

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

AUDIT REPORT

OF

TOWN OF CLAY CITY

CLAY COUNTY, INDIANA

January 1, 2007 to December 31, 2008



**FILED**  
07/16/2009



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards .....	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis .....	7, 11
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds .....	8, 12
Proprietary Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Funds.....	9, 13
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Fund.....	10, 14
Notes to Financial Statements .....	15-22
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds.....	23-24
Schedule of Capital Assets.....	25
Schedule of Long-Term Debt .....	26
Audit Results and Comments:	
Conflict of Interest.....	27
Customer Deposit Register .....	27
Internal Controls .....	28
Loans Between Funds.....	28
Optical Images of Warrants .....	29
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	32-33
Schedule of Expenditures of Federal Awards .....	34
Notes to Schedule of Expenditures of Federal Awards.....	35
Schedule of Findings and Questioned Costs .....	36-37
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings .....	38
Corrective Action Plan.....	39
Exit Conference.....	40

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Denetta L. Hane	01-01-07 to 12-31-10
President of the Town Council	Tammy Wilson	01-01-07 to 12-31-07
	Richard Sutton	01-01-08 to 12-31-08
	Guy J. Dickerson	01-01-09 to 12-31-09
Superintendent of Utilities	Richard Nelson	01-01-07 to 12-31-09



**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 AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TOWN OF CLAY CITY, CLAY COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clay City (Town), as of and for the years ended December 31, 2007 and 2008, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2007 and 2008, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated May 19, 2009, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Town has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

May 19, 2009



**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](http://www.in.gov/sboa)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF CLAY CITY, CLAY COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clay City (Town), as of and for the years ended December 31, 2007 and 2008, which collectively comprise the Town's basic financial statements and have issued our report thereon dated May 19, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in item 2008-1 of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Considered)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency described in item 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Town's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 19, 2009

TOWN OF CLAY CITY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2007

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 160,671	\$ 540	\$ -	\$ -	\$ (160,131)	\$ -	\$ (160,131)
Public safety	76,829	8,545	-	-	(68,284)	-	(68,284)
Highways and streets	24,670	-	36,527	5,198	17,055	-	17,055
Total governmental activities	<u>262,170</u>	<u>9,085</u>	<u>36,527</u>	<u>5,198</u>	<u>(211,360)</u>	<u>-</u>	<u>(211,360)</u>
Business-type activities:							
Wastewater	3,349,205	250,382	-	425,454	-	(2,673,369)	(2,673,369)
Water	282,931	192,351	-	-	-	(90,580)	(90,580)
Total business-type activities	<u>3,632,136</u>	<u>442,733</u>	<u>-</u>	<u>425,454</u>	<u>-</u>	<u>(2,763,949)</u>	<u>(2,763,949)</u>
Total primary government	<u>\$ 3,894,306</u>	<u>\$ 451,818</u>	<u>\$ 36,527</u>	<u>\$ 430,652</u>	<u>(211,360)</u>	<u>(2,763,949)</u>	<u>(2,975,309)</u>
General receipts:							
Property taxes					140,578	-	140,578
Intergovernmental					93,645	-	93,645
Other local sources					13,166	34,002	47,168
Net proceeds from borrowings					-	2,675,955	2,675,955
Grants and contributions not restricted to specific programs					150	-	150
Investment earnings					2,869	7,834	10,703
Interfund loans					-	50,616	50,616
Total general receipts					<u>250,408</u>	<u>2,768,407</u>	<u>3,018,815</u>
Change in net assets					39,048	4,458	43,506
Net assets - beginning					<u>581,608</u>	<u>368,812</u>	<u>950,420</u>
Net assets - ending					<u>\$ 620,656</u>	<u>\$ 373,270</u>	<u>\$ 993,926</u>
<u>Assets</u>							
Cash and investments					\$ 390,257	\$ 244,552	\$ 634,809
Restricted assets:							
Cash and investments					<u>230,399</u>	<u>128,718</u>	<u>359,117</u>
Total assets					<u>\$ 620,656</u>	<u>\$ 373,270</u>	<u>\$ 993,926</u>
<u>Net Assets</u>							
Restricted for:							
Public safety					\$ 11,260	\$ -	\$ 11,260
Highways and streets					165,190	-	165,190
Economic development					53,949	-	53,949
Debt service					-	12,689	12,689
Other purposes					-	116,029	116,029
Unrestricted					<u>390,257</u>	<u>244,552</u>	<u>634,809</u>
Total net assets					<u>\$ 620,656</u>	<u>\$ 373,270</u>	<u>\$ 993,926</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CLAY CITY  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2007

