

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

EXAMINATION REPORT  
OF  
TOWN OF MIDDLETOWN  
HENRY COUNTY, INDIANA  
January 1, 2004 to December 31, 2005



**FILED**  
12/29/2006



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donita Chambless	01-01-04 to 12-31-07
President of the Town Council	Roscoe J. Smith	01-01-04 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We were engaged to examine the schedules of receipts, disbursements, and cash and investment balances of the Town of Middletown (Town), for the period of January 1, 2004 to December 31, 2005. The Town's management is responsible for these schedules.

Town officials did not conform to the principle that payments from funds be directly related to the purposes of the fund. The disbursements of the governmental, enterprise, and fiduciary funds may or may not have been made from the fund which received the benefit of the good or service for which payment was made.

Because of the restrictions on our examination as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether schedules referred to above present fairly, in all material respects, the cash transactions 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 29, 2006

TOWN OF MIDDLETOWN  
 COMBINED STATEMENT CASH AND INVESTMENT BALANCES  
 ALL GOVERNMENTAL, ENTERPRISE AND FIDUCIARY FUND TYPES  
 As Of And For The Years Ended December 31, 2004 And 2005

	Total All Funds	
	2004	2005
Cash and Investments - December 31	\$ 665,727	\$ 1,283,407

The accompanying notes are an integral part of the schedules.

TOWN OF MIDDLETOWN  
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 (police and fire), highways and streets, culture and recreation, public improvements, general administrative services, electric, water, and wastewater 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 MIDDLETOWN  
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 Town has entered into various debts such as bonds for Water and Wastewater Utilities. The outstanding principal of all bonds at December 31, 2005, was \$1,260,000.

TOWN OF MIDDLETOWN  
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS/CONDITION OF RECORDS

As noted in the prior report, based on the following conditions, the State Board of Accounts was unable to provide an opinion on the Independent Auditor's Report for the financial statements.

Records that were presented did not conform to the principle that expenses paid from utility funds should be directly related to the operation of the municipally owned utility (some payments were for town governmental expenses). In addition, utility related expenses were paid from town governmental funds. Prior amounts were owed between utilities and the Town for disbursements from improper funds. As of December 31, 2005, these amounts had not been repaid.

The resources of a particular fund may be used only for the purposes for which the fund was created or as otherwise authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

PENALTIES, INTEREST AND OTHER CHARGES

In some cases, amounts payable to vendors and other suppliers of goods and services are not being paid by the due date of the invoices. This resulted in late fees being paid by the Town. In addition, \$48 in penalties and interest was paid to the Internal Revenue Service on January 30, 2004.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

Capital asset ledgers were presented for audit for the Town and its Utilities. As stated in the prior report, the records presented were incomplete and had not been updated for several years. Some assets were either not recorded or were not classified.

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. 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 MIDDLETOWN  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
General Fund	2004	\$ 75,800
Lease Rental	2004	8,250
Local Road and Street	2004	52,021
Motor Vehicle Highway	2004	31,654
Lease Rental	2005	46,411
Park	2005	4,836

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

OVERDRAWN FUND BALANCES

The Local Road and Street Fund and the Water Bond and Interest Fund had negative fund balances of \$10,953 and \$3,384, respectively, in 2004. The Fire Debt/Lease Fund, Water Operating Fund, and Electric Operating Fund were overdrawn in 2005 by \$2,080, \$532, and \$2,610, respectively.

The fund 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)

DEPOSITS

As stated in the prior report, in numerous instances, receipts were deposited later than the next business day.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The Town did not comply with directives of The Indiana Housing Finance Authority for a Community Development Block Grant by failing to record funds received and expended on the town's records. Also, grant receipts were paid out in full to the grant administrator who paid contractors for services rather than the payments being made directly to the contractor by the Town.

TOWN OF MIDDLETOWN  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYROLL FUND

As noted in the prior two reports, we were not able to determine the correctness of balances maintained in the Payroll Fund throughout the audit period. No subsidiary record is maintained to allow for reconciliation with the control balances.

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 2)

ORDINANCES AND RESOLUTIONS - UTILITIES

The Water Utility and Wastewater Utility have ordinances concerning transfers to the bond and interest account and minimum balance requirements. However, the Water and Wastewater Utilities did not make the required monthly transfers in 2004 and 2005. In addition the balance in the Wastewater Reserve Fund was not sufficient to meet the requirements of the bond ordinance at December 31, 2005.

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)

CUSTOMER DEPOSIT REGISTERS

The detailed customer deposit registers' totals do not agree with the corresponding fund balances at December 31, 2005 as shown:

<u>Utility</u>	<u>Amount per Register</u>	<u>Fund Balance</u>
Electric	\$ 74,118.04	\$ 22,867.97
Water	19,121.37	18,734.48
Wastewater	15,300.00	18,734.48

In addition, 3 of 51 receipts tested and 5 of 23 disbursements tested were not properly posted to the customer deposit registers.

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 MIDDLETOWN  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

PREScribed FORMS

The payroll time cards for Utility office staff were not properly completed. In addition, time cards for other Town employees were not approved by the Supervisor.

The Park Board did not provide minutes for all meetings held.

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)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

As stated in the prior report, the Town does not have a policy relating to write off of uncollectible accounts receivable and other adjustments to account balances.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

DELINQUENT WASTEWATER ACCOUNTS

As noted in the prior report, delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

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

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

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

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

TOWN OF MIDDLETOWN  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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

DELINQUENT ACCOUNTS RECEIVABLE

As stated in the prior report, Ordinance 14-92 established the shutoff policy for delinquent customers. The policy requires that delinquent customers sign an agreement establishing a repayment plan. Not all delinquent customer files contained evidence of this agreement, nor was there evidence that delinquent customers had been shut off as required by the ordinance.

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)

HYDRANT RENTAL RECEIVABLE (PAYABLE)

The Town of Middletown owes the Water Utility hydrant rental of \$7,121 and \$19,121 for the years 2004 and 2005, respectively, pursuant to Rate Ordinance 4-4-2000 passed by the Council.

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)

TOWN OF MIDDLETOWN  
EXIT CONFERENCE

The contents of this report were discussed on November 29, 2006, with Roscoe J. Smith, President of the Town Council; Martha Minnick, Town Council member; and Donita Chambless, Clerk-Treasurer.