

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

EXAMINATION REPORT

OF

TOWN OF EDGEWOOD

MADISON COUNTY, INDIANA

January 1, 2007 to December 31, 2008



FILED
01/12/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Katherine L. Tanner	01-01-04 to 12-31-11
President of the Town Council	Patricia A. Farran	01-01-07 to 12-31-09
Superintendent of Utilities	Wilbur W. Wood Owen L. Kirby	01-01-07 to 10-14-07 10-15-07 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 ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF EDGEWOOD, MADISON COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Edgewood (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 Capital Assets, 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

December 10, 2009

TOWN OF EDGEWOOD
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
Governmental Funds:				
General	\$ 107,070	\$ 461,264	\$ 508,999	\$ 59,335
Motor Vehicle Highway	77,881	71,767	51,738	97,910
Local Road and Street	59,219	24,815	-	84,034
Law Enforcement Continuing Education	15,200	1,554	156	16,598
Police Grant	-	4,718	4,718	-
Court User Fees	51,279	5,997	2,669	54,607
Clerk's Perpetuation	13,917	4,285	5,345	12,857
Riverboat	46,996	12,787	11,494	48,289
Enhancement	11,374	-	4,302	7,072
Restricted Donation	38,565	24,238	36,571	26,232
Nonappropriated	1,399	-	-	1,399
Cumulative Capital Improvement	28,160	6,983	-	35,143
Proprietary Funds:				
Water Utility - Operating	378,692	186,041	154,394	410,339
Water Utility - Depreciation	209,179	37,014	4,011	242,182
Water Utility - Customer Deposit	62,351	5,300	1,869	65,782
Water Utility - Deposit Refund	1,267	1,869	2,398	738
Wastewater Utility - Operating	637,637	360,355	545,971	452,021
Fiduciary Funds:				
Payroll	212	444,160	444,141	231
Levy Excess	2,497	3,475	-	5,972
Town Court	136,349	653,323	625,092	164,580
Totals	\$ 1,879,244	\$ 2,309,945	\$ 2,403,868	\$ 1,785,321

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
General	\$ 59,335	\$ 500,454	\$ 530,616	\$ 29,173
Motor Vehicle Highway	97,910	56,337	61,518	92,729
Local Road and Street	84,034	20,746	17,003	87,777
Law Enforcement Continuing Education	16,598	1,935	799	17,734
Rainy Day	-	7,307	-	7,307
Police Grant	-	3,603	3,600	3
Court User Fees	54,607	7,335	4,593	57,349
Clerk's Perpetuation	12,857	4,736	8,403	9,190
Riverboat	48,289	12,637	24,371	36,555
Enhancement	7,072	8,264	4,861	10,475
Restricted Donation	26,232	-	4,600	21,632
Nonappropriated	1,399	-	-	1,399
Cumulative Capital Improvement	35,143	6,465	-	41,608
Proprietary Funds:				
Water Utility - Operating	410,339	197,000	180,644	426,695
Water Utility - Depreciation	242,182	24,790	26,586	240,386
Water Utility - Customer Deposit	65,782	3,100	1,792	67,090
Water Utility - Deposit Refund	738	1,792	1,860	670
Wastewater Utility - Operating	452,021	513,467	342,780	622,708
Fiduciary Funds:				
Payroll	231	476,801	476,398	634
Levy Excess	5,972	-	3,475	2,497
Town Court	164,580	683,639	659,869	188,350
Totals	\$ 1,785,321	\$ 2,530,408	\$ 2,353,768	\$ 1,961,961

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

TOWN OF EDGEWOOD
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, water, and wastewater services.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance).

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 EDGEWOOD
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.

Note 7. Subsequent Event

Lawsuit

In April 2009, the Town filed a lawsuit against the City of Anderson regarding the sewer rate being charged to the Town by the City of Anderson. The outcome of this case could affect future wastewater rates charged to Town citizens. The case is still pending at this time.

Wastewater Utility Rate Increase

On October 20, 2009, the Town Council approved Ordinance 09-15-09 adjusting the sewer consumption rate for water customers and the flat rate for non-water customers. The new rates were effective beginning October 1, 2009, and represent a 39% increase.

TOWN OF EDGEWOOD
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.