	General	Motor Vehicle Highway	Cumulative Capital Improvement	Other Governmental Funds	Totals
<b>Receipts:</b>					
Taxes	\$ 140,578	\$ -	\$ -	\$ -	\$ 140,578
Licenses and permits	-	-	-	500	500
Intergovernmental	91,751	36,526	1,895	5,198	135,370
Charges for services	540	-	-	15	555
Fines and forfeits	-	-	-	8,030	8,030
Other	3,785	-	903	277	4,965
<b>Total receipts</b>	<b>236,654</b>	<b>36,526</b>	<b>2,798</b>	<b>14,020</b>	<b>289,998</b>
<b>Disbursements:</b>					
General government	160,144	-	-	527	160,671
Public safety	76,218	-	-	611	76,829
Highways and streets	-	520	-	-	520
Capital outlay:					
Highways and streets	-	24,150	-	-	24,150
<b>Total disbursements</b>	<b>236,362</b>	<b>24,670</b>	<b>-</b>	<b>1,138</b>	<b>262,170</b>
Excess of receipts over disbursements	292	11,856	2,798	12,882	27,828
<b>Other financing sources (uses):</b>					
Transfers in	7,851	-	-	-	7,851
Transfers out	-	-	-	(7,851)	(7,851)
Other receipts	10,320	-	-	900	11,220
<b>Total other financing sources (uses)</b>	<b>18,171</b>	<b>-</b>	<b>-</b>	<b>(6,951)</b>	<b>11,220</b>
Excess of receipts and other financing sources over disbursements and other financing uses	18,463	11,856	2,798	5,931	39,048
Cash and investment fund balance - beginning	303,759	118,099	65,237	94,513	581,608
Cash and investment fund balance - ending	<u>\$ 322,222</u>	<u>\$ 129,955</u>	<u>\$ 68,035</u>	<u>\$ 100,444</u>	<u>\$ 620,656</u>
<b><u>Cash and Investment Assets - Ending</u></b>					
Cash and investments	\$ 322,222	\$ -	\$ 68,035	\$ -	\$ 390,257
Restricted assets:					
Cash and investments	-	129,955	-	100,444	230,399
<b>Total cash and investment assets - ending</b>	<b><u>\$ 322,222</u></b>	<b><u>\$ 129,955</u></b>	<b><u>\$ 68,035</u></b>	<b><u>\$ 100,444</u></b>	<b><u>\$ 620,656</u></b>
<b><u>Cash and Investment Fund Balance - Ending</u></b>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ 11,260	\$ 11,260
Highways and streets	-	129,955	-	35,235	165,190
Economic development	-	-	-	53,949	53,949
Unrestricted	322,222	-	68,035	-	390,257
<b>Total cash and investment fund balance - ending</b>	<b><u>\$ 322,222</u></b>	<b><u>\$ 129,955</u></b>	<b><u>\$ 68,035</u></b>	<b><u>\$ 100,444</u></b>	<b><u>\$ 620,656</u></b>

The notes to the financial statements are an integral part of this statement.

TOWN OF CLAY CITY  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Year Ended December 31, 2007

