

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

EXAMINATION REPORT
OF
TOWN OF CLAYPOOL
KOSCIUSKO COUNTY, INDIANA
January 1, 2005 to December 31, 2006



FILED
10/30/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report	3
Financial Information:	
Schedules of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information.....	5
Supplementary Information:	
Schedule of Long-Term Debt.....	6
Examination Results and Comments:	
Capital Asset Records-Town and Utilities.....	7
Appropriations.....	7
Federal Withholding Tax - Compliance Requirements	7-8
Hydrant Rental Receivable (Payable).....	9
Investment Maturity Limitations	9
Group Insurance Premium Cost	9
Credit Cards.....	9-10
Travel Policy	10
Use of Prescribed Forms	10
Approved Trash Pickup Fee Increase Never Billed to Customers.....	11
Utility Receipts Tax - Not Paid	11
Exit Conference.....	12

OFFICIALS

Office

Official

Term

Clerk-Treasurer

Niki Miller
Tricia Marino

01-01-05 to 05-31-07
06-01-07 to 12-31-07

President of the Town Council

Donald R. Miller II

01-01-05 to 12-31-07



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF CLAYPOOL, KOSCIUSKO COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Claypool (Town), for the period of January 1, 2005 to December 31, 2006. 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 presents fairly, in all material respects, the financial information of the Town for the years ended December 31, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

September 13, 2007

TOWN OF CLAYPOOL
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, 2005 And 2006

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 88,771	\$ 118,841	\$ 111,510	\$ 96,102
Motor Vehicle Highway	46,869	20,504	21,826	45,547
Local Road and Street	3,789	3,629	2,007	5,411
Cemetery	11,075	5,310	3,864	12,521
Economic Development TIF 1	16,253	12,547	1,398	27,402
Economic Development TIF 2	20,048	15,634	12,847	22,835
Cumulative Capital Improvement	2,579	962	106	3,435
County Economic Development Income Tax	94,881	16,517	3,300	108,098
Proprietary Funds:				
Water Utility - Operating	3,145	184,986	177,678	10,453
Water Utility - Depreciation	1,666	-	-	1,666
Water Utility - Customer Deposit	8,743	2,250	628	10,365
Wastewater Utility - Operating	115,711	110,268	97,944	128,035
Wastewater Utility - Bond and Interest	-	28,225	28,225	-
Wastewater Utility - Reserve	36,282	12,000	10,795	37,487
Fiduciary Fund:				
Payroll	3,202	109,864	110,704	2,362
Totals	<u>\$ 453,014</u>	<u>\$ 641,537</u>	<u>\$ 582,832</u>	<u>\$ 511,719</u>

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 96,102	\$ 127,276	\$ 131,142	\$ 92,236
Motor Vehicle Highway	45,547	29,984	29,856	45,675
Local Road and Street	5,411	3,395	1,296	7,510
Cemetery	12,521	7,795	7,772	12,544
Economic Development TIF 1	27,402	11,147	-	38,549
Economic Development TIF 2	22,835	14,493	-	37,328
Cumulative Capital Improvement	3,435	1,111	-	4,546
County Economic Development Income Tax	108,098	20,037	-	128,135
Proprietary Funds:				
Water Utility - Operating	10,453	187,428	184,146	13,735
Water Utility - Depreciation	1,666	-	-	1,666
Water Utility - Customer Deposit	10,365	1,551	675	11,241
Wastewater Utility - Operating	128,035	114,561	117,592	125,004
Wastewater Utility - Bond and Interest	-	28,134	28,134	-
Wastewater Utility - Reserve	37,487	12,000	-	49,487
Fiduciary Fund:				
Payroll	2,362	115,677	114,216	3,823
Totals	<u>\$ 511,719</u>	<u>\$ 674,589</u>	<u>\$ 614,829</u>	<u>\$ 571,479</u>

The accompanying notes are an integral part of the financial information.

TOWN OF CLAYPOOL
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, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and housing.

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 CLAYPOOL
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
2006 Ford F250 Truck	\$ 8,237	\$ 8,237
New Holland TC30 Tractor	<u>6,165</u>	<u>2,055</u>
Total governmental activities long-term debt	<u>\$ 14,402</u>	<u>\$ 10,292</u>
Business-type Activities:		
Wastewater Utility		
Capital leases:		
New Holland TC30 Tractor	\$ 3,083	\$ 1,028
Revenue bonds:		
2001 Sewage Works Refunding Revenue Bonds	<u>121,000</u>	<u>22,000</u>
Total Wastewater Utility	<u>124,083</u>	<u>23,028</u>
Total business-type activities long-term debt:	<u>\$ 124,083</u>	<u>\$ 23,028</u>

TOWN OF CLAYPOOL
EXAMINATION RESULTS AND COMMENTS

CAPITAL ASSET RECORDS - TOWN AND UTILITIES

The Town and Utilities did not maintain any capital assets records during the examination period.

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)

APPROPRIATIONS

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

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General	2006	<u>\$ 3,857</u>

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."

