

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

EXAMINATION REPORT

OF

CITY OF JONESBORO

GRANT COUNTY, INDIANA

January 1, 2010 to December 31, 2010



FILED
10/07/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen S. Owen	01-01-08 to 12-31-11
Mayor	Jay R. Akers	01-01-08 to 12-31-11
President of the Board of Public Works	Jay R. Akers	01-01-08 to 12-31-11
President of the Common Council	Leslie M. Orr Rob Couse	01-01-10 to 12-31-10 01-01-11 to 12-31-11



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF JONESBORO, GRANT COUNTY, INDIANA

We have examined the financial statement of the City of Jonesboro (City), for the period of January 1, 2010 to December 31, 2010. The City's management is responsible for the financial statement. 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 statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis noted above is a different basis than that used in the prior year.

The City did not present its financial statement and notes for the year ended December 31, 2010, in accordance with reporting requirements established by the State Board of Accounts. Presentation of such statement and notes summarizing the City's financial position and the results of its operations is required by state statute (IC 5-11-1-6).

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2010, on the basis of accounting described in Note 1.

The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the examination procedures applied to the financial statement and, accordingly, we express no opinion on them.

The City's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine the City's response and, accordingly, we express no opinion on it.

INDEPENDENT ACCOUNTANT'S REPORT
(Continued)

This report is intended solely for the information and use of the City's management and Common Council, 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

August 23, 2011

FINANCIAL STATEMENT

CITY OF JONESBORO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General	\$ 114,497	\$ 497,575	\$ 711,617	\$ (99,545)
General-Petty Cash	1,265	-	145	1,120
Motor Vehicle Highway	82,687	21,515	96,778	7,424
Donation	4,272	7,336	7,972	3,636
Local Law Enforcement Continuing Education	668	1,808	298,117	(295,641)
Rainy Day	-	740	-	740
Cumulative Capital Development	6,715	12,160	7,315	11,560
Water Operating	(4,238)	-	701,804	(706,042)
Water Bond and Interest	303,719	-	(222,636)	526,355
Water Depreciation	9,273	-	21,616	(12,343)
Water Customer Deposit	56,896	-	15,542	41,354
Water Debt Service	82	-	-	82
Wastewater Operating	(84,270)	-	921,921	(1,006,191)
Wastewater Bond and Interest	29,024	-	132,732	(103,708)
Wastewater Depreciation	8,000	-	2,000	6,000
Wastewater Bond and Interest - CD	165,074	-	35,639	129,435
Wastewater Bond Anticipation Note	130,820	-	-	130,820
Storm Sewer Repair	29,426	-	18,329	11,097
Payroll	(23,061)	287,643	117,742	146,840
Totals	<u>\$ 830,849</u>	<u>\$ 828,777</u>	<u>\$ 2,866,633</u>	<u>\$ (1,207,007)</u>

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

CITY OF JONESBORO
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The accompanying financial statement presents the financial information for the City (primary government), and does not include financial information for any of the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the City (primary government).

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or non-businesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

CITY OF JONESBORO
NOTES TO FINANCIAL STATEMENT
(Continued)

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

CITY OF JONESBORO
NOTES TO FINANCIAL STATEMENT
(Continued)

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

CITY OF JONESBORO
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. *Deposits and Investments*

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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 statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. *Risk Management*

The City may be 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; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the City by recording as a disbursement and replacement items purchased.

Note 6. *Pension Plan*

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent 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:

CITY OF JONESBORO
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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SUPPLEMENTARY INFORMATION – UNEXAMINED

For additional financial information, the City's Annual Report can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