	Wastewater	Water	Totals
Operating receipts:			
Unmetered/flat rate	\$ -	\$ 2,143	\$ 2,143
Metered/measured	249,757	184,961	434,718
Interfund loan proceeds	-	50,616	50,616
Miscellaneous	625	5,247	5,872
	<u>250,382</u>	<u>242,967</u>	<u>493,349</u>
Total operating receipts			
Operating disbursements:			
Salaries and wages	60,160	60,160	120,320
Chemicals	4,542	9,077	13,619
Material and supplies	2,535	1,441	3,976
Contractual services	468,843	15,677	484,520
Transportation	3,043	2,263	5,306
Insurance claims and expense	11,387	11,372	22,759
Water treatment	-	13,611	13,611
Transmission and distribution	-	67,029	67,029
Refunds	-	2,648	2,648
Equipment and capital improvements	2,639,798	-	2,639,798
Interfund loans made/repaid	50,616	-	50,616
Miscellaneous	29,765	14,400	44,165
	<u>3,270,689</u>	<u>197,678</u>	<u>3,468,367</u>
Total operating disbursements			
Excess (deficiency) of operating receipts over operating disbursements	<u>(3,020,307)</u>	<u>45,289</u>	<u>(2,975,018)</u>
Nonoperating receipts (disbursements):			
Rent	-	27,261	27,261
Investment income	5,656	2,178	7,834
Refunds	2,617	4,124	6,741
Grants	425,454	-	425,454
Bond proceeds	2,675,955	-	2,675,955
Debt service of principal	(12,500)	(58,333)	(70,833)
Interest disbursements	(66,016)	(26,920)	(92,936)
	<u>3,031,166</u>	<u>(51,690)</u>	<u>2,979,476</u>
Total nonoperating receipts (disbursements)			
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	10,859	(6,401)	4,458
Cash and investment fund balance - beginning	<u>184,938</u>	<u>183,874</u>	<u>368,812</u>
Cash and investment fund balance - ending	<u>\$ 195,797</u>	<u>\$ 177,473</u>	<u>\$ 373,270</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 103,784	\$ 140,768	\$ 244,552
Restricted assets:			
Cash and investments	92,013	36,705	128,718
Total cash and investment assets - December 31	<u>\$ 195,797</u>	<u>\$ 177,473</u>	<u>\$ 373,270</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 12,689	\$ -	\$ 12,689
Other purposes	79,324	36,705	116,029
Unrestricted	103,784	140,768	244,552
Total cash and investment fund balance - December 31	<u>\$ 195,797</u>	<u>\$ 177,473</u>	<u>\$ 373,270</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CLAY CITY  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH  
AND INVESTMENT BALANCES  
FIDUCIARY FUND  
For The Year Ended December 31, 2007

	<u>Agency Fund</u>
Agency fund additions	\$ <u>222,187</u>
Agency fund deductions	<u>221,770</u>
Excess of total additions over total deductions	417
Cash and investment fund balance - beginning	<u>7,020</u>
Cash and investment fund balance - ending	<u>\$ 7,437</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CLAY CITY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2008

Functions/Programs	Disbursements	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 146,988	\$ -	\$ -	\$ -	\$ (146,988)	\$ -	\$ (146,988)
Public safety	80,860	3,686	-	-	(77,174)	-	(77,174)
Highways and streets	1,100	-	27,384	4,847	31,131	-	31,131
Economic development	5,010	-	-	-	(5,010)	-	(5,010)
Total governmental activities	<u>233,958</u>	<u>3,686</u>	<u>27,384</u>	<u>4,847</u>	<u>(198,041)</u>	<u>-</u>	<u>(198,041)</u>
Business-type activities:							
Wastewater	476,834	284,640	-	28,547	-	(163,647)	(163,647)
Water	187,018	221,556	-	-	-	34,538	34,538
Total business-type activities	<u>663,852</u>	<u>506,196</u>	<u>-</u>	<u>28,547</u>	<u>-</u>	<u>(129,109)</u>	<u>(129,109)</u>
Total primary government	<u>\$ 897,810</u>	<u>\$ 509,882</u>	<u>\$ 27,384</u>	<u>\$ 33,394</u>	<u>(198,041)</u>	<u>(129,109)</u>	<u>(327,150)</u>
General receipts:							
Property taxes					148,095	-	148,095
Intergovernmental					96,801	-	96,801
Other local sources					5,140	34,262	39,402
Net proceeds from borrowings					-	217,700	217,700
Investment earnings					6,341	13,225	19,566
Interfund loans					-	8,640	8,640
Total general receipts					<u>256,377</u>	<u>273,827</u>	<u>530,204</u>
Change in net assets					58,336	144,718	203,054
Net assets - beginning					<u>620,656</u>	<u>373,270</u>	<u>993,926</u>
Net assets - ending					<u>\$ 678,992</u>	<u>\$ 517,988</u>	<u>\$ 1,196,980</u>
<u>Assets</u>							
Cash and investments					\$ 415,379	\$ 247,808	\$ 663,187
Cash with fiscal agent					-	53,076	53,076
Restricted assets:							
Cash and investments					<u>263,613</u>	<u>217,104</u>	<u>480,717</u>
Total assets					<u>\$ 678,992</u>	<u>\$ 517,988</u>	<u>\$ 1,196,980</u>
<u>Net Assets</u>							
Restricted for:							
General government					\$ 15,755	\$ -	\$ 15,755
Public safety					13,229	-	13,229
Highways and streets					196,321	-	196,321
Economic development					38,308	-	38,308
Debt service					-	232,922	232,922
Other purposes					-	37,258	37,258
Unrestricted					<u>415,379</u>	<u>247,808</u>	<u>663,187</u>
Total net assets					<u>\$ 678,992</u>	<u>\$ 517,988</u>	<u>\$ 1,196,980</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CLAY CITY  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2008

