

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

EXAMINATION REPORT

OF

TOWN OF KNIGHTSTOWN

HENRY COUNTY, INDIANA

January 1, 2004 to December 31, 2005



**FILED**  
12/19/2006



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TOWN OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Linda Stearns Judith Haines	02-01-04 to 09-30-06 10-01-06 to 12-31-07
President of the Town Council	William Windsor James Roderick David Glenn	01-01-04 to 04-21-04 04-22-04 to 12-31-05 01-01-06 to 12-31-06
Superintendent of Utilities	Melvin Matlock	01-01-04 to 01-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF KNIGHTSTOWN, HENRY COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Knightstown (Town), for the period of January 1, 2004 to December 31, 2005. The Town's management is responsible for the financial information presented herein. 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 financial information presented herein 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 financial information referred to above present fairly, in all material respects, the financial information of the Town for the years 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

November 6, 2006

TOWN OF KNIGHTSTOWN  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, 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
<b>Governmental Funds:</b>				
General	\$ 102,226	\$ 911,631	\$ 785,242	\$ 228,615
Motor Vehicle Highway	4,776	152,456	79,875	77,357
Local Road and Street	1,954	33,896	2,030	33,820
Park and Recreation	22,781	65,276	49,691	38,366
Park Nonreverting Pool Fund		169	-	169
Law Enforcement Aid Fund	-	626	-	626
Local Law Enforcement Block Grant	(226)	-	-	(226)
Local Law Enforcement Continuing Education	20,452	2,772	20,485	2,739
Police Reserve Unit Fund	-	1,115	-	1,115
Hoosier Gym Grant	30,262	84	5,680	24,666
Police Community Grant	(173)	173	-	-
Riverboat	13,583	13,545	23,862	3,266
Glen Cove Cemetery	30,343	117,959	157,141	(8,839)
Cumulative Capital Improvement	66,147	8,134	26,460	47,821
Cumulative Capital Development	94,959	30,161	59,598	65,522
Cumulative Fire Fighting Equipment	1,450	-	-	1,450
Cumulative Police Equipment	1,097	2,160	1,136	2,121
<b>Proprietary Funds:</b>				
Water Utility - Operating	103,013	260,271	222,005	141,279
Water Utility - Bond and Interest	142,718	120,643	118,726	144,635
Water Utility - Depreciation	40,807	-	3,695	37,112
Water Utility - Customer Deposit	5,337	6,380	6,530	5,187
Water Utility - Sinking Fund	30,000	-	-	30,000
Water Utility - Debt Service Reserve	54,000	-	-	54,000
Water Utility - Revenue		208,386	208,386	-
Wastewater Utility - Operating	28,868	241,009	240,488	29,389
Wastewater Utility - Bond and Interest	35,098	169,200	167,553	36,745
Wastewater Utility - Depreciation	215,162	345,521	224,706	335,977
Wastewater Utility - Debt Service Reserve	174,164	99,159	49,373	223,950
Wastewater Utility - Revenue	-	412,991	412,991	-
Wastewater Utility - Construction	113,979	1,008	-	114,987
Electric Utility - Operating	17,440	1,497,054	1,499,023	15,471
Electric Utility - Cash Reserve	188,750	498,028	257,001	429,777
Electric Utility - Depreciation	24,682	151,132	131,662	44,152
Electric Utility - Customer Deposits	16,428	29,660	11,320	34,768
<b>Fiduciary Funds:</b>				
Claude Deem Cemetery	5,198	-	-	5,198
Glen Cove Cemetery Endowment	128,612	-	23,500	105,112
Glen Cove Cemetery BMI	30,085	5,183	19,200	16,068
Court Costs	24,173	104,583	92,068	36,688
County Law Enforcement Continuing Education Fund	49,139	11,971	22,814	38,296
Deferral Pretrial	4,159	33,404	30,482	7,081
Town Court	89,383	986,085	997,893	77,575
Document Storage	6,551	19,527	5,211	20,867
Payroll	(18,975)	925,200	933,055	(26,830)
<b>Totals</b>	<u>\$ 1,898,402</u>	<u>\$ 7,466,552</u>	<u>\$ 6,888,882</u>	<u>\$ 2,476,072</u>

The accompanying notes are an integral part of the schedules.

