

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

EXAMINATION REPORT  
OF  
TOWN OF NORTH SALEM  
HENDRICKS COUNTY, INDIANA  
January 1, 2007 to December 31, 2008



**FILED**  
12/30/2009



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OFFICIALS

Office

Official

Term

Clerk-Treasurer

Cheryl Russell

01-01-07 to 12-31-09

President of the  
Town Council

William J. Woodrum  
Michael Selch

01-01-07 to 12-31-08  
01-01-09 to 12-31-09



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF NORTH SALEM, HENDRICKS COUNTY, INDIANA

We have examined the financial information presented herein of the Town of North Salem (Town), for the period of January 1, 2007 to December 31, 2008. The Town's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the Town for the years ended December 31, 2007 and 2008, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

October 27, 2009

TOWN OF NORTH SALEM  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
As Of And For The Years Ended December 31, 2007 And 2008

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
<b>Governmental Funds:</b>				
General	\$ 8,220	\$ 192,019	\$ 174,697	\$ 25,542
Motor Vehicle Highway	55,866	35,250	44,524	46,592
Local Road and Street	44,723	10,101	7,945	46,879
Law Enforcement Continuing Education	6,254	4,182	1,806	8,630
Trash	5,494	17,173	15,830	6,837
Excess Levy	2,668	-	2,668	-
Cumulative Capital Improvement	1,052	2,076	303	2,825
Economic Development Income Tax	4,704	23,321	10,451	17,574
Fire Station	3	1	-	4
<b>Proprietary Funds:</b>				
Water Utility - Operating	21,723	63,068	81,008	3,783
Water Utility - Bond and Interest	150	-	-	150
Water Utility - Depreciation	45,152	-	29,620	15,532
Water Utility - Customer Deposit	12,785	1,800	950	13,635
Water Utility - Debt Service	1,000	-	-	1,000
Water Utility - DNR Escrow	45	-	-	45
Wastewater Utility - Operating	(11,676)	89,750	87,745	(9,671)
Wastewater Utility - Bond and Interest	150	-	-	150
Wastewater Utility - Depreciation	66,504	-	23,800	42,704
Wastewater Utility - Debt Service	7,722	-	7,000	722
<b>Fiduciary Fund:</b>				
Payroll	10,436	168,104	182,164	(3,624)
<b>Totals</b>	<b>\$ 282,975</b>	<b>\$ 606,845</b>	<b>\$ 670,511</b>	<b>\$ 219,309</b>
	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
<b>Governmental Funds:</b>				
General	\$ 25,542	\$ 201,590	\$ 198,482	\$ 28,650
Motor Vehicle Highway	46,592	25,943	34,499	38,036
Local Road and Street	46,879	10,188	2,773	54,294
Law Enforcement Continuing Education	8,630	1,196	1,010	8,816
Trash	6,837	17,058	15,521	8,374
Excess Levy	-	-	-	-
North Salem 175	-	3,816	3,373	443
Cumulative Capital Improvement	2,825	1,922	3,600	1,147
Economic Development Income Tax	17,574	16,403	23,700	10,277
Fire Station	4	-	-	4
<b>Proprietary Funds:</b>				
Water Utility - Operating	3,783	83,331	99,930	(12,816)
Water Utility - Bond and Interest	150	-	-	150
Water Utility - Depreciation	15,532	-	2,710	12,822
Water Utility - Customer Deposit	13,635	1,800	600	14,835
Water Utility - Debt Service	1,000	-	-	1,000
Water Utility - DNR Escrow	45	-	-	45
Wastewater Utility - Operating	(9,671)	115,287	113,805	(8,189)
Wastewater Utility - Bond and Interest	150	-	-	150
Wastewater Utility - Depreciation	42,704	-	23,700	19,004
Wastewater Utility - Debt Service	722	-	-	722
<b>Fiduciary Fund:</b>				
Payroll	(3,624)	230,273	220,998	5,651
<b>Totals</b>	<b>\$ 219,309</b>	<b>\$ 708,807</b>	<b>\$ 744,701</b>	<b>\$ 183,415</b>

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

TOWN OF NORTH SALEM  
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 (police and fire), health and social services, culture and recreation, general administrative services, water, wastewater, and sanitation.

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 NORTH SALEM  
 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
Water Utility:		
Loans:		
Flood Control Revolving Loan	\$ 4,650	\$ 1,783
Revenue bonds:		
Waterworks Improvements	<u>124,000</u>	<u>14,750</u>
Total Water Utility	<u>128,650</u>	<u>16,533</u>
Wastewater Utility:		
Revenue bonds:		
Wastewater Improvements	<u>234,000</u>	<u>23,100</u>
Total Wastewater Utility	<u>234,000</u>	<u>23,100</u>

TOWN OF NORTH SALEM  
EXAMINATION RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
MVH	2007	\$ 924
General	2008	35,172

IC 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."