	General	Motor Vehicle Highway	Cumulative Capital Improvement	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 148,095	\$ -	\$ -	\$ -	\$ 148,095
Licenses and permits	-	-	-	430	430
Intergovernmental	93,487	27,384	3,314	4,847	129,032
Charges for services	-	-	-	26	26
Fines and forfeits	-	-	-	3,230	3,230
Other	10,052	-	1,166	124	11,342
<b>Total receipts</b>	<b>251,634</b>	<b>27,384</b>	<b>4,480</b>	<b>8,657</b>	<b>292,155</b>
Disbursements:					
General government	146,988	-	-	-	146,988
Public safety	79,143	-	-	775	79,918
Highways and streets	-	1,100	-	-	1,100
Economic development	-	-	5,000	10	5,010
Capital outlay:					
Public safety	-	-	-	942	942
<b>Total disbursements</b>	<b>226,131</b>	<b>1,100</b>	<b>5,000</b>	<b>1,727</b>	<b>233,958</b>
Excess (deficiency) of receipts over disbursements	25,503	26,284	(520)	6,930	58,197
Other financing sources:					
Other receipts	139	-	-	-	139
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	25,642	26,284	(520)	6,930	58,336
Cash and investment fund balance - beginning	322,222	129,955	68,035	100,444	620,656
Cash and investment fund balance - ending	<u>\$ 347,864</u>	<u>\$ 156,239</u>	<u>\$ 67,515</u>	<u>\$ 107,374</u>	<u>\$ 678,992</u>
<b>Cash and Investment Assets - Ending</b>					
Cash and investments	\$ 347,864	\$ -	\$ 67,515	\$ -	\$ 415,379
Restricted assets:					
Cash and investments	-	156,239	-	107,374	263,613
<b>Total cash and investment assets - ending</b>	<u>\$ 347,864</u>	<u>\$ 156,239</u>	<u>\$ 67,515</u>	<u>\$ 107,374</u>	<u>\$ 678,992</u>
<b>Cash and Investment Fund Balance - Ending</b>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ 13,229	\$ 13,229
Highways and streets	-	156,239	-	40,082	196,321
Economic development	-	-	-	54,063	54,063
Unrestricted	347,864	-	67,515	-	415,379
<b>Total cash and investment fund balance - ending</b>	<u>\$ 347,864</u>	<u>\$ 156,239</u>	<u>\$ 67,515</u>	<u>\$ 107,374</u>	<u>\$ 678,992</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CLAY CITY  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Year Ended December 31, 2008

