

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

EXAMINATION REPORT

OF

CITY OF MITCHELL

LAWRENCE COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED
12/31/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mark H. Kern Kim Leonard	01-01-04 to 09-28-07 09-29-07 to 12-31-07
Mayor	Morris W. Chastain	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Morris W. Chastain	01-01-06 to 12-31-07
President of the Common Council	Kenneth Allen	01-01-06 to 12-31-07
Superintendent of Utilities	Roger Duncan	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF MITCHELL, LAWRENCE COUNTY, INDIANA

We have examined the financial information presented herein of the City of Mitchell (City), for the period of January 1, 2006 to December 31, 2006. The City'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 City 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

December 11, 2007

CITY OF MITCHELL
SCHEDULE 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	\$ 521,446	\$ 1,603,345	\$ 2,062,018	\$ 62,773
Motor Vehicle Highway	(35,403)	436,148	385,578	15,167
Local Road and Street	9,680	26,562	36,142	100
Park and Recreation	(63,563)	198,395	143,302	(8,470)
Law Enforcement Continuing Education	11,223	4,110	4,292	11,041
Cemetery	(210,205)	291,574	75,119	6,250
Donations	2,065	300	-	2,365
Urban Development	83,854	124,810	188,249	20,415
Housing and Rehabilitation	49,248	76,237	99,142	26,343
Downtown Revitalization	3,053	-	-	3,053
Transportation	(68,953)	151,487	127,343	(44,809)
Fire Donations	5,229	-	427	4,802
Storm Water Project	8,548	-	8,548	-
Police D.A.R.E.	6,410	-	1,455	4,955
Storm Sewer Project	(8,373)	31,048	22,675	-
Community Development	22,917	250	-	23,167
Police Officer Reserve	2,934	1,200	-	4,134
Community Day of Caring	-	11,904	1,750	10,154
Industrial Loan Program	-	81,750	81,750	-
Park Community Deposits	-	1,425	1,200	225
Cumulative Capital Improvement	26,612	16,316	31,903	11,025
Cumulative Capital Park	808	2,658	2,445	1,021
Cumulative Building and Firefighting Equipment	37,700	-	4,781	32,919
Cumulative Capital Development	26,770	27,750	23,624	30,896
Proprietary Funds:				
Water Utility - Operating	(42,953)	1,797,637	1,529,078	225,606
Water Utility - Bond and Interest	69	-	60	9
Water Utility - Depreciation	335,384	88	150,412	185,060
Water Utility - Customer Deposit	41,702	6,960	6,249	42,413
Water Utility - Debt Service Reserve	375,675	-	375,675	-
Water Utility - Bond Proceeds ECA	-	615,394	-	615,394
Water Utility - Escrow 2000 Bonds	-	5,088,355	1,309,333	3,779,022
Water Utility - Capital Projects	241	2,500	2,500	241
Wastewater Utility - Operating	(124,941)	1,631,609	423,699	1,082,969
Wastewater Utility - Customer Deposit	30,812	4,850	5,931	29,731
Wastewater Utility - Capital Projects	25,170	23	25,193	-
Wastewater Utility - Reserve	142,612	-	-	142,612
Fiduciary Funds:				
Police Officers' Pension	247,778	96,003	53,633	290,148
Cemetery Perpetual Care	148,151	2,608	75,000	75,759
Payroll	(479,903)	2,475,275	2,069,330	(73,958)
Totals	<u>\$ 1,131,797</u>	<u>\$ 14,808,571</u>	<u>\$ 9,327,836</u>	<u>\$ 6,612,532</u>

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

CITY OF MITCHELL
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and housing.

Note 2. Fund Accounting

The City 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 City 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 City 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.

CITY OF MITCHELL
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City 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 City 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.

Note 7. Subsequent Event

The City has issued Economic Development Lease Rental Revenue Bonds, Series 2007, in the amount of \$3,900,000, through the Mitchell Redevelopment Commission, to help with the construction of the Hamilton Boulevard Project. The bonds are for a term of 20 years at 4.45% interest and final payment is scheduled for February 15, 2027. As of December 11, 2007, actual construction has not started on the project.

CITY OF MITCHELL
 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.

	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 323,918
Infrastructure	141,495
Buildings	1,958,272
Improvements other than buildings	207,021
Machinery and equipment	1,468,056
Construction in progress	<u>148,065</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 4,246,827</u>
 Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 42,600
Buildings	4,309,776
Improvements other than buildings	2,526,806
Machinery and equipment	<u>453,424</u>
 Total Water Utility capital assets	 <u>7,332,606</u>
 Wastewater Utility:	
Capital assets, not being depreciated:	
Land	15,140
Buildings	3,724,230
Improvements other than buildings	1,421,415
Machinery and equipment	<u>204,412</u>
 Total Wastewater Utility capital assets	 <u>5,365,197</u>
 Total business-type activities capital assets	 <u>\$ 12,697,803</u>

CITY OF MITCHELL
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2006

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Pool equipment	\$ 34,415	\$ 13,204
Notes and loans payable	<u>29,400</u>	<u>3,600</u>
Total governmental activities debt	<u>\$ 63,815</u>	<u>\$ 16,804</u>
Business-type Activities:		
Water Utility		
Revenue bonds:		
2006 Waterworks refunding revenue bonds	<u>\$ 5,850,000</u>	<u>\$ 436,803</u>

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

(1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

(A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

(B) A description of the premises, as shown by the records of the county auditor.

(C) The amount of the delinquent fees, together with the penalty.

