

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

EXAMINATION REPORT  
OF  
TOWN OF NORTH SALEM  
HENDRICKS COUNTY, INDIANA  
January 1, 2005 to December 31, 2006



**FILED**  
11/16/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cheryl Russell	01-01-04 to 12-31-07
President of the Town Council	William J. Woodrum	01-01-05 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 NORTH SALEM, HENDRICKS COUNTY, INDIANA

We have examined the financial information presented herein of the Town of North Salem (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.

Except as discussed in the following paragraph, 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.

No financial transactions were reflected in the reports for the years ended 2001 through 2004. Therefore, we could not permit the application of examination procedures to satisfy ourselves that the beginning account balances were fairly stated.

In our opinion, except for the inability to examine the beginning account balances, 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

October 4, 2007

TOWN OF NORTH SALEM  
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	\$ 155,864	\$ 159,073	\$ 242,910	\$ 72,027
Motor Vehicle Highway	31,716	34,236	16,588	49,364
Local Road and Street	36,362	8,606	3,968	41,000
Law Enforcement Continuing Education	2,347	2,303	652	3,998
Trash	3,047	17,811	17,303	3,555
DOC Grant	-	449,268	449,230	38
Cumulative Capital Improvement	22,311	3,327	-	25,638
Economic Development Income Tax	47,647	15,536	30,951	32,232
Fire Station	12,653	27,159	39,657	155
Proprietary Funds:				
Water Utility - Operating	67,868	48,092	59,321	56,639
Water Utility - Bond and Interest	2,881	11,481	14,366	(4)
Water Utility - Depreciation	27,423	17,729	-	45,152
Water Utility - Customer Deposit	11,060	1,600	625	12,035
Water Utility - Debt Service	7,768	1,005	-	8,773
Water Utility - DNR Escrow	2,135	3	2,092	46
Wastewater Utility - Operating	803	92,353	90,830	2,326
Wastewater Utility - Bond and Interest	330	20,362	20,692	-
Wastewater Utility - Depreciation	26,556	39,948	-	66,504
Wastewater Utility - Debt Service	(6,398)	16,764	2,644	7,722
Wastewater Utility - Construction	100	-	100	-
Fiduciary Fund:				
Payroll	3,998	135,299	131,141	8,156
Totals	<u>\$ 456,471</u>	<u>\$ 1,101,955</u>	<u>\$ 1,123,070</u>	<u>\$ 435,356</u>

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 72,027	\$ 200,375	\$ 264,182	\$ 8,220
Motor Vehicle Highway	49,364	34,906	28,404	55,866
Local Road and Street	41,000	7,882	4,159	44,723
Law Enforcement Continuing Education	3,998	4,612	2,355	6,255
Trash	3,555	17,687	15,748	5,494
DOC Grant	38	-	38	-
Cumulative Capital Improvement	25,638	2,414	27,000	1,052
Economic Development Income Tax	32,232	17,236	44,764	4,704
Fire Station	155	66,759	66,911	3
Levy Excess	-	2,668	-	2,668
Proprietary Funds:				
Water Utility - Operating	56,639	46,853	81,769	21,723
Water Utility - Bond and Interest	(4)	7,175	7,021	150
Water Utility - Depreciation	45,152	-	-	45,152
Water Utility - Customer Deposit	12,035	1,400	650	12,785
Water Utility - Debt Service	8,773	-	7,773	1,000
Water Utility - DNR Escrow	46	-	-	46
Wastewater Utility - Operating	2,326	84,361	98,363	(11,676)
Wastewater Utility - Bond and Interest	-	11,150	11,000	150
Wastewater Utility - Depreciation	66,504	-	-	66,504
Wastewater Utility - Debt Service	7,722	-	-	7,722
Fiduciary Fund:				
Payroll	8,156	142,440	140,160	10,436
Totals	<u>\$ 435,356</u>	<u>\$ 647,918</u>	<u>\$ 800,297</u>	<u>\$ 282,977</u>

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

TOWN OF NORTH SALEM  
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, health and social services, culture and recreation, general administrative services, water, and wastewater.

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 NORTH SALEM  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2006

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Water Utility		
Loan Payable	\$ 7,750	\$ 1,938
Revenue bonds:		
Water system improvements	<u>132,000</u>	<u>14,600</u>
Total Water Utility	<u>139,750</u>	<u>16,538</u>
Wastewater Utility		
Revenue bonds:		
Wastewater system improvements	<u>245,000</u>	<u>23,250</u>
Total business-type activities debt:	<u>\$ 384,750</u>	<u>\$ 39,788</u>

TOWN OF NORTH SALEM  
EXAMINATION RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

As stated in the prior Report B25445, the Town does not maintain sufficient detailed records of capital assets for its Utility Plant in Service accounts or for the Town capital assets.

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)

RECEIPT ISSUANCE

Receipts were not issued for seven State distributions received in 2005.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CERTIFIED REPORT NOT FILED

As stated in the prior Report B25445, the Town did not file a certified report of compensation of officers and employees (Form 100-R or its equivalent) with the State Board of Accounts for the year 2006.

Indiana Code 5-11-13-1 states in part: "Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

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>
Cumulative Capital Improvement	2006	<u>\$ 21,549</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."

TOWN OF NORTH SALEM  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

As stated in the prior Report B25445, gross revenues were not being distributed to the various utility funds in accordance with the revenue bond ordinances.

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 REGISTER

As stated in the prior Report B25445, the detailed customer deposit register does not reconcile with the customer deposit amount recorded on the simplified cash journal. The customer deposit fund balance exceeds the record amount of customer deposits due to the lack of recordkeeping of prior years' customer deposit receipts and disbursements.

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)

RECORDS OF HOURS WORKED

As stated in the prior Report B25445, officials and employees were paid salaries from more than one fund and/or department. A record of hours worked for each fund and/or department was not presented for examination.

Indiana Code 5-11-9-4(b) states in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

SERVICE AND TIME RECORDS

As stated in the prior Report B25445, employee time, attendance, or service records were not maintained and presented for examination.

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)

UTILITY RECEIPTS TAX

As stated in the prior Report B25445, the Water Utility did not pay Utility Receipts Tax to the Indiana Department of Revenue during the examination period.

TOWN OF NORTH SALEM  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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)

OVERDRAWN FUND BALANCES

The Water Utility Bond and Interest Fund was overdrawn \$4 at December 31, 2005. The Water Utility Operating Fund was overdrawn \$11,676 at December 31, 2006.

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)

TOWN OF NORTH SALEM  
EXIT CONFERENCE

The contents of this report were discussed on October 4, 2007, with Cheryl Russell, Clerk-Treasurer; and Mike Selch, Town Council member. The officials concurred with our findings.