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. 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	\$ 330,613
Infrastructure	689,416
Improvements other than buildings	253,477
Machinery and equipment	232,993
Transportation Equipment	<u>182,462</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 1,688,961</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 3,300
Buildings	211,718
Improvements other than buildings	146,576
Machinery and equipment	131,000
Transportation Equipment	<u>57,864</u>
 Total Water Utility capital assets	 <u>550,458</u>
 Wastewater Utility:	
Capital assets, not being depreciated:	
Land	10,830
Buildings	172,301
Improvements other than buildings	2,539,971
Machinery and equipment	55,867
Transportation Equipment	<u>6,697</u>
 Total Wastewater Utility capital assets	 <u>2,785,666</u>
 Total business-type activities capital assets	 <u>\$ 3,336,124</u>

TOWN OF EDGEWOOD
OTHER REPORT

The report presented herein was prepared in addition to the official report prepared for the individual Town office listed below:

Town Court

TOWN OF EDGEWOOD
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

The following deficiencies relating to the recordkeeping were present during the period of examination:

- (1) The Town's June 2007 through November 2008 monthly reconciliations between the book and bank balance contained an unidentified error of \$25. An adjustment was posted to the General Fund in December 2008. We identified the error as a receipt that was not posted to a customer's wastewater account or to the records but was deposited to the bank. The adjusting entry should be reversed, the customer's account should be credited, and the receipt should be posted to the Wastewater Fund.

IC 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."

- (2) There were a considerable number of posting errors. These errors included the following:

The March 2007 Motor Vehicle Highway (MVH) distribution was posted to the Local Road and Street (LRS) Fund and the March 2007 LRS distribution was posted to the MVH Fund. The net difference of \$2,717 should be transferred from the LRS Fund to the MVH Fund.

The January 2008 property tax distribution was improperly allocated between the General Fund and the Wastewater Fund. The posting to the Wastewater Fund was in lieu of the repayment of a temporary loan. The distribution should have been posted entirely to the General Fund and a disbursement then made from the General Fund to the Wastewater Fund for the repayment of the temporary loan.

The July 2007 and 2008 Excise Tax distributions were properly posted to the General Fund but were improperly posted to the ABC Gallonage receipt classification. The Commercial Vehicle Excise Tax (CVET) distributions for 2007 and 2008 were properly posted to the General Fund but were incorrectly posted to the auto/aircraft excise tax classification.

Multiple types of utility disbursements are being charged to the miscellaneous expense classification. These should be properly posted to the correct expense classification in accordance with the uniform system of accounts for water and wastewater utilities.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INVESTMENTS

The purchases and sales of investments were not always recorded in the fund ledger because the Town did not issue a warrant to purchase a new certificate of deposit. A similar comment appeared in the prior Report B31194.

TOWN OF EDGEWOOD
EXAMINATION RESULTS AND COMMENTS
(Continued)

When an investment is made the treasurer shall issue a warrant payable to the financial institution from which the investment is purchased. The warrant must show the fund or funds on which it is drawn, if the investment is from a specific fund or funds, or if from "total monies on deposit." This wording should be entered in lieu of the fund name or names. The warrant should also show the purpose for which it is issued, such as "investment in certificate of deposit" or "investment in United States Governmental Securities." (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTEREST ON INVESTMENTS

Per prior Report B31194, interest earned on some investments for the Wastewater Operating Fund was incorrectly receipted to the General Fund. The interest totaled \$5,672.61 and should be transferred from the General Fund to the Wastewater Operating Fund.

In 2007, interest earned on an investment purchased by multiple funds was incorrectly receipted entirely to the Water Depreciation Fund. In 2008, interest earned on an investment purchased in part by the Water Depreciation Fund was incorrectly receipted to the Water Operating Fund. In summary, for 2007 and 2008, interest of \$2,651.63 and \$5,349.47 should be transferred from the Water Depreciation Fund to the Water Operating Fund and Wastewater Operating Fund, respectively. A similar comment appeared in prior Report B31194.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

The prescribed Capital Asset Ledger (Town/City Form 212) is not maintained. Instead a non-prescribed (and nonapproved) form is used which is not a replica of the prescribed form.

The nonprescribed form contained the following errors:

Town and utility assets are co-mingled within capital asset classifications instead of maintained separately for the Town, the Water Utility, and the Wastewater Utility.

Some Water and Wastewater assets were not included.

Assets within each classification are not listed in chronological purchase date order.

Deletions or disposals of capital assets during the period were not recorded.

Assets are below the threshold limits per the Town's approved Fixed Asset Capitalization Policy.

TOWN OF EDGEWOOD
EXAMINATION RESULTS AND COMMENTS
(Continued)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

LAW ENFORCEMENT DISBURSEMENTS FROM MOTOR VEHICLE HIGHWAY FUND

Law enforcement disbursements from the Motor Vehicle Highway Fund exceeded the allowable percentage by \$4,303 in 2007 and by \$2,957 in 2008.

Motor Vehicle Highway distributions may be spent on law enforcement purposes subject to limitations. Indiana Code 8-14-1-5(b)(1) states: "For cities and towns with a population of less than five thousand (5,000), no more than fifteen percent (15%) may be spent for law enforcement purposes."

LOCAL LAW ENFORCEMENT CONTINUING EDUCATION FUND

The Local Law Enforcement Continuing Education Fund was not budgeted nor an additional appropriation approved for 2007 or 2008.

