

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

EXAMINATION REPORT
OF
TOWN OF KNIGHTSTOWN
HENRY COUNTY, INDIANA
January 1, 2006 to December 31, 2006



FILED
12/31/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-6
Supplementary Information:	
Schedule of Capital Assets.....	7
Schedule of Long-Term Debt	8
Examination Results and Comments:	
Town Court Trust Funds.....	9
Bank Account Reconciliations	9
Overdrawn Cash Balances.....	9
Customer Deposit Register	9
Exit Conference.....	10

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Linda Stearns Judith Haines	02-01-04 to 09-30-06 10-01-06 to 12-31-07
President of the Town Council	David Glenn	01-01-06 to 12-31-07
Superintendent of Utilities	Melvin Matlock	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 TOWN OF KNIGHTSTOWN, HENRY COUNTY, INDIANA

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

December 6, 2007

TOWN OF KNIGHTSTOWN
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	\$ 174,185	\$ 716,558	\$ 803,626	\$ 87,117
Motor Vehicle Highway	53,120	65,426	100,848	17,698
Local Road and Street	48,432	31,380	48,300	31,512
Park and Recreation	46,720	42,614	53,967	35,367
Park Nonreverting Pool Fund	169	-	169	-
Law Enforcement Aid Fund	626	-	-	626
Local Law Enforcement Block Grant	(226)	-	-	(226)
Law Enforcement Continuing Education	2,968	3,139	3,560	2,547
Police Reserve Unit Fund	498	320	855	(37)
Hoosier Gym Grant	23,451	2,283	7,050	18,684
Riverboat	5,503	13,517	9,197	9,823
Glen Cove Cemetery	459	108,594	113,725	(4,672)
Cumulative Capital Improvement	65,527	52,609	44,850	73,286
Cumulative Capital Development	126,670	146,884	132,000	141,554
Cumulative Fire Fighting Equipment	1,450	-	-	1,450
Cumulative Police Equipment	4,711	7,374	3,292	8,793
Firefighting Fund	-	80,000	128,299	(48,299)
Major Moves	-	14,737	-	14,737
Proprietary Funds:				
Water Utility - Operating	98,195	214,320	262,475	50,040
Water Utility - Bond and Interest	147,169	219,133	214,485	151,817
Water Utility - Depreciation	39,902	-	10,118	29,784
Water Utility - Customer Deposit	7,267	2,580	2,427	7,420
Water Utility - Sinking Fund	30,000	736	-	30,736
Water Utility - Debt Service Reserve	54,000	111,651	109,000	56,651
Water Utility - Revenue	-	238,445	238,445	-
Wastewater Utility - Operating	7,722	257,944	261,896	3,770
Wastewater Utility - Bond and Interest	37,875	195,820	194,685	39,010
Wastewater Utility - Depreciation	339,836	154,749	175,323	319,262
Wastewater Utility - Debt Service Reserve	225,364	52,601	50,000	227,965
Wastewater Utility - Construction	116,201	204,887	200,000	121,088
Wastewater Utility - Revenue	-	409,553	409,553	-
Electric Utility - Operating	36,432	1,807,812	1,759,822	84,422
Electric Utility - Cash Reserve	337,503	357,980	330,000	365,483
Electric Utility - Depreciation	114,262	92,572	66,936	139,898
Electric Utility - Customer Deposit	34,693	12,329	12,556	34,466
Fiduciary Funds:				
Claude Deem Cemetery	5,377	115	-	5,492
Glen Cove Cemetery Endowment	105,112	-	-	105,112
Glen Cove Cemetery BMI	-	-	391	(391)
Court Costs	21,625	80,725	80,725	21,625
County Law Enforcement Continuing Education Fund	45,344	14,572	15,781	44,135
Deferral Pretrial	5,226	16,235	16,235	5,226
Document Storage	(378)	11,594	16,074	(4,858)
Town Court	94,146	860,158	856,715	97,589
Payroll	(53,823)	974,811	975,027	(54,039)
Totals	\$ 2,403,313	\$ 7,576,757	\$ 7,708,407	\$ 2,271,663

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

TOWN OF KNIGHTSTOWN
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; cemetery; water, wastewater, and electric utilities; culture and recreation; and general administrative 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. 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 KNIGHTSTOWN
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

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.

TOWN OF KNIGHTSTOWN
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 (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 150,000
Infrastructure	55,000
Buildings	250,000
Machinery and equipment	<u>1,196,243</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 1,651,243</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 10,000
Buildings	204,451
Improvements other than buildings	40,000
Machinery and equipment	<u>886,337</u>
 Total Water Utility capital assets	 <u>1,140,788</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	50,000
Buildings	235,000
Machinery and equipment	<u>6,781,479</u>
 Total Wastewater Utility capital assets	 <u>7,066,479</u>
Electric Utility:	
Capital assets, not being depreciated:	
Land	65,716
Buildings	86,583
Machinery and equipment	<u>1,103,297</u>
 Total Electric Utility capital assets	 <u>1,255,596</u>
 Total business-type activities capital assets	 <u>\$ 9,462,863</u>

TOWN OF KNIGHTSTOWN
 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		
Revenue bonds:		
Refunding of 1991 revenue bonds	\$ 383,000	\$ 16,667
Wastewater Utility		
Revenue bonds:		
Refunding of 1996 revenue bonds	1,595,000	91,990
Total business-type activities debt:	<u>\$ 1,978,000</u>	<u>\$ 108,657</u>

TOWN OF KNIGHTSTOWN
EXAMINATION RESULTS AND COMMENTS

TOWN COURT TRUST FUNDS

As stated in the prior examination report, the detail for the court trust funds did not agree with trust balances as recorded in the cash book.

The posting to this record is made from the duplicate receipts and checks and from the trust column of the court cash book. Items entered in other columns of the cash book must not be posted in the trust fund register. The total of all unpaid items as shown by the trust fund register must agree with the balance in trust as shown by the court cash book. (Accounting and Uniform Compliance Guidelines Manual for Cities and Town Courts, Chapter 1)

BANK ACCOUNT RECONCILIATIONS (Applies to Town Court)

As stated in the prior examination report, depository reconciliations of the fund balances to the bank account balances were incorrect.

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."

OVERDRAWN CASH BALANCES (Applies to Town)

The cash balance of the Local Law Enforcement Block Grant Fund, Police Reserve Unit Fund, Glen Cove Cemetery Fund, Firefighting Fund, Glen Cove Cemetery BMI fund, Document Storage Fund, and Payroll Fund were overdrawn in 2006.

The cash 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 (Applies to Electric and Water Utilities)

As reported in prior Reports B17436, B24773, and B29017, the detailed customer deposit registers for the Electric and Water Utilities do not reconcile with the customer deposit amounts recorded on the general ledger.

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)

TOWN OF KNIGHTSTOWN
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2007, with Judith Haines, Clerk-Treasurer; David Glenn, President of the Town Council; and Stephen Nelson, Town Council member. The officials concurred with our findings.