

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

EXAMINATION REPORT
OF
TOWN OF MORRISTOWN
SHELBY COUNTY, INDIANA
January 1, 2005 to December 31, 2006



FILED
12/31/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donald Roberts	01-01-04 to 12-31-07
President of the Town Council	David Benefiel Sue Keaton	01-01-05 to 12-31-06 01-01-07 to 12-31-07
Utilities Superintendent	Richard Kesar	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 MORRISTOWN, SHELBY COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Morristown (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

November 20, 2007

TOWN OF MORRISTOWN
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		Cash and Investments	
	01-01-05	Receipts	Disbursements	12-31-05
Governmental Funds:				
General	\$ 117,490	\$ 279,501	\$ 324,380	\$ 72,611
Motor Vehicle Highway	53,947	97,966	112,865	39,048
Local Road and Street	8,021	5,340	6,743	6,618
Park and Recreation	3,751	1,234	2,741	2,244
Law Enforcement Continuing Education	4,995	730	1,510	4,215
Economic Development Income Tax	8,748	22,785	24,233	7,300
Rainy Day	5,426	-	-	5,426
Fireworks Donations	99	-	-	99
Defibrillator/In Car Computer Donations	249	-	-	249
Cumulative Capital Improvement	10,968	3,502	8,770	5,700
Tax Increment Financing Bond	123,860	728,275	653,660	198,475
Proprietary Funds:				
Water Utility - Operating	195,454	254,325	328,684	121,095
Water Utility - Bond and Interest	2,774	27,000	26,733	3,041
Water Utility - Customer Deposit	14,574	3,635	3,110	15,099
Water Utility - West Side Project Construction	-	421,330	-	421,330
Water Utility - West Side Project Contribution	-	15,535	15,535	-
Water Utility - Debt Service Reserve	43,594	-	-	43,594
Wastewater Utility - Operating	141,808	510,899	487,679	165,028
Wastewater Utility - Bond and Interest	223,540	166,800	166,650	223,690
Wastewater Utility - Depreciation	19,355	-	-	19,355
Wastewater Utility - Debt Service Reserve	116,200	16,800	-	133,000
Wastewater Utility - West Side Project Construction	-	782,470	-	782,470
Wastewater Utility - West Side Project Contribution	-	-	31,540	-
Solid Waste and Recycling	6,760	36,446	38,095	5,111
Fiduciary Fund:				
Payroll	(3,378)	289,652	284,550	1,724
Totals	\$ 1,098,235	\$ 3,695,765	\$ 2,517,478	\$ 2,276,522

	Cash and Investments		Cash and Investments	
	01-01-06	Receipts	Disbursements	12-31-06
Governmental Funds:				
General	\$ 72,611	\$ 322,343	\$ 341,706	\$ 53,248
Motor Vehicle Highway	39,048	109,899	113,253	35,694
Local Road and Street	6,618	5,207	5,444	6,381
Park and Recreation	2,244	10,212	4,581	7,875
Law Enforcement Continuing Education	4,215	1,377	1,268	4,324
Economic Development Income Tax	7,300	25,445	19,799	12,946
Rainy Day	5,426	-	5,000	426
Fireworks Donations	99	-	-	99
Defibrillator/In Car Computer Donations	249	5,395	5,444	200
Cumulative Capital Improvement	5,700	4,048	4,743	5,005
Community Development Block Grant-Planning Grant	-	48,600	48,600	-
Tax Increment Financing Bond	198,475	1,044,998	790,033	453,440
Levy Excess	-	2,492	-	2,492
Proprietary Funds:				
Water Utility - Operating	121,095	260,808	339,287	42,616
Water Utility - Depreciation	3,041	29,060	26,884	5,217
Water Utility - Customer Deposit	15,099	3,250	4,470	13,879
Water Utility - West Side Project Contribution	421,330	41,615	359,826	103,119
Water Utility - West Side Project Contribution	43,594	-	-	43,594
Water Utility - Debt Service Reserve	165,028	615,490	652,754	127,764
Wastewater Utility - Operating	223,690	137,600	165,900	195,390
Wastewater Utility - Bond and Interest	19,355	-	-	19,355
Wastewater Utility - Depreciation	133,000	74,800	40,000	167,800
Wastewater Utility - Debt Service Reserve	782,470	85,074	867,446	98
Wastewater Utility - West Side Project Construction	-	390,000	345,000	45,000
Wastewater Utility - West Side Project Contribution	5,111	27,872	27,812	5,171
Solid Waste and Recycling	-	66,551	59,238	7,313
Fiduciary Fund:				
Payroll	1,724	327,716	327,716	1,724
Totals	\$ 2,276,522	\$ 3,639,852	\$ 4,556,204	\$ 1,360,170