IC 33-37-8-4 states: "Amounts claimed for expenditures from the Local Law Enforcement Continuing Education Fund must be appropriated prior to expenditure either through the normal budget process or by additional appropriation."

PENALTIES, INTEREST, AND OTHER CHARGES

A late charge penalty of \$34.50 was paid to Lowe's on March 21, 2007.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF EDGEWOOD
EXAMINATION RESULTS AND COMMENTS
(Continued)

SALES TAX

Sales tax was paid on some purchases.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (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 fund 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)

EXPENDITURES OF UTILITY FUNDS

The following purchases were paid entirely from Utility funds with no allocation to the Town:

Electric utility bills for the old and new Town Halls;

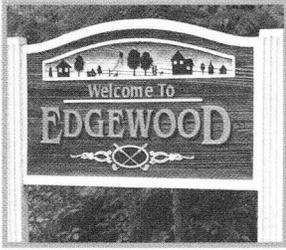
Two riding mowers for the Park Department; and

Two furnaces and two air conditioning units installed at the Town Hall.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF EDGEWOOD
EXIT CONFERENCE

The contents of this report were discussed on December 10, 2009, with Katherine L. Tanner, Clerk-Treasurer; and Patricia A. Farran, President of the Town Council. The official response has been made a part of this report and may be found on pages 14 through 16.



Town of Edgewood

3405 Nichol Avenue
Anderson, Indiana
46011

Katherine L. Tanner
CLERK-TREASURER

Office 765-649-5534
Fax 765-298-6072
ktanner@townofedgewoodin.us

December 16, 2009

State Board of Accounts
Official Response
302 West Washington Street
Room E418
Indianapolis, Indiana 46204-2738

Re: Official Response for Audit Period January 1, 2007 – December 31, 2008

Dear State Board of Accounts:

On behalf of the Town of Edgewood – Office of the Clerk-Treasurer, I would like to make an official response in regards to the exit conference, which was held December 10, 2009 and to the procedure of the State Board of Accounts Auditor.

After informing the Auditor that the Town of Edgewood does not pay sales tax on Sewer Revenue, explaining that Utilities are not eligible for the collection allowance on sales tax form ST-103, and explaining how Court Administrative Bond Fees are determined, I feel the Auditor purposely did not bring the items addressed in the exit conference to my attention. There was no initial meeting between myself and the auditor. The auditor bypassed my position when requesting items and only brought a couple of the items to my attention. There was a lack of communication immediately following my call to the State Board of Accounts requesting they explain to the auditor why cities and towns do not pay sales tax on sewer revenue.

Condition of Records

There were three postings which were not 100% correct, not considerable as the auditor stated. With regards to the Utility disbursements being charged to the miscellaneous expense classification, this was brought to our attention after the October 18, 2007 audit and more detailed expense classification began in 2008.

Investments

The Town of Edgewood uses Trust Indiana for several investments. Interest is transferred into the proper fund each month. Trust Indiana is similar to a savings account not a CD.

Interest on Investments

Interest on investments through Trust Indiana adds interest to each investment at the end of the month. As soon as a statement is received, interest is transferred into the appropriate fund. In order to obtain the best return on investment, the MBIA investments accumulate interest on a daily basis and act more like a savings account than a CD. Therefore, interest is added to the Keystone Software System and to the investment register on a monthly basis.

Capital Asset Records

The Auditor asked my Deputy Clerk-Treasurer for a list of assets in which the Deputy gave her our inventory ledger. Had the Auditor brought this to my attention or asked me for the Capital Asset Records she would have been given the records kept on the Town Form 212 which is maintained on the prescribed Town/City Form 212 according to the Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7.

Law Enforcement Disbursements from Motor Vehicle Highway Fund

The 2007 MVH Budget was reduced and payment to the Town Marshal in excess of \$1,751.47 was made. The Auditor stated an incorrect higher number probably due to error. The amount for 2008 was over \$36.30 which was overstated by the auditor probably due to another error on her behalf.

Local Law Enforcement Continuing Education Fund

The Town of Edgewood has never budgeted this fund. This has never been an issue with SBA Auditors until this audit. The Town will begin to include this fund in our 2011 Budget.

Penalties, Interest and other Charges

The one late charge penalty occurred during a period in which my Deputy Clerk-Treasurer was on medical leave and the Office of the Clerk-Treasurer was severely under staffed. It was a one time error.

Sales Tax

This issue has been resolved with a new procedure in place.

Customer Deposit Register

Due to errors made by a prior Auditor and the Utility Clerk, it has taken longer to get this register balanced. It will be balanced before January 1, 2010.

The majority of the above issues have been addressed and new procedures in place to relinquish future issues. Had the auditor used better communication skills, the majority of these issues would not have been in the report. If you have any questions, or need assistance in this matter, please feel free to contact me personally.

Sincerely,



Katherine Tanner
Clerk-Treasurer

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