TOWN OF KNIGHTSTOWN  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, 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
<b>Governmental Funds:</b>				
General	\$ 228,615	\$ 719,607	\$ 774,037	\$ 174,185
Motor Vehicle Highway	77,357	71,053	95,290	53,120
Local Road and Street	33,820	34,611	20,000	48,431
Park and Recreation	38,366	70,099	61,745	46,720
Park Nonreverting Pool Fund	169	-	-	169
Law Enforcement Aid Fund	626	-	-	626
Local Law Enforcement Block Grant	(226)	-	-	(226)
Local Law Enforcement Continuing Education	2,739	1,924	1,695	2,968
Police Reserve Unit Fund	1,115	850	1,467	498
Hoosier Gym Grant	24,666	-	1,215	23,451
Riverboat	3,266	13,545	11,308	5,503
Glen Cove Cemetery	(8,839)	115,822	106,524	459
Cumulative Capital Improvement	47,821	6,989	5,283	49,527
Cumulative Capital Development	65,522	16,639	15,491	66,670
Cumulative Fire Fighting Equipment	1,450	-	-	1,450
Cumulative Police Equipment	2,121	3,170	580	4,711
<b>Proprietary Funds:</b>				
Water Utility - Operating	141,279	327,818	370,902	98,195
Water Utility - Bond and Interest	144,635	281,566	279,033	147,168
Water Utility - Depreciation	37,112	5,071	2,281	39,902
Water Utility - Customer Deposit	5,187	4,530	2,450	7,267
Water Utility - Sinking Fund	30,000	-	-	30,000
Water Utility - Debt Service Reserve	54,000	108,000	108,000	54,000
Water Utility - Revenue	-	231,976	231,976	-
Wastewater Utility - Operating	29,389	244,961	266,628	7,722
Wastewater Utility - Bond and Interest	36,745	170,400	169,270	37,875
Wastewater Utility - Depreciation	335,977	153,941	150,082	339,836
Wastewater Utility - Debt Service Reserve	223,950	26,413	25,000	225,363
Wastewater Utility - Revenue	-	412,565	412,565	-
Wastewater Utility - Construction	114,987	217,416	216,201	116,202
Electric Utility - Operating	15,471	1,694,092	1,673,131	36,432
Electric Utility - Cash Reserve	429,777	461,197	553,471	337,503
Electric Utility - Depreciation	44,152	81,067	10,957	114,262
Electric Utility - Customer Deposits	34,768	12,091	12,166	34,693
<b>Fiduciary Funds:</b>				
Claude Deem Cemetery	5,198	179	-	5,377
Glen Cove Cemetery Endowment	105,112	-	-	105,112
Glen Cove Cemetery BMI	16,068	-	16,068	-
Court Costs	36,688	99,629	114,692	21,625
County Law Enforcement Continuing Education Fund	38,296	18,900	11,853	45,343
Deferral Pretrial	7,081	22,992	24,846	5,227
Town Court	77,575	965,866	949,505	93,936
Document Storage	20,867	12,901	34,146	(378)
Payroll	(26,830)	961,788	988,780	(53,822)
<b>Totals</b>	<u>\$ 2,476,072</u>	<u>\$ 7,569,668</u>	<u>\$ 7,718,638</u>	<u>\$ 2,327,102</u>

The accompanying notes are an integral part of the schedules.

TOWN OF KNIGHTSTOWN  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, highways and streets, cemetery, water, wastewater, and electric utilities, culture and recreation, and general administrative services.

Note 2. Fund Accounting

The Town 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 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. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

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 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.

TOWN OF KNIGHTSTOWN  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town 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% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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

Note 7. Long-Term Debt

The Water and Wastewater Utilities have entered into debt such as the 2001 Waterworks Revenue Bonds and the 1996 Sewage Works Revenue Bonds Series B. The outstanding principal at December 31, 2005, was \$383,000, and \$1,665,000, respectively.