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

TOWN OF MORRISTOWN
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, culture and recreation, public improvements, planning and zoning, economic development, general administrative services, license branch 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 MORRISTOWN
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Unpaid Loans Between Funds

The following temporary loans were made during the examination period and were not repaid by December 31, 2006:

<u>Loaned From</u>	<u>Loaned To</u>	<u>Balance Due 12-31-06</u>	<u>Date Loan Was Repaid</u>
Rainy Day Fund	License Branch Fund	\$ 5,000	
General Fund	License Branch Fund	100	
Motor Vehicle Highway Fund	License Branch Fund	6,000	
Wastewater Operating Fund	Wastewater West Side Project Fund	45,000	09-30-07
Wastewater Operating Fund	Water Operating Fund	<u>20,777</u>	
Total		<u>\$ 76,877</u>	

Note 7. Subsequent Events

On March 18, 2007, the Wastewater Debt Service Reserve Fund loaned the Town General Fund \$30,000. On July 9, 2007 and October 31, 2007, the Wastewater Debt Service Reserve Fund loaned the Town General Fund an additional \$35,000 and \$25,000, respectively. To date, these loans have not been repaid.

The Wastewater Operating Fund paid a Water Utility construction claim on the West Side Project-Water Line Extension on January 27, 2007, in the amount of \$25,610. The Water Operating Fund should reimburse the Wastewater Operating Fund \$25,610.

TOWN OF MORRISTOWN
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.

General infrastructure assets completed in the prior years 2001 to 2004 and the current years 2005 to 2006 have been reported.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 4,500
Infrastructure	572,461
Buildings	276,322
Improvements other than buildings	161,709
Machinery and equipment	<u>499,185</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 1,514,177</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 103,629
Building Improvements	18,557
Buildings	834,505
Distribution Lines	1,854,883
Pumping and Treatment Equipment	414,461
Pumping and Treatment Equipment Improvements	84,836
Maintenance and Service Equipment	<u>240,258</u>
 Total Water Utility capital assets	 <u>3,551,129</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	294,101
Buildings	193,310
Sewage Plant	1,132,087
Sewer Lines	4,481,485
Other Equipment	<u>415,535</u>
 Total Wastewater Utility capital assets	 <u>6,516,518</u>
 Total business-type activities capital assets	 <u>\$ 10,067,647</u>

TOWN OF MORRISTOWN
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
Governmental Activities:		
Capital leases:		
Municipal Building	\$ 150,000	\$ 30,600
John Deere Backhoe	23,428	-
2004 Ford Police Car	7,036	7,264
3/4 Ton Utility Truck	1,258	1,283
2002 Leaf Vac	3,501	3,678
Sewer Jet	21,879	3,932
Total governmental activities debt	<u>\$ 207,102</u>	<u>\$ 46,757</u>
Business-type Activities:		
Water Utility		
Capital leases:		
West Side Water Line Extension (1) *	\$ 327,104	\$ 40,000
West Side Water Line Extension (2) *	40,700	13,390
Meter Reading System	22,541	6,249
Municipal Building	68,531	650
John Deere Backhoe	23,131	-
3/4 Ton Utility Truck	1,258	1,283
Revenue bonds:		
2003 Waterworks Refunding Bonds	139,000	27,967
Total Water Utility	<u>622,265</u>	<u>89,539</u>
Wastewater Utility		
Capital leases:		
West Side Sewer Line Extension (1) *	573,134	78,600
West Side Sewer Line Extension (2) *	59,300	-
Meter Reading System	22,541	6,249
Municipal Building	68,531	9,050
John Deere Backhoe	23,131	16,188
3/4 Ton Utility Truck	1,258	1,283
Sewer Jet	21,879	11,796
Revenue bonds:		
1996 Wastewater Bonds	2,562,000	166,100
Total Wastewater Utility	<u>3,331,774</u>	<u>289,266</u>
Total business-type activities debt:	<u>\$ 3,954,039</u>	<u>\$ 378,805</u>

