

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

EXAMINATION REPORT
OF
TOWN OF CLARKSVILLE
CLARK COUNTY, INDIANA
January 1, 2006 to December 31, 2006



FILED
12/31/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Town Officials.....	2
Independent Accountant's Report.....	3
/	
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-8
Supplementary Information:	
Schedule of Capital Assets.....	9
Schedule of Long-Term Debt	10
Examination Results and Comments:	
Contracts	11
Adjustments to Cash	11-12
Accounts Receivable General Ledger Account.....	12-13
Contract Overpayment	13
Condition of Records	13-14
Exit Conference.....	15

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Gary P. Hall	01-01-04 to 12-31-07
President of the Town Council	John H. Minta Paul L. Kraft	01-01-06 to 06-01-06 06-02-06 to 12-31-07
Utility Office Manager	Dorothea J. Leuthart	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF CLARKSVILLE, CLARK COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Clarksville (Town), for the period of January 1, 2006 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 year ended December 31, 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 19, 2007

TOWN OF CLARKSVILLE
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 4,607	\$ 10,641,641	\$ 9,672,345	\$ 973,903
Motor Vehicle Highway	859,649	1,010,795	785,328	1,085,116
Local Road and Street	1,196,588	232,565	313,675	1,115,478
Park and Recreation	4,855	2,843,182	2,420,042	427,995
Firefighting	819	5,010,837	4,787,605	224,051
Economic Development	4,292	-	896	3,396
Supplemental Adult Probation Services	44,044	92,430	94,092	42,382
Law Enforcement Continuing Education	56,755	19,545	21,546	54,754
Clerk's Record Perpetuation	948	1,357	-	2,305
Donation	103,840	41,078	22,423	122,495
Redevelopment District General	44,194	65,726	80,483	29,437
Unsafe Building	72,603	-	855	71,748
Towed Vehicle Nonreverting	16,139	17,325	16,712	16,752
Controlled Substance	1,556	925	-	2,481
User Fee	56,115	6,933	5,386	57,662
Tourism Revenue Bond of 2002	122,442	-	9,075	113,367
Park District Bond and Interest	42	331,187	331,228	1
Cumulative Capital Improvement	917,418	276,452	-	1,193,870
Cumulative Capital Development	403,706	1,072,877	263,313	1,213,270
Cumulative Building and Firefighting Equipment	163,899	267,159	116,469	314,589
Clarksville Jeffersonville HAZMAT	53,525	-	-	53,525
County Economic Development Income Tax	4,805	2,263,346	242,361	2,025,790
Redevelopment Commission (TIF)	519,341	5,257,119	3,075,309	2,701,151
Federal/State Grant	386	50,000	37,298	13,088
Hometown Forestry Grant	1,146	-	-	1,146
Nonreverting Senior Grant	8,908	49,730	46,859	11,779
Nonreverting Clean up Fee	2,740	2,875	-	5,615
Lewis and Clark Parkway Construction Maintenance	1,208,053	70,366	1,261,637	16,782
Proprietary Funds:				
Wastewater Utility Operating Fund	2,006,088	3,744,903	3,608,289	2,142,702
Wastewater Utility Bond and Interest Fund	541,853	1,007,127	979,004	569,976
Wastewater Utility Construction Fund	725	1	726	-
Storm Water Utility Construction	498,829	1,127,183	711,637	914,375
Self-Insurance Fund	557,876	4,661,046	2,296,035	2,922,887
Municipal Center Refueling Station	79	167,924	158,847	9,156
Fiduciary Funds:				
Payroll	136	7,624,358	7,624,394	100
Police Pension	135,501	580,551	302,381	413,671
Firefighters Pension	143,522	962,999	552,229	554,292
URM/DDC Disbursement Control Flexible Spending	693	2,465	2,540	618
Nonreverting Parks Refunds	40	8,290	7,800	530
Retainage	1,525	-	-	1,525
Court Costs Due County	-	12,060	12,060	-
Town Court	66,687	258,886	252,012	73,561
Interpretive Center	182,000	-	182,000	-
Totals	<u>\$ 10,008,969</u>	<u>\$ 49,783,243</u>	<u>\$ 40,294,891</u>	<u>\$ 19,497,321</u>

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

TOWN OF CLARKSVILLE
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, 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.

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 CLARKSVILLE
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plans

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.

1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

TOWN OF CLARKSVILLE
NOTES TO FINANCIAL INFORMATION
(Continued)

1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF 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 Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF.