COMPENSATION AND BENEFITS

Two Town employees received payments for 2008 which were not included on the salary ordinance. Donald Perry, Town Marshal, was paid \$44,091.76 of regular pay; the salary ordinance authorized \$43,260 of regular pay for the year 2008 resulting in an overpayment of \$831.76. Mark Basham, Water, Wastewater, and Street Superintendent was paid \$53,509.86 of regular pay; the salary ordinance authorized \$52,500 of regular pay for the year 2008 resulting in an overpayment of \$1,009.86.

One elected official received payments for 2008 which were not included on the salary ordinance. Cheryl Russell, Clerk-Treasurer was paid \$44,948.24 in pay; the salary ordinance authorized \$44,100 of pay for the year 2008 resulting in an overpayment of \$848.24.

The overpayments were the result of paying the first scheduled weekly paycheck of 2009 on December 31, 2008. The number of pay dates in 2009 will result in employees and officials being underpaid for 2009.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

As stated in the prior report, gross revenues were not being distributed to the various Utility funds in accordance with Revenue Bond Ordinances 1974-4 and 1981-14.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF NORTH SALEM  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

ORDINANCES AND RESOLUTIONS

The Town has an ordinance concerning fire protection charges. Ordinance 1979-5 allows the Water Utility to charge \$157 per public hydrant rental. There are 35 public hydrants owned by the Town. However, the amount billed to the Town by the Water Utility totaled only \$2,000 for the year 2006 and \$2,000 for the year 2007. Upon inquiry of Town officials, an amended ordinance was established; however, it was not available for examination.

The Water and Wastewater Utility have ordinances concerning rates and charges for the use of Water and Wastewater services. However, the ordinances were not provided for examination. Beginning January 1, 2009, new rates were established with Ordinance 2009-1 and 2009-2; however, the amount of penalty charged for late payments was not included within the ordinance.

Additionally, the Water Utility charges a customer deposit of \$100 for owner occupied and \$50 for renter occupied upon commencement of service, however Ordinance 1-98 provides for the Water Utility to charge \$50 deposit for owner occupied and \$25 for renter occupied and for the Wastewater Utility to charge \$50 deposit for owner occupied and \$25 for renter occupied.

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)

IC 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (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 simplified cash journal.

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)

OVERDRAWN FUND BALANCES

The Wastewater Utility - Operating Fund, and Payroll Fund were overdrawn in 2007; the Water Utility - Operating Fund and Wastewater Operating Fund were overdrawn in 2008.

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)

TOWN OF NORTH SALEM  
EXIT CONFERENCE

The contents of this report were discussed on October 28, 2009, with Cheryl Russell, Clerk-Treasurer; and Michael Selch, President of the Town Council. The official response has been made a part of this report and may be found on pages 10 and 11.

TOWN OF NORTH SALEM  
5 WEST PEARL STREET, PO BOX 417  
NORTH SALEM, IN 46165

765-676-6210 Office

765-676-4339 Fax

November 13, 2009

State Board of Accounts  
302 W. Washington St., Room E 418  
Indianapolis, IN 46204-2765

To Whom It May Concern:

Enclosed please find the official response to the audit examination held Wednesday, October 28, 2009, with Beth Kelley.

Thank you.



Cheryl Russell, Clerk Treasurer

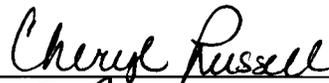
November 13, 2009

Response to SBA Audit Exam;

1. Appropriations, Expenditures in excess of budgeted appropriations;  
Response; We made additional appropriations to balance these funds.
2. Compensation and Benefits, Two town employees received payments for 2008 which were not included on the salary ordinance and one elected official;  
Response – The pay period for the first in 2009 was mistakenly dated the end of 2008 i.e. one day early – we do not think it necessary to amend the salary ordinance when this will balance out in 2009.
3. Distribution of Gross Revenues to Various Funds, This involves “Utility” funds and we held several meetings dealing with the shortfall of our Water and Waste Water funds. We imposed a short term “Sur Charge” equally to all residential users until we could get a new “Rate Study” completed and set new rates accordingly. We have monitored these changes and are gradually balancing these utility funds.
4. Ordinances and Resolutions,
  - a. Ordinance concerning fire protection charges – 1979-5 – We will make available a copy of the new ordinance.
  - b. Water & Waste Water we will develop the “penalty for late payments. – We will amend ordinance.
  - c. Water Utility deposits for owner and renter – On report fees are reversed i.e. deposit for owner/occupied \$100.00 should be \$50.00 and \$100.00 for renter/occupied. – Refunds are made upon request. Support will be made on new ordinance.
5. Customer Deposit Register, Reconcile records – We cannot find evidence that these amounts do not balance.
6. Overdrawn Fund Balances, Water Fund 2007 and both Water and Waste Water 2008 overdrawn these are covered with the new rates response in # 3. above and should stay balanced as we proceed to monitor.

Thank you for your report.

Cheryl Russell, Clerk Treasurer



Mike Selch, Council President