* Funding commitments for West Side Water and Sewer Line Extension (1) and (2) \$1,300,000 are as follows: (A) A \$750,000 commitment was received from Shelby County Edit monies. The first two installments of \$45,000 were received in 2005 and 2006. An additional \$300,000 was received at the completion of the project in 2006. The remaining \$360,000 will be received at the rate of \$45,000 per year for eight (8) years. (B) Klosterman Bakery (KBI) has committed to contribute \$40,000 per year for ten years for a total of \$400,000 beginning in 2007. (C) Morristown Redevelopment Commission has committed to contribute \$20,000 per year for ten years for a total of \$200,000. (D) The balance is expected to be funded by Morristown Utilities at an estimated 26,990 per year for ten years for a total of \$269,900.

Pursuant to Indiana law, the Redevelopment Commission, on behalf of the Town of Morristown Redevelopment District, sold \$1,300,000 of 1995 Tax Increment Financing (TIF) bonds for infrastructure improvements. The TIF bonds will be repaid solely from allocated incremental property taxes collected on property located in the district. An irrevocable standby letter of credit covering the TIF bonds has also been obtained by the Central Soya Company, Inc., (now Bunge North America) from the Union Bank of Switzerland, New York Branch. The TIF Bond Debt retirement is serviced by the U.S. Bank as trustee. As of December 31, 2006, the bonds payable had an outstanding balance of \$910,000.

TOWN OF MORRISTOWN
EXAMINATION RESULTS AND COMMENTS

MUNICIPAL BUILDING, KONICA COPIER, AND SEWER JET LEASE PAYMENT ALLOCATIONS

A lease agreement was entered into on January 12, 2006, for the lease of a municipal building for \$300,000. The municipal building is used to house the Water Utility office, Wastewater Utility office, the Morristown license branch, and the Town office. A repayment schedule was determined to be prorated as 50% Town funds, 25% Water Utility funds, and 25% Wastewater Utility funds. A resolution confirming this allocation was not passed by the Town Council. During the year 2006, the Water Utility paid 50% and the Wastewater Utility paid 50% of the total lease. During the year 2007, the Town paid 76%, the Water Utility paid 2%, and the Wastewater Utility paid 22% of the total lease. The Clerk-Treasurer indicated that payments had been made based on availability of funds.

A lease agreement was entered into on October 4, 2004, for the lease of a Konica Copier for \$11,000. The copier is used by the Water Utility office, the Wastewater Utility office, and the Town office. A repayment schedule was determined to be prorated at one-third for each office. A resolution confirming this allocation was not passed by the Town Council. During the years 2005 and 2006, the Town paid 55%, the Water Utility paid 29%, and the Wastewater Utility paid 16% of the total lease. The Clerk-Treasurer indicated that payments had been made based on availability of funds.

A lease agreement was entered into on August 26, 2004, for the lease of a sewer jet for \$70,000. The sewer jet is used by the Town and the Wastewater Utility. A repayment schedule was determined to be half and half. A resolution confirming this allocation was not passed by the Town Council. During the years 2005 and 2006, the Town paid 42%, the Wastewater Utility paid 42%, and the Water Utility paid 16% of the total lease. During the year 2007, the Town paid 25%, and the Wastewater Utility paid 75% of the total lease. The Clerk-Treasurer indicated that payments had been made based on availability of funds.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. The cost of shared equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7, page 61-10)