	<u>Wastewater</u>	<u>Water</u>	<u>Totals</u>
Operating receipts:			
Unmetered/flat rate	\$ -	\$ 2,725	\$ 2,725
Metered/measured	284,640	213,103	497,743
Interfund loan proceeds	-	8,640	8,640
Miscellaneous	-	5,728	5,728
	<u>284,640</u>	<u>230,196</u>	<u>514,836</u>
Total operating receipts			
Operating disbursements:			
Salaries and wages	64,667	62,317	126,984
Purchased power	-	3,062	3,062
Chemicals	4,587	2,055	6,642
Material and supplies	35,362	18,585	53,947
Contractual services	47,817	16,667	64,484
Transportation	2,930	2,544	5,474
Insurance claims and expense	9,516	9,410	18,926
Transmission and distribution	-	26,965	26,965
Refunds	-	1,968	1,968
Equipment and capital improvements	249,503	-	249,503
Interfund loans made/repaid	8,640	-	8,640
Miscellaneous	1,489	16,145	17,634
	<u>424,511</u>	<u>159,718</u>	<u>584,229</u>
Total operating disbursements			
Excess (deficiency) of operating receipts over operating disbursements	<u>(139,871)</u>	<u>70,478</u>	<u>(69,393)</u>
Nonoperating receipts (disbursements):			
Rent	-	30,100	30,100
Investment income	7,245	5,980	13,225
Refunds	10,894	1,908	12,802
Grants	28,547	-	28,547
Bond proceeds	217,700	-	217,700
Debt service of principal	-	(14,218)	(14,218)
Interest disbursements	(60,963)	(13,082)	(74,045)
	<u>203,423</u>	<u>10,688</u>	<u>214,111</u>
Total nonoperating receipts (disbursements)			
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	63,552	81,166	144,718
Cash and investment fund balance - beginning	<u>195,797</u>	<u>177,473</u>	<u>373,270</u>
Cash and investment fund balance - ending	<u>\$ 259,349</u>	<u>\$ 258,639</u>	<u>\$ 517,988</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 135,907	\$ 111,901	\$ 247,808
Cash with fiscal agent	17,431	35,645	53,076
Restricted assets:			
Cash and investments	<u>106,011</u>	<u>111,093</u>	<u>217,104</u>
Total cash and investment assets - December 31	<u>\$ 259,349</u>	<u>\$ 258,639</u>	<u>\$ 517,988</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 121,829	\$ 111,093	\$ 232,922
Other purposes	1,613	35,645	37,258
Unrestricted	<u>135,907</u>	<u>111,901</u>	<u>247,808</u>
Total cash and investment fund balance - December 31	<u>\$ 259,349</u>	<u>\$ 258,639</u>	<u>\$ 517,988</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CLAY CITY  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH  
AND INVESTMENT BALANCES  
FIDUCIARY FUND  
For The Year Ended December 31, 2008

	Agency Fund
Agency fund additions	\$ 228,972
Agency fund deductions	234,275
Deficiency of total additions over total deductions	(5,303)
Cash and investment fund balance - beginning	7,437
Cash and investment fund balance - ending	\$ 2,134

The notes to the financial statements are an integral part of this statement.

TOWN OF CLAY CITY  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides the following services: public safety (police), highways and streets, public improvements, general administrative services, water, and wastewater.

The Town's financial reporting entity is composed of the Town, the primary government.

In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The motor vehicle highway fund accounts for financial resources accumulated and used for upgrades to roads and related infrastructure.

The cumulative capital improvement fund accounts for financial resources accumulated for the purpose of future capital purchases or construction.

The Town reports the following major proprietary funds:

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection systems.

The water utility fund accounts for the operation of the water distribution system.

TOWN OF CLAY CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Additionally, the Town reports the following fund type:

An agency fund accounts for assets held by the Town as an agent for its employees.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and wastewater function. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The Town does not have any internal service funds.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

TOWN OF CLAY CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and in December. State statute (Indiana Code 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 School Corporation on or prior to December 31 of the year collected.

3. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

4. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

5. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the Town's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

TOWN OF CLAY CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

TOWN OF CLAY CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the Town submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the Town receives approval of the Indiana Department of Local Government Finance.

The Town's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

TOWN OF CLAY CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Investments

As of December 31, 2008, the Town had the following investments:

Primary Government

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
Mutual bond funds*	\$ 210,140	\$ -	\$ -

\*The mutual bond funds had a weighted average maturity of 55 days.

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the Town to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Town to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Town and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Town may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Town's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

TOWN OF CLAY CITY  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town must follow state statute and limit the stated final maturities of the investments to no more than two years. The Town does not have a formal investment policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The Town does not have a formal investment policy for credit risk for investments.

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2007 and 2008, were as follows:

Transfer From	Transfer To	2007	2008
Wastewater Fund	Water Fund	\$ 50,616	\$ 8,640
Other governmental	General Fund	7,851	-
Totals		\$ 58,467	\$ 8,640

The Town typically uses transfers for cash flow purposes as provided by various statutory provisions.

In 2007, the Water Utility had to borrow a material amount of money from the Wastewater Utility to meet its monthly obligations. This amount decreased in 2008 after the Town raised the water rates.

IV. Other Information

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

TOWN OF CLAY CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Subsequent Events

In 2005, the U.S. Department of Agriculture awarded the Town of Clay City a loan in the amount of \$2,967,000 and a grant in the amount of \$39,500 for a wastewater infrastructure improvement project. As of December 31, 2008, the Town had substantially completed the original project and still had approximately \$112,000 of the loan and grant awards available. In the subsequent period, the Town has extended the original project and plans to spend the remaining available federal funds on upgrading another lift station.