FEDERAL WITHHOLDING TAX - COMPLIANCE REQUIREMENTS

The employees' federal withholding tax for the period of May 2006 to November 2006, per the Employees' Earnings Records, was not properly paid in a timely manner to the federal tax authorities. This was due to the fact that one employee increased his federal withholding tax effective with the May 2006 payroll. This increase in withholding was deposited with the federal depository for the month of Dec 2006 but not for the previous seven months. The net increase in federal withholding tax was \$124.11 per payroll.

The federal withholding tax posted to the employee's computerized earnings record and reported on the employee's W-2 form were correct but did not agree with the withholding amounts posted to the payroll fund ledger and paid each month to the federal depository. The quarterly federal 941 tax returns were filed for the last three quarters of 2006 with incorrect federal withholding tax reported on them.

The following table details the unpaid amount of federal income tax withholding for the year of 2006:

TOWN OF CLAYPOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

Period of Withholding	Amount of Unpaid Federal Withholding Tax
May 2006	\$ 124.11
June 2006	124.11
July 2006	124.11
August 2006	124.11
September 2006	124.11
October 2006	124.11
November 2006	124.11
Subtotal	868.77
Less partial payments of tax liability on May 17, 2007	248.16
Unpaid principle balance due after above payment	\$ 620.61

The former Clerk-Treasurer received a notice in May 2007 of underpayment of federal withholding tax for the fourth quarter 2006 federal 941 tax return. She paid from the tax liability of \$248.16, as stated on the notice and shown above, and also paid \$45.33 of penalties and interest for filing the fourth quarter 2006 941 return late and paying the tax due late. This leaves an unpaid balance, as of May 17, 2007, of \$620.61, on the federal withholding underpayment from May 2006.

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)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

TOWN OF CLAYPOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

HYDRANT RENTAL RECEIVABLE (PAYABLE)

The Town of Claypool owes the Water Utility \$13,621 of the 2006 year hydrant rental fee of \$15,500. This liability of the Town is pursuant to the Water Rate Ordinance 1990-15 adopted by the Town Council on December 12, 1990, as amended by Ordinance 2003-11-04 adopted by the Town Council on December 15, 2003, which increased the annual rent per hydrant from \$391 to \$500 per hydrant for the 31 hydrants owned by the Water Utility.

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)

INVESTMENT MATURITY LIMITATIONS

The Town of Claypool purchased certain investments which have a stated maturity in excess of two years. Similar comments were included in the prior Reports B21725 and B25331.

Indiana Code 5-13-9-5.6 states: "Investments made under IC 5-13-9 must have a stated final maturity of not more than two years after the date of purchase or entry into a repurchase agreement."

GROUP INSURANCE PREMIUM COST

The Town paid the entire premium cost for health insurance for its employees throughout the examination period.

Indiana Code 5-10-8 is the authority for a city or town to contract for group insurance in relation to its employees, to pay part of the cost of such insurance, and to provide for withholding from participating employees.

In Official Opinion No. 21, issued on June 17, 1957, the Attorney General held that under the terms of the law governmental units may participate in paying for group insurance to any extent short of full payment so long as the requirement regarding the appropriation of funds is met. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

CREDIT CARDS

The Town of Claypool is using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.

TOWN OF CLAYPOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

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

TRAVEL POLICY

The Claypool Town Council has not adopted a written travel policy, to be in compliance with applicable statutes, to support the reimbursement of travel expenses by town employees and officials.

Each governmental unit should adopt a written travel policy to be in compliance with applicable statutes. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

USE OF PRESCRIBED FORMS

The following prescribed form was not used in the prescribed manner during the examination period:

Capital Asset Ledger, City and Town Form 211

The following unapproved and nonprescribed form was in use during the examination period:

Check form and Cash Disbursements Journal - manual "peg board" system of check which imprints all the information written on the check on the cash disbursements journal under the check. Each cash disbursement journal form has room for 30 checks to be written on it.

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 OF CLAYPOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

APPROVED TRASH PICKUP FEE INCREASE NEVER BILLED TO CUSTOMERS

The Town Council approved, by just noting it in the Town Council minutes on December 18, 2006, an increase from \$6 to \$8 per month in the trash pickup fee. However, the fee increase was never billed to the customers for the billing periods of January 1, 2007 to August 1, 2007. This has resulted in estimated lost revenue to the Town General Fund of \$2,640 for the eight month period.

The approval of this fee increase should have been in the form of a Resolution, rather than just noting it in the Town Council minutes.

Each governmental unit is responsible for complying with the policies it adopts and should also approve its policies in the proper format of a resolution or an ordinance if either of these is required. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY RECEIPTS TAX - NOT PAID

The Claypool Water Utility did not pay Utility Receipts Tax to the Indiana Department of Revenue during the examination period of 2005 to 2006 and up to August 2007. No Utility Receipts Tax was paid for the examination period of 2003 to 2004 as was reported in Report B25331.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to IC 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF CLAYPOOL
EXIT CONFERENCE

The contents of this report were discussed on September 13, 2007, with Tricia Marino, Clerk-Treasurer; and Donald R Miller II, President of the Town Council. The officials concurred with our findings.