(2) An individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS
AND TRANSFERS FROM DEBT SERVICE FUNDS

Gross revenues were not being distributed to the various Utility funds in accordance with Revenue Bond Ordinance 00-02.

The City of Mitchell issued Waterworks Refunding Revenue Bonds dated December 14, 2006. The sources and uses of funds, according to the bond issue documentation dated December 14, 2006, were as follows:

Sources of Funds

Par Value of Bonds	\$ 5,850,000
Debt Service Fund Contribution	182,239
Debt Service Reserve Fund Contribution	375,675
EDA Grant Contribution	<u>633,171</u>
Total Sources of Funds	<u>\$ 7,041,085</u>

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS
(Continued)

Uses of Funds

Beginning Escrow Account Cash Balance	\$	1
Cost of the Escrowed Securities Purchased with Refunding Bond Proceeds		3,596,783
Debt Service Fund Contribution		182,239
Deposit to Debt Service Reserve Fund		441,254
Underwriter's Discount		146,250
Construction Cost		1,115,000
Non Construction Cost		180,884
Refund Sewer Loan		1,280,000
Issuance Costs		95,000
Contingency		<u>3,674</u>
 Total Uses of Funds		 <u><u>\$ 7,041,085</u></u>

On March 31, 2006, the Clerk-Treasurer sold the investment for the old debt service reserve requirement of \$375,675, and transferred the money into the Water Operating Account without governing body authority. Therefore, those funds were not available as a source from the new bond issue.

Water Utility accounts as of November 30, 2006, include the following balances:

Water Utility Operating	\$	239,291
Water Utility Depreciation		185,060
Water Utility Meter Deposit		13,337
Water Utility Construction EDA		<u>(2,260)</u>
 Total		 <u><u>\$ 435,428</u></u>

As a result of this difference, the actual amount for uses of funds totaled \$6,665,410. When the bonds were sold and proceeds received, distributions from the bond issue included \$1,309,333 to the Wastewater Utility (repayment of an outstanding loan) and \$146,250 to the Indiana Bond Bank (underwriter's discount). Bond issuance costs were paid from the Water Utility Operating Fund during December 2006 and January 2007. The bond proceeds remaining included \$3,596,783 paid to the Escrow Agent for bond escrow to pay the old bonds, \$182,239 for the new Debt Service Fund requirements, and \$615,394 for Construction and Non-construction costs. Without the old bond debt service reserve investment, there was a shortfall of \$441,254 for the new bond debt service requirements.

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)

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS
(Continued)

OFFICIAL BOND

There were no official bonds for City officials filed in the Office of the County Recorder.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

OVERDRAWN FUND BALANCES

The Park and Recreation Fund, Transportation Fund, and Payroll Fund were overdrawn 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)

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger. The general ledger balance was \$6,876 higher than the detailed register at December 31, 2006.

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)

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	\$ 205,876
Local Road and Street	2006	5,568
Cumulative Capital Improvement	2006	217

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."

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS
(Continued)

OLD OUTSTANDING CHECKS (WARRANTS)

Our review of the bank reconciliation, as of December 31, 2006, revealed checks outstanding in excess of two years.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

CONDITION OF RECORDS

The following conditions were present during the examination period:

Bank Account Reconciliations

The depository reconciliations of the fund balances to the bank account balances presented for examination were incorrect. The condition of records, correction of errors, internal controls and untimely recordkeeping made it difficult for the Clerk-Treasurer to reconcile properly. The outstanding check list included checks that cleared the month prior to the check posting, but were not accounted for through the reconciling process properly. At December 31, 2006, there were several unsupported reconciling items within the reconciliation. The reconciled bank balance was \$1,498 higher than the funds ledger balance at December 31, 2006.

Indiana Code 5-13-6-1(e) states: "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."

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

Corrections of Errors

Some corrections and adjustments were made in the records without retaining recommended examination trails. There were numerous year-end corrections that were not documented sufficiently to determine the validity of the adjustment.

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)

Internal Controls

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. The bank reconciliations were not always completed timely. Payroll checks were routinely given out early and cleared the bank prior to the posting date. This practice caused problems with the bank reconciliation, since the Clerk-Treasurer did not always account for these timing differences correctly.

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)

Timely Recordkeeping

We noted instances of weeks passing from the time of the original date of the transactions until entry on the records. The Clerk-Treasurer consistently kept the ledger open because work would not be completed timely. For example, the November 2006 reconciliation was not completed until January 19, 2007, and the December 2006 reconciliation was not completed until February 10, 2007. The timeliness issue caused some December 2006 receipt numbers to be comingled with 2007 receipt numbers.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with Indiana Code 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS
(Continued)

DEPOSITS

A review of deposits for the examination period indicated that some receipts were deposited later than the next business day. Utility employees balance the Utility cash drawers and remit the collections to the Clerk-Treasurer's office for deposit. The cash drawers were only balanced two to three times a week. Deposits were not made until several days after the collections were remitted to the Clerk-Treasurer's office. Utility deposits were reviewed for the months of November and December 2006. In November, three of nine deposits for the month were not deposited timely. In December, five of nine deposits were not deposited timely.

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."

BOARD MINUTES

Minutes for the Board of Works and Public Safety meetings held in January, April, and November 2006 were not available for examination.

Some minutes of meetings of the Park Board were not available for examination. Not all meetings had a quorum, but no information was presented to determine how many actual meetings occurred.

Indiana Code 5-14-1.5-4 states in part:

"(b) As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5 or IC 20-12-63-7."

CITY OF MITCHELL
EXIT CONFERENCE

The contents of this report were discussed on December 11, 2007, with Kim Leonard, Clerk-Treasurer. The official concurred with our findings.