In addition to the U.S. Department of Agriculture loan, the Town of Clay City was also awarded a Community Development Block Grant to help complete the wastewater infrastructure improvement project. This grant was passed-through the Indiana Office of Community and Rural Affairs. The results of the final monitoring review by the pass-through agency indicate that the Town may have used the Community Development Block Grant to fund more than the allowable amount of the total project cost. The Town and the Grant Administrator are still determining the final total project cost, so the amount to be repaid has not been determined as of the report date.

C. Rate Structure – Enterprise Funds

Water Utility

On October 19, 1992, the Town Council adopted Ordinance 92-7 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on July 3, 2008.

Wastewater Utility

The current rate structure was approved by the Town Council on January 4, 2006.

TOWN OF CLAY CITY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2007

	Local Road And Street	Law Enforcement Continuing Ed	Deferral Program	Build Indiana	Indiana Police Grant	Street Light Project	Totals
<b>Receipts:</b>							
Licenses and permits	\$ -	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ 500
Intergovernmental	5,198	-	-	-	-	-	5,198
Charges for services	-	15	-	-	-	-	15
Fines and forfeits	-	-	8,030	-	-	-	8,030
Other	-	150	-	-	-	127	277
<b>Total receipts</b>	<b>5,198</b>	<b>665</b>	<b>8,030</b>	<b>-</b>	<b>-</b>	<b>127</b>	<b>14,020</b>
<b>Disbursements:</b>							
General government	-	-	-	507	-	20	527
Public safety	-	611	-	-	-	-	611
<b>Total disbursements</b>	<b>-</b>	<b>611</b>	<b>-</b>	<b>507</b>	<b>-</b>	<b>20</b>	<b>1,138</b>
Excess (deficiency) of receipts over disbursements	5,198	54	8,030	(507)	-	107	12,882
<b>Other financing sources (uses):</b>							
Transfers out	-	-	(7,851)	-	-	-	(7,851)
Other receipts	-	900	-	-	-	-	900
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>900</b>	<b>(7,851)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,951)</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	5,198	954	179	(507)	-	107	5,931
Cash and investment fund balance - beginning	30,037	2,825	7,200	16,262	102	38,087	94,513
Cash and investment fund balance - ending	<u>\$ 35,235</u>	<u>\$ 3,779</u>	<u>\$ 7,379</u>	<u>\$ 15,755</u>	<u>\$ 102</u>	<u>\$ 38,194</u>	<u>\$ 100,444</u>
<b>Cash and Investment Assets - Ending</b>							
<b>Restricted assets:</b>							
Cash and investments	35,235	3,779	7,379	15,755	102	38,194	100,444
<b>Total cash and investment assets - ending</b>	<b>\$ 35,235</b>	<b>\$ 3,779</b>	<b>\$ 7,379</b>	<b>\$ 15,755</b>	<b>\$ 102</b>	<b>\$ 38,194</b>	<b>\$ 100,444</b>
<b>Cash and Investment Fund Balance - Ending</b>							
<b>Restricted for:</b>							
Public safety	\$ -	\$ 3,779	\$ 7,379	\$ -	\$ 102	\$ -	\$ 11,260
Highways and streets	35,235	-	-	-	-	-	35,235
Economic development	-	-	-	15,755	-	38,194	53,949
<b>Total cash and investment fund balance - ending</b>	<b>\$ 35,235</b>	<b>\$ 3,779</b>	<b>\$ 7,379</b>	<b>\$ 15,755</b>	<b>\$ 102</b>	<b>\$ 38,194</b>	<b>\$ 100,444</b>

