

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

EXAMINATION REPORT

OF

TOWN OF PENNVILLE

JAY COUNTY, INDIANA

January 1, 2005 to December 31, 2006



FILED
11/14/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Teresa Squier Krista M. Scholer	01-01-04 to 12-31-05 01-01-06 to 12-31-07
President of the Town Council	Ray Scott Steve Cash Kathy K. Corwin	01-01-05 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF PENNVILLE, JAY COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Pennville (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 Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

September 27, 2007

TOWN OF PENNVILLE
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL AND PROPRIETARY 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	\$ 23,621	\$ 125,598	\$ 119,800	\$ 29,419
Motor Vehicle Highway	14,628	26,898	31,515	10,011
Local Road and Street	6,369	3,686	-	10,055
Law Enforcement Continuing Education	735	176	-	911
Rainy Day	3,334	-	-	3,334
Fire Equipment	2,000	28,838	29,338	1,500
Cumulative Capital Improvement	35,272	14,451	12,269	37,454
Fire Truck Grant	-	148,000	148,000	-
Planning Grant	-	11,556	11,556	-
Levy Excess	-	3,100	-	3,100
Proprietary Funds:				
Water Utility - Operating	23,053	186,289	117,440	91,902
Water Utility - Bond and Interest	65,480	34,973	100,453	-
Water Utility - Depreciation	4,535	1,530	-	6,065
Water Utility - Customer Deposit	16,875	4,600	900	20,575
Wastewater Utility - Operating	41,044	78,060	76,429	42,675
Wastewater Utility - Improvement	19,742	6,924	-	26,666
Wastewater Utility - Cash Reserve	7,260	4,330	-	11,590
Trash Utility - Operating	20,672	28,340	30,023	18,989
Totals	\$ 284,620	\$ 707,349	\$ 677,723	\$ 314,246

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 29,419	\$ 123,879	\$ 134,332	\$ 18,966
Motor Vehicle Highway	10,011	30,918	36,116	4,813
Local Road and Street	10,055	3,552	-	13,607
Law Enforcement Continuing Education	911	388	1,299	-
Riverboat	-	4,443	-	4,443
Rainy Day	3,334	15,652	-	18,986
Fire Equipment	1,500	-	-	1,500
Cumulative Capital Improvement	37,454	2,522	7,888	32,088
Levy Excess	3,100	1,403	3,100	1,403
Proprietary Funds:				
Water Utility - Operating	91,902	121,017	110,124	102,795
Water Utility - Depreciation	6,065	1,929	-	7,994
Water Utility - Customer Deposit	20,575	3,400	3,636	20,339
Wastewater Utility - Operating	42,675	69,743	80,363	32,055
Wastewater Utility - Improvement	26,666	6,924	-	33,590
Wastewater Utility - Cash Reserve	11,590	4,200	-	15,790
Trash Utility - Operating	18,989	29,561	33,320	15,230
Totals	\$ 314,246	\$ 419,531	\$ 410,178	\$ 323,599

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

TOWN OF PENNVILLE
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, general administrative services, and water, wastewater and trash utilities.

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.

TOWN OF PENNVILLE
NOTES TO FINANCIAL INFORMATION
(Continued)

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.

Note 6. Amounts Due to/from Other Funds

For various reasons, some amounts were due from one fund to another. At December 31, 2006, such amounts were as follows:

Due from General Fund for street garage note payments made from Utilities in 2003 and 2004:		
To Water Operating Fund	\$	6,724
To Wastewater Operating Fund		<u>6,676</u>
Total	\$	<u>13,400</u>
Due from Water Operating Fund for 2003 interfund loan:		
To Wastewater Improvement Fund	\$	<u>5,600</u>
Due from Water Customer Deposit Fund for unposted applications of deposits to Utility bills in 2005 (allocations estimated):		
To Water Operating Fund	\$	2,000
To Wastewater Operating Fund		2,000
To Trash Operating Fund		<u>920</u>
Total	\$	<u>4,920</u>

TOWN OF PENNVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2006

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.

There were no material additions to general infrastructure assets in the current and prior years. Retroactive reporting of general infrastructure assets has not yet been scheduled.

	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 13,000
Buildings	110,940
Machinery and equipment	<u>606,360</u>
Total governmental activities capital assets	<u>\$ 730,300</u>
 Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 15,759
Buildings	243,172
Improvements other than buildings	984,825
Machinery and equipment	<u>34,224</u>
Total Water Utility capital assets	<u>1,277,980</u>
 Wastewater Utility:	
Capital assets, not being depreciated:	
Land	800
Buildings	463,897
Improvements other than buildings	506,646
Machinery and equipment	<u>69,424</u>
Total Wastewater Utility capital assets	<u>1,040,767</u>
Total business-type activities capital assets	<u>\$ 2,318,747</u>

TOWN OF PENNVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For The Year Ended December 31, 2006

The Town has entered into the following long-term debt:

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Police Vehicle Loan	\$ 15,446	\$ 6,254
Business-type Activities:		
Water Utility:		
Loan for Water Tower	\$ 51,000	\$ 4,000
Revenue Bonds	333,844	22,518
Total business-type activities long-term debt	\$ 384,844	\$ 26,518

TOWN OF PENNVILLE
EXAMINATION RESULTS AND COMMENTS

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The 2005 Annual City and Town Report (CTAR-1) was incomplete and was not sent to the State Board of Accounts. The 2006 CTAR-1 contained numerous errors.

Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

DEPOSITS

In numerous instances, collections were deposited more than a week after the date of receipt.

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."

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not prepared for 2006. The lack of reconcilments allowed posting errors to go undiscovered, resulting in the Town overstating its total cash and investment balance by \$14,500 at December 31, 2006.