TOWN OF KNIGHTSTOWN  
EXAMINATION RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS - TOWN

Depository reconciliations of the fund balances to the bank account balances were incorrect. A substantial amount of the posting errors was identified by the Clerk Treasurer, but the records were not corrected as of December 31, 2005.

Indiana Code 5-13-6-1(e) states in part: "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."

ACCOUNTS PAYABLE VOUCHER FORMS - TOWN

The appropriation account number for the Accounts Payable Vouchers was not properly recorded on the claims.

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

TOWN COURT TRUST FUNDS

As stated in the prior audit report, the detail for the court trust funds did not agree with trust balance as recorded in the cash book. In addition, all disbursements made were recorded as a receipt and disbursement in the trust register. The dates recorded for receipt of funds in trust did not agree with the date the money was actually received.

The posting to this record is made from the duplicate receipts and checks and from the trust column of the court cash book. Items entered in other columns of the cash book must not be posted in the trust fund register. The total of all unpaid items as shown by the trust fund register must agree with the balance in trust as shown by the court cash book. (Accounting and Uniform Compliance Guidelines Manual for Cities and Town Courts, Chapter 1)

BANK ACCOUNT RECONCILIATIONS - TOWN COURT

As stated in the prior audit report, depository reconciliations of the fund balances to the bank account balances were incorrect. Differences were noted in the audit for the period ending December 31, 2000. For the audit ending December 31, 2003, these differences had still not been identified by the unit nor were the auditors able to identify these differences.

In addition, as stated in the prior audit report, no outstanding check list was presented for examination.

Indiana Code 5-13-6-1(e) states in part: "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 City and Town Courts, Chapter 4)

TOWN OF KNIGHTSTOWN  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CONDITION OF RECORDS - TOWN COURT

As stated in the prior audit report, there was a considerable number of posting errors. These errors included deposits not receipted, and checks and receipts not recorded in the proper amounts. In addition, the totals from monthly summary reports did not agree with the totals per the unit's cash book. The unit's cash book did not have entries for checks written to the state.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

APPROVAL OF FORMS - TOWN COURT

The Town Court was not using the following form which had been prescribed by the State Board of Accounts:

Fee Book (Prescribed Form 41)

The Town Court did not make the following forms available, which had been prescribed by the Indiana Supreme Court Division of State Court Administration:

Chronological Case Summary  
Record of Judgments Ordered

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

INTERNAL CONTROLS – TOWN COURT

Controls over the safeguarding, filing, and accounting for the financial activities were insufficient. Non-employees and individuals who were not properly bonded were filing court documents.

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. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

CUSTOMER DEPOSIT REGISTER – ELECTRIC AND WATER UTILITIES

As noted in prior Audit Reports B17436 and B24773, the detailed customer deposit registers for the Electric and Water Utilities do not reconcile with the customer deposit amount recorded on the general ledger. The Water Utility detailed customer deposit register has not been reconciled since August 2003.

At all times, the manual and 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)

TOWN OF KNIGHTSTOWN  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CAPITAL ASSET RECORDS - UTILITIES

The Utility does not maintain sufficient detailed records of capital assets for its Utility Plant in Service accounts. Upon purchase, the costs of the capital assets are added to an aggregate Utility Plant in Service account, and to subsidiary accounts for land, buildings, etc., in the General Ledger. However, records providing historical costs for some of the Utility's capital assets are not available, and records classifying and summarizing the Utility's capital assets are incomplete. Deletions or disposals of capital assets are not recorded.

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

TOWN OF KNIGHTSTOWN  
EXIT CONFERENCE

The contents of this report were discussed on November 6, 2006, with Linda Stearns, prior Clerk-Treasurer; Judith Haines, Clerk-Treasurer; David Glenn, President of the Town Council; Nathan Hamilton, Vice-President of the Town Council; Cort Swincher, Council Member; and Steve Nelson, Council Member. The officials concurred with our findings.