TOWN OF CLAY CITY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2008

	Local Road And Street	Law Enforcement Continuing Ed	Deferral Program	Build Indiana	Indiana Police Grant	Street Light Project	Totals
<b>Receipts:</b>							
Licenses and permits	\$ -	\$ 430	\$ -	\$ -	\$ -	\$ -	\$ 430
Intergovernmental	4,847	-	-	-	-	-	4,847
Charges for services	-	26	-	-	-	-	26
Fines and forfeits	-	705	2,525	-	-	-	3,230
Other	-	-	-	-	-	124	124
<b>Total receipts</b>	<b>4,847</b>	<b>1,161</b>	<b>2,525</b>	<b>-</b>	<b>-</b>	<b>124</b>	<b>8,657</b>
<b>Disbursements:</b>							
Public safety	-	-	775	-	-	-	775
Economic development	-	-	-	-	-	10	10
Capital outlay:							
Public safety	-	-	942	-	-	-	942
<b>Total disbursements</b>	<b>-</b>	<b>-</b>	<b>1,717</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>1,727</b>
Excess of receipts over disbursements	4,847	1,161	808	-	-	114	6,930
Cash and investment fund balance - beginning	35,235	3,779	7,379	15,755	102	38,194	100,444
Cash and investment fund balance - ending	<u>\$ 40,082</u>	<u>\$ 4,940</u>	<u>\$ 8,187</u>	<u>\$ 15,755</u>	<u>\$ 102</u>	<u>\$ 38,308</u>	<u>\$ 107,374</u>
<b>Cash and Investment Assets - Ending</b>							
<b>Restricted assets:</b>							
Cash and investments	<u>\$ 40,082</u>	<u>\$ 4,940</u>	<u>\$ 8,187</u>	<u>\$ 15,755</u>	<u>\$ 102</u>	<u>\$ 38,308</u>	<u>\$ 107,374</u>
<b>Total cash and investment assets - ending</b>	<b><u>\$ 40,082</u></b>	<b><u>\$ 4,940</u></b>	<b><u>\$ 8,187</u></b>	<b><u>\$ 15,755</u></b>	<b><u>\$ 102</u></b>	<b><u>\$ 38,308</u></b>	<b><u>\$ 107,374</u></b>
<b>Cash and Investment Fund Balance - Ending</b>							
<b>Restricted for:</b>							
Public safety	\$ -	\$ 4,940	\$ 8,187	\$ -	\$ 102	\$ -	\$ 13,229
Highways and streets	40,082	-	-	-	-	-	40,082
Economic development	-	-	-	15,755	-	38,308	54,063
<b>Total cash and investment fund balance - ending</b>	<b><u>\$ 40,082</u></b>	<b><u>\$ 4,940</u></b>	<b><u>\$ 8,187</u></b>	<b><u>\$ 15,755</u></b>	<b><u>\$ 102</u></b>	<b><u>\$ 38,308</u></b>	<b><u>\$ 107,374</u></b>

TOWN OF CLAY CITY  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2008

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 year have been reported.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 2,500
Buildings	22,549
Improvements other than buildings	318
Machinery and equipment	<u>119,957</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 145,324</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 10,000
Buildings	41,250
Improvements other than buildings	1,411,120
Machinery and equipment	<u>19,869</u>
 Total Water Utility capital assets	 <u>1,482,239</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	10,461
Buildings	497,552
Improvements other than buildings	3,345,655
Machinery and equipment	<u>33,021</u>
 Total Wastewater Utility capital assets	 <u>3,886,689</u>
 Total business-type activities capital assets	 <u>\$ 5,368,928</u>

TOWN OF CLAY CITY  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2008

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:		
2007 Dodge Charger police car	\$ 12,573	\$ 4,672
Total governmental activities debt	<u>\$ 12,573</u>	<u>\$ 4,672</u>
Business-type Activities:		
Water Utility		
Loans Payable:		
1994 Martz water line extension	\$ 13,952	\$ 13,952
Revenue bonds:		
2000 State Revolving Fund	<u>848,314</u>	<u>67,644</u>
Total Water Utility	<u>862,266</u>	<u>81,596</u>
Wastewater Utility		
Revenue bonds:		
2001 State Revolving Fund	167,016	19,626
2007 U.S. Department of Agriculture	<u>2,893,655</u>	<u>81,466</u>
Total Wastewater Utility	<u>3,060,671</u>	<u>101,092</u>
Total business-type activities debt:	<u>\$ 3,922,937</u>	<u>\$ 182,688</u>

TOWN OF CLAY CITY  
AUDIT RESULTS AND COMMENTS

CONFLICT OF INTEREST (Town)

Richard Sutton serves on the Town Council and is an employee of the Town of Clay City. A Uniform Conflict of Interest Disclosure Statement has not been filed.

IC 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . ."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant. . . . and (B) makes a disclosure under subsection (d)(1) through (d)(6)."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase. . . ."

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . ."

"(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in Indiana Code 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

CUSTOMER DEPOSIT REGISTER (Water Utility)

As stated in prior Reports B24771, B27409, and B31032, the Customer Deposit Register does not reconcile with the Customer Deposit Fund.