NONCOMPLIANCE WITH RETENTION AGREEMENT RESOLUTION (Applies to Morristown Redevelopment Commission)

The Morristown Redevelopment Commission retention agreement, dated March 17, 2003, provided for the distribution of excess Tax Increment Financing (TIF) monies from the TIF Bond Trustee (U.S. Bank) to the Morristown Redevelopment Commission Funds. The Morristown Redevelopment Commission maintains three funds, the Expense (Administrative) Fund, the Project Fund, and the Acquisition Fund. The retention agreement provides the Expense Fund receive the first \$25,000 of each distribution. The remaining distribution is then prorated between the Project Fund and the Acquisition Fund, 60% and 40%, respectively. A distribution was received on June 30, 2006, in the amount of \$199,036. The Expense Fund received \$25,000. The Project Fund received \$130,022 (approximately 75%) and the Acquisition Fund received \$44,014 (approximately 25%) of the remaining distribution of \$174,036. As a result, the difference in the distribution percentages was \$25,600. The June 30, 2006, distribution percentages between the Project Fund and the Acquisition Fund were not in compliance with the retention agreement.

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 MORRISTOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

TOWN RESOURCES USED FOR OTHER THAN TOWN PURPOSES

We were contacted by the Town Clerk-Treasurer and were informed that on August 2, 2007, three Town employees were observed performing work during regularly scheduled work hours on a private cemetery plot. Town-owned equipment such as two utility trucks, a back hoe, and a sewer jet trailer were also observed at this site. The Town Council President was also present during a portion of this time. These observations were further documented with digital photographs.

It appears that the Town employees' purpose was the construction of a concrete foundation to support the monument of a relative of one of the employees. This is not a Town-owned cemetery, and consequently, the use of Town employees or other Town resources for any of the cemetery's direct or contracted operations, or expenses of the individual lot owners are not permitted.

When confronted with this problem, the Town employees subsequently amended their time cards to remove any work time they expended while working at the cemetery site. We could find no evidence where any costs of vehicle or equipment operation was reimbursed to the Town.

Indiana Code 35-44-2-4 states in part:

"Section 4 (b) A public servant who knowingly or intentionally assigns to an employee under his supervision any duties not related to the operation of the governmental entity that he serves commits ghost employment, a Class D felony."

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses 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, Page 51-9)

ORDINANCES AND RESOLUTIONS

The Town of Morristown Ordinance 1996-1 requires the establishment and maintenance of a Wastewater Utility Debt Service Reserve Fund related to the 1996 Wastewater Bonds. During 2006, the Wastewater Utility Debt Service Reserve Fund loaned the Town General Fund a total of \$40,000. The loans were repaid by December 31, 2006. On March 18, 2007, the Wastewater Utility Debt Service Reserve Fund loaned the Town General Fund \$30,000. On July 9, 2007 and October 31, 2007, the Wastewater Utility Debt Service Reserve Fund loaned the Town General Fund an additional \$35,000 and \$25,000, respectively. To date, these 2007 loans have not been repaid. These loans to the Town General Fund are a violation of the bond ordinance creating the Wastewater Utility Debt Service Reserve Fund.

The Wastewater Utility Revenue Bond Ordinance 1996-1 states in part: "The Debt Service Reserve Account shall constitute a margin for safety and protection against default in the payment of principal of and interest on outstanding Bonds, and the moneys in the Debt Service Reserve Account shall be used to pay current principal of and interest on outstanding Bonds to the extent that moneys in the Bond and Interest Account are insufficient for that purpose."

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 MORRISTOWN
EXIT CONFERENCE

The contents of this report were discussed on November 20, 2007, with Donna Tracy, President of the Morristown Redevelopment Commission; and Donald Roberts, Clerk-Treasurer. The officials concurred with our findings.

The contents of this report were discussed on November 20, 2007, with William White, Town Council member; and Donald Roberts, Clerk-Treasurer. The officials concurred with our findings.

The contents of this report were discussed on November 20, 2007, with Sue Keaton, President of the Town Council; and Donald Roberts, Clerk-Treasurer. Donald Roberts concurred with our findings.