a dump truck and TIFF Improvements for the Western Extension Project. The outstanding principal at December 31, 2005, was \$79,000, \$66,000, \$23,846 and \$102,291, respectively.

TOWN OF HUDSON
EXAMINATION RESULTS AND COMMENTS

ORDINANCES AND RESOLUTIONS

The Town adopted a rate ordinance in July 2003 for the charges to be assessed for water usage. A test of billings disclosed that the rates charged for the first 2,500 gallons did not agree with those provided for in the rate ordinance. This is a repeat of an Audit Result and Comment for Report B23499.

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

COMPUTER BILLING REPORT INADEQUACIES

The Utilities' subsidiary ledger, Payment Detail Report, did not agree with control ledger, Summary of Receipts Deposited, for the months tested (January 2004 and December 2005). A similar comment was made in prior Report B23499.

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)

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

COMPUTER OUTPUT

Past due amounts on the Billing Register do not reflect separate amounts for water, wastewater and garbage. Town officials could not produce any reports that support utility penalty calculations. We could not verify that penalties were properly assessed to customer accounts. Similar comments were made in prior Report B23499.

Public records, financial statement information and supporting information generated through a computer system should be printed out on paper, printed to disk or maintained on-line at the end of each reporting year and retained for audit. Information must be maintained in a manner that will allow access for audit and public inquiry on equipment of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF HUDSON
EXAMINATION RESULTS AND COMMENTS
(Continued)

LOAN OF UTILITY FUNDS

The Wastewater Utility purchased a police car in the amount of \$19,500 for the Town in October of 2004. The Town intends to repay the Wastewater Utility 2007.

Indiana Code 36-1-8-4 concerning temporary loans states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs; (4) The amount transferred must be returned to the other fund at the end of the prescribed period . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and department of local government finance."

TOWN OF HUDSON
EXIT CONFERENCE

The contents of this report were discussed on October 25, 2006, with Atta E. Hayes, Clerk-Treasurer; and Sean Walker, President of the Town Council.