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 CLAY CITY  
AUDIT RESULTS AND COMMENTS  
(Continued)

INTERNAL CONTROLS (Town and Utilities)

We noted a deficiency in the internal control system of the Town related to the bank reconciliation process that was considered to be a material weakness. The Clerk-Treasurer is responsible for reconciling the bank accounts to the Town's records each month. She also has the responsibility to write checks and post transactions to the ledger. There is no approval or oversight of the bank reconciliation once it is completed. The lack of oversight and approval of the bank reconciliation could allow misstatements to be undetected.

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)

LOANS BETWEEN FUNDS (Utilities)

Temporary loans of \$50,616 and \$8,640 were made in 2007 and 2008, respectively, from the Wastewater Operating Fund to the Water Operating Fund. These loans were not repaid by December 31, 2008.

In March of 2009, the Town Council passed an ordinance or resolution to extend the date of repayment. However, there is also an outstanding loan balance from the Wastewater Utility to the Water Utility in the amount of \$50,752 dating from 2006. In total, the Water Utility owes the Wastewater Utility \$110,008 as of December 31, 2008.

IC 36-1-8-4 concerning temporary loans states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs; (4) The amount transferred must be returned to the other fund at the end of the prescribed period . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
  - (A) A statement that the fiscal body has determined that an emergency exists.
  - (B) A brief description of the grounds for the emergency.
  - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and department of local government finance."

TOWN OF CLAY CITY  
AUDIT RESULTS AND COMMENTS  
(Continued)

OPTICAL IMAGES OF WARRANTS (Town)

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

IC 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . .; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Further, IC 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise: and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**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 AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF CLAY CITY, CLAY COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Clay City (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2007 and 2008. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2007 and 2008.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

The Town's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 19, 2009

TOWN OF CLAY CITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended December 31, 2007 and 2008

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-07	Total Federal Awards Expended 12-31-08
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities Wastewater Infrastructure Improvements Project	10.760		\$ 2,691,024	\$ 201,019
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs				
Community Development Block Grants/Small Cities Program	14.219	CF-06-103	425,454	28,546
Total federal awards expended			<u>\$ 3,116,478</u>	<u>\$ 229,565</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF CLAY CITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Clay City (Town) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of Towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Loans Outstanding

The Town had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2007 and 2008. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2007	2008
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 2,893,655</u>	<u>\$ 217,700</u>

TOWN OF CLAY CITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no
--	----

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities
14.219	Community Development Block Grants/Small Cities Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
--	----

TOWN OF CLAY CITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Section II – Financial Statement Findings

FINDING 2008-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS  
AND REPORTING – MATERIAL WEAKNESSES

We noted a deficiency in the internal control system of the Town related to the bank reconciliation process that was considered to be a material weakness. The Clerk-Treasurer is responsible for reconciling the bank accounts to the Town's records each month. She also has the responsibility to write checks and post transactions to the ledger. There is no approval or oversight of the bank reconciliation once it is completed. The lack of oversight and approval of the bank reconciliation could allow misstatements to be undetected.

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)

TOWN OF CLAY CITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

# Town of Clay City

800 FRONT STREET  
P.O. BOX 87  
CLAY CITY, INDIANA 47841  
(812) 939-2345  
FAX (812) 939-2527

May 19, 2009

## Corrective Action Plan

### FEDERAL FINDING 2008-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING – MATERIAL WEAKNESS

Auditee Contact Person: Denetta Hane  
Title of Contact Person: Clerk-Treasurer  
Phone Number: (812) 939-2345  
Expected Completion Date: June 30, 2009

#### Corrective Action Planned:

The finding noted that there is no approval or oversight of the bank reconciliation once it is completed. We plan to change this by designating one of the Town Council members as the person to oversee the bank reconciliation process. This Council member will come in the office once a month, review the bank reconciliations performed by the Clerk-Treasurer, and initial the reconciliations once he has approved them. If there are any problems or questions, this Council member can share them with the rest of the Town Council at the next meeting.



Denetta Hane, Clerk-Treasurer  
Town of Clay City

TOWN OF CLAY CITY  
EXIT CONFERENCE

The contents of this report were discussed on May 19, 2009, with Denetta L. Hane, Clerk-Treasurer; and Guy J. Dickerson, President of the Town Council.