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."

ERRORS IN POSTING LEDGERS

There were at least 30 posting errors on the 2006 ledgers. These errors included (1) deposits receipted for wrong amounts or not receipted at all, (2) checks disbursed for wrong amounts or not disbursed at all, (3) transactions posted twice, (4) not posting interfund transfers to both funds, (5) bank charges or interest not posted and (6) an arithmetic error in adding transactions on the ledger.

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)

SUPPORTING DOCUMENTATION

Several payments were observed which did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

TOWN OF PENNVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALES TAX PAID ON PURCHASES

A total of \$186.82 of sales tax was paid on 12 purchases.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES, INTEREST AND OTHER CHARGES

A total of \$276.64 of penalties, interest and late fees was paid to the Indiana Department of Revenue and vendors for late payments of taxes and Utility bills.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. . . . 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)

APPROPRIATIONS

The following disbursements were in excess of budgeted appropriations:

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Disbursed</u>
Cumulative Capital Improvement	2005	\$ 12,268.50
General	2006	15,139.94
Law Enforcement Continuing Education	2006	1,299.17

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."

ADDITIONAL COMPENSATION

Clerk-Treasurer Krista M. Scholer received \$1,750 in 2006 for extra work performed for converting the Utility accounts receivable records to a computer system. This payment was approved by the Town Council in 2006 but was in addition to her salary listed in the salary ordinance adopted in 2005.

TOWN OF PENNVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-5-3-2(c) states: "The compensation of an elected town officer may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year."

Krista M. Scholer has agreed to repay the \$1,750 in installments. On October 31, 2007, she made the first payment of \$100 (receipt no. 4526).

PUBLIC RECORDS RETENTION

The following public records for 2005 were not presented for examination: Funds ledgers, appropriation ledgers, Utility cash journals, W-2's, Utility bill stubs, and all records of Utility billings and collections.

Indiana Code 5-15-6-3(f) concerning destruction of public records states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

ACCOUNTS RECEIVABLE RECORDS

No accounts receivable records (such as Prescribed Form 322 or an approved form) were maintained from 2003 until May 2006. This made it difficult to verify proper receipt and deposit of Utility collections.

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)

CLOTHING AND CAR ALLOWANCES

The Town paid each of its three police reserve officers \$1,600 per year in clothing and car allowances. No documentation was on file that the officers actually incurred any related expenses. These allowances were not reported to the Internal Revenue Service.

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)

UTILITY BILLINGS

The Town has not charged penalties to most of its customers for late payment of Municipal Utility bills since April 2006, when it converted its billings and accounts receivable to a computer system. Also, some of the amounts billed were not in accordance with the Utility rate ordinances, due to formula errors.

Indiana Code 36-9-23-31 regarding penalties on Wastewater Utility bills states in part: "If fees . . . are not paid within the time fixed by the municipal legislative body, they are delinquent. A penalty of ten percent (10%) of the amount of fees attaches to the delinquent fees."

TOWN OF PENNVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Ordinance 2006-01 regarding penalties on the Town's Water Utility bills states in part: "All rates and charges for water service not paid by the 10th day of the month following the due date thereof, as stated in such bills, are hereby declared to be delinquent and shall be subject to the collection of a deferred payment charge of ten percent (10%) of the unpaid billing."

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 PENNVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 27, 2007, with Krista M. Scholer, Clerk-Treasurer; and Kathy Corwin, President of the Town Council. The official response has been made a part of this report and may be found on page 14.

**TOWN OF PENNVILLE
105 N Washington Street
P. O. Box 227
Pennville, IN 47369
260-731-2801
fax 260-731-2415**

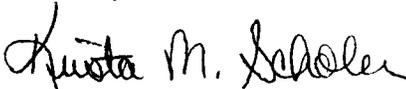
September 24, 2007

To Whom It May Concern,

Subject the \$1750.00 I received from the town:

At the end of the 2006 year, I ask the town council if they would consider compensating me for the extra hours I spent working on getting the computer billing program up and running. The amount of compensation I left up to them. My reason for asking for this was; when I took over the clerk-treasure passion as of January 1, 2006, the water bills were being hand written and figured and addressed. The town council wanted to get the billing program they already had up and running again. It had been several years since it had been used and was not complete on the computer. The previous clerk-treasure had not keep up with any thing on the program, nor did she have a complete listing of customers names, address' or account numbers. It took me a couple of months to put names with PO Box number (as the customers paid their bills) to know who belonged with which account number. During the time of hand writing bills, and figuring them, I was updating the computer billing program with customer information (names, address, account numbers) and collecting money for the bills, plus all the other things that go along with the clerk-treasures job. A lot of the work was being done after hours (the hand writing of the bills, figuring them and addressing them), while the computer work was being done during office hours between collection money for the bills. Some of the computer work and program phone training was also being done on none working hours. There were many days I worked on all this sometimes 18 hours a day, to insure that the bills got out on time to the customers, for the first four months of the year. During this time I spent 12 days in the hospital unexpectedly. So the computer billing program updating and phone training, along with learning the job of the clerk-treasurer all had to be started over once I got out of the hospital and back to work. This is my explanation for asking the town council for this compensation. I do not wish to take something I am not in tiled to. So if the state board finds that I am not in tiled to this money I will pay it back to the town. As I have already spent this it will take me awhile to repay it. I will pay one hundred dollars (\$100.00) a month starting October 2007 through April 2009. If my personal budget allows I will pay more each month. This will be paid back to the town by April 2009, should the town council and the state board of accounts agree with this arrangement.

Sincerely,



The Town of Pennville
Krista M. Scholer
Clerk-Treasurer