TOWN OF CLARKSVILLE
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 7. Restatements and Reclassifications

For the year ended December 31, 2005, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Town. The following schedule presents a summary of restated beginning balances by fund. Prior period adjustments represent balances of pension relief sub-account held in trust by PERF that was not included in the financial statements of the prior examination.

Fund	Balance As Reported December 31, 2005	Prior Period Adjustments	Balance As Restated January 1, 2006
Police Pension	\$ 19,659	\$ 115,842	\$ 135,501
Firefighters Pension	39	143,483	143,522

Note 8. Water Service Agreement

The Town of Clarksville and the Town of Sellersburg entered into an agreement whereby the Town of Sellersburg will provide water services to an area in Silver Creek Township annexed by the Town of Clarksville. In order to provide water services to the annexed area, the Town of Sellersburg constructed a water tower. In exchange for the water services, the Town of Clarksville agreed to pay the Town of Sellersburg \$200,000 to help defray the cost of construction and \$46,712 of financing costs. The total amount of \$246,712 is being paid over 20 years with annual payments of \$12,336. The balance still owed to the Town of Sellersburg as of December 31, 2006, was \$61,674.

Note 9. Subsequent Event

On November 13, 2007, the Clarksville Town Council issued Park District Tax Increment Revenue Bonds of 2007 in the amount of \$5,260,000 to be used to for various park improvements. Interest on the bonds is at the rate of 3.75% to 5.00%, with payments starting on July 15, 2008 and ending on July 15, 2027.

TOWN OF CLARKSVILLE
 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 current and prior years have been reported. Retroactive reporting of general infrastructure assets will occur by January 1, 2008.

	Ending <u>Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 3,222,955
Infrastructure	12,957,332
Buildings	14,211,506
Improvements other than buildings	3,569,290
Machinery and equipment	<u>8,042,176</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 42,003,259</u>
 Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 654,956
Buildings	17,102,511
Improvements other than buildings	9,551,553
Machinery and equipment	<u>4,631,374</u>
 Total business-type activities capital assets	 <u>\$ 31,940,394</u>

TOWN OF CLARKSVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended 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 center	\$ 5,095,000	\$ 854,381
Golf course improvements - pro shop/maintenance center	1,690,000	171,500
Lewis and Clark Parkway improvements	6,375,000	579,000
Two sanitation packers	222,753	60,043
Notes and loans payable:		
State infrastructure loan for Veteran's Parkway	3,258,014	240,661
Bonds payable:		
General obligation bonds:		
Aquatic center and tennis courts	545,000	205,450
Revenue bonds:		
Lewis and Clark Plaza project	<u>359,819</u>	<u>72,794</u>
Total governmental activities debt	<u>\$ 17,545,586</u>	<u>\$ 2,183,829</u>
Business-type Activities:		
Wastewater Utility		
Revenue bonds:		
1999 Sewage works refunding bonds	\$ 1,200,000	\$ 180,760
2001 Sewage works refunding bonds	4,165,000	278,005
2005 Sewage works refunding bonds	<u>7,815,000</u>	<u>266,824</u>
Total business-type activities debt	<u>\$ 13,180,000</u>	<u>\$ 725,589</u>

TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS

CONTRACTS (Applies to Town)

Payments totaling \$9,500 were made to Gary Hall, Clerk Treasurer, for polygraph services in 2006. A contract was not presented for examination.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ADJUSTMENTS TO CASH (Applies to Wastewater Utility)

During the examination period, the following adjustments were made to the general ledger without any supporting documentation, and Utility officials were unable to provide any explanations as to why the adjustments were made to the records:

1. In June 2006, an adjusting entry in the amount of \$492.93 was made to the general ledger to decrease the storm water operating cash account balance and increase storm water bad debt expense.
2. In October 2006, an adjusting entry in the amount of \$551.20 was made to the general ledger to increase the storm water operating cash account balance and decrease miscellaneous storm water expense.
3. In December 2006, an adjusting entry in the amount of \$300 was made to the general ledger to decrease the storm water operating cash account balance and decrease storm water revenue.

A detailed review of the financial transactions in June 2006, indicated that errors were made in posting depository account interest earned and in the recording of tap in fee collections. The net amount of these errors agreed with the adjusting entry made to the cash operating account in June. A review of the October 2006 financial ledger postings identified four errors made in recording the financial transactions in the ledger as follows:

1. Wastewater tap in receipts in the amount of \$5,850 were not posted to the records;
2. An error was made in recording collections on customer accounts, resulting in \$5,236.30 more being posted to the records than was actually received;
3. A ten cent error was made in recording checks deposited and returned by the bank for insufficient funds; and
4. A bank service fee in the amount of \$31 was not posted to the records.

The net effect of the identified errors made in recording financial activity to the records for the month of October 2006, was \$582.60, with a remaining adjustment made by the Utility of \$31.40 that could not be identified. The financial records for December 2006, showed an error was made in recording interest earned on the depository account. The December 2006, ledger posting for interest earned was \$300 more than the actual interest earned as shown on the bank statement.

TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Our review of the general ledger and the monthly bank reconciliations indicated that when the record balance did not agree with the reconciled bank balance, Utility officials would adjust the operating cash account balance in order for the records to balance, instead of identifying and correcting the posting errors that had caused the variance.

The Utility does not have procedures in effect where adjustments made to ledger accounts are approved prior to the adjustments being made to the records. To ensure that entries made to the records are legitimate, all adjustments made to the records should be approved by management prior to the entries being made, with detailed explanations as to the reasons for the adjustments retained for examination.

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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 7)

ACCOUNTS RECEIVABLE GENERAL LEDGER ACCOUNT (Applies to Wastewater Utility)

The total current charges accounts receivable general ledger control account balance for both storm water and wastewater services agreed with the detail customer accounts receivable subsidiary records at December 31, 2006. However, an entry in the amount of \$9,512 was made to the records to increase the accounts receivable general ledger control balance with the explanation "adjustment for year end" in order to force the records to agree. The miscellaneous expense account was reduced by \$9,512 to offset the entry made to the accounts receivable general ledger control. A review of the records revealed that part of the reason a difference existed between the records was storm water late payment penalties for August 2006, billed in the amount of \$2,327 that were not recorded in the general ledger accounts receivable control records.

The Wastewater Utility does not have procedures in effect where adjustments made to ledger accounts are approved by management prior to the adjustments being made to the records.

Although the total accounts receivable general ledger control balance for all services agreed with the subsidiary record after the undocumented adjustment of \$9,512, the individual amounts owed for storm water and wastewater services did not agree. At December 31, 2006, the detailed customer accounts receivable billing subsidiary record for storm water had a balance of \$63,262. However, the storm water accounts receivable general ledger control reported a balance of negative \$40,210. The detail customer accounts receivable billing subsidiary record for wastewater charges had a balance of \$186,677

TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

at December 31, 2006; however, the wastewater accounts receivable general ledger control account reported a balance of \$209,149. A review of the records revealed that part of the differences could be attributed to storm water billings in the amount of \$79,859 for the month of August 2006 ,were incorrectly recorded to the wastewater accounts receivable general ledger control account.

The delinquent accounts receivable general ledger account was not properly reconciled each month with the manual delinquent accounts receivable consumer ledger accounts. At December 31, 2006, the general ledger account balance exceeded the balance on the manual consumer ledger in the amount of \$3,214.

Failure to maintain proper controls over billings and other entries made to customer accounts could result in improper recording of financial transactions or fraudulent entries being made. Accurate financial reporting is necessary in order for management to make informed financial decisions. By not performing reconciliation procedures, Town officials cannot be assured that errors or omission in the accounting records will be detected and resolved in a timely manner.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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 7)

CONTRACT OVERPAYMENT (Applies to Wastewater Utility)

The Wastewater Utility entered into a contract with Team Contracting for repairs to the Harrison Avenue sewers and pump stations. The amount of the contract awarded, including changes orders, was \$175,239. Actual payments made to the contractor were \$180,079, resulting in an overpayment on the contract in the amount of \$4,839. Utility officials were advised to contact the contractor for a refund.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS (Applies to Wastewater Utility)

Financial records presented for examination did not accurately reflect the revenue and expenses of the Wastewater Utility. The following items were noted during our review:

1. The 2006 general ledger accounts of the Wastewater Utility included some 2005 financial transactions that had been previously reported in 2005. The source of the problem was traced to a computer programming error. No attempt was made by Utility officials to correct the records so that amounts reported reflected only 2006 financial activity of the Utility.

TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. Utility expenses were not properly categorized in the general ledger. The expense category for "Materials and Supplies" was used to record a variety of expenses, instead of using separate expense categories for the major expenses of the Utility. Expense categories should be created in the general ledger to represent the major expenses of the Utility. Financial transactions should then be posted to the various expense categories to provide the management with a better analysis of its expenses for financial planning.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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 CLARKSVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 20, 2007, with Gary P. Hall, Clerk-Treasurer; Dorothea J. Leuthart, Utility Office Manager; and Paul L. Kraft, President of the Town Council. The officials concurred with our findings.