CITY OF JONESBORO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	General	General-Petty Cash	Motor Vehicle Highway	Donation	Local Law Enforcement Continuing Education	Rainy Day	Cumulative Capital Development
Cash and investments - beginning	\$ 114,497	\$ 1,265	\$ 82,687	\$ 4,272	\$ 668	\$ -	\$ 6,715
Receipts:							
Taxes	255,455	-	-	-	-	-	-
Licenses and permits	-	-	-	-	1,665	-	-
Intergovernmental	160,509	-	21,515	-	-	740	12,160
Charges for services	60,301	-	-	-	43	-	-
Fines and forfeits	-	-	-	-	100	-	-
Other receipts	21,310	-	-	7,336	-	-	-
Total receipts	<u>497,575</u>	<u>-</u>	<u>21,515</u>	<u>7,336</u>	<u>1,808</u>	<u>740</u>	<u>12,160</u>
Disbursements:							
Personal services	349,351	-	37,214	-	173,054	-	-
Supplies	251,950	-	59,564	7,972	29,500	-	-
Other services and charges	93,450	145	-	-	90,163	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	11,652	-	-	-	5,400	-	7,315
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	5,214	-	-	-	-	-	-
Total disbursements	<u>711,617</u>	<u>145</u>	<u>96,778</u>	<u>7,972</u>	<u>298,117</u>	<u>-</u>	<u>7,315</u>
Excess (deficiency) of receipts over disbursements	<u>(214,042)</u>	<u>(145)</u>	<u>(75,263)</u>	<u>(636)</u>	<u>(296,309)</u>	<u>740</u>	<u>4,845</u>
Cash and investments - ending	<u>\$ (99,545)</u>	<u>\$ 1,120</u>	<u>\$ 7,424</u>	<u>\$ 3,636</u>	<u>\$ (295,641)</u>	<u>\$ 740</u>	<u>\$ 11,560</u>

CITY OF JONESBORO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Water Operating	Water Bond and Interest	Water Depreciation	Water Customer Deposit	Water Debt Service	Wastewater Operating	Wastewater Bond and Interest
Cash and investments - beginning	\$ (4,238)	\$ 303,719	\$ 9,273	\$ 56,896	\$ 82	\$ (84,270)	\$ 29,024
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-	-
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	156,589	(222,636)	-	-	-	31,337	132,732
Capital outlay	8,718	-	21,616	-	-	5,481	-
Utility operating expenses	484,942	-	-	15,542	-	881,781	-
Other disbursements	51,555	-	-	-	-	3,322	-
Total disbursements	701,804	(222,636)	21,616	15,542	-	921,921	132,732
Excess (deficiency) of receipts over disbursements	(701,804)	222,636	(21,616)	(15,542)	-	(921,921)	(132,732)
Cash and investments - ending	<u>\$ (706,042)</u>	<u>\$ 526,355</u>	<u>\$ (12,343)</u>	<u>\$ 41,354</u>	<u>\$ 82</u>	<u>\$ (1,006,191)</u>	<u>\$ (103,708)</u>

CITY OF JONESBORO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Wastewater Depreciation	Wastewater Bond and Interest -CD	Wastewater Bond Anticipation Note	Storm Sewer Repair	Payroll	Totals
Cash and investments - beginning	\$ 8,000	\$ 165,074	\$ 130,820	\$ 29,426	\$ (23,061)	\$ 830,849
Receipts:						
Taxes	-	-	-	-	-	255,455
Licenses and permits	-	-	-	-	-	1,665
Intergovernmental	-	-	-	-	-	194,924
Charges for services	-	-	-	-	-	60,344
Fines and forfeits	-	-	-	-	-	100
Other receipts	-	-	-	-	287,643	316,289
Total receipts	-	-	-	-	287,643	828,777
Disbursements:						
Personal services	-	-	-	-	117,742	677,361
Supplies	-	-	-	-	-	348,986
Other services and charges	-	-	-	-	-	183,758
Debt service - principal and interest	-	35,639	-	-	-	133,661
Capital outlay	2,000	-	-	18,329	-	80,511
Utility operating expenses	-	-	-	-	-	1,382,265
Other disbursements	-	-	-	-	-	60,091
Total disbursements	2,000	35,639	-	18,329	117,742	2,866,633
Excess (deficiency) of receipts over disbursements	(2,000)	(35,639)	-	(18,329)	169,901	(2,037,856)
Cash and investments - ending	\$ 6,000	\$ 129,435	\$ 130,820	\$ 11,097	\$ 146,840	\$ (1,207,007)

CITY OF JONESBORO
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital lease:		
Backhoe	\$ 3,845	\$ 4,058
Total governmental activities debt	<u>\$ 3,845</u>	<u>\$ 4,058</u>
Business-type activities:		
Water Utility:		
Capital lease:		
Backhoe	\$ 3,845	\$ 4,059
Loans payable:		
2001 State Revolving Fund Loan	360,000	40,100
2005 State Revolving Fund Loan	<u>1,274,966</u>	<u>100,671</u>
Total Water Utility	<u>1,638,811</u>	<u>144,830</u>
Wastewater Utility:		
Capital lease:		
Backhoe	3,845	4,059
Note payable	600,000	609,000
Revenue bonds:		
Refunding bonds of 1995	180,000	6,300
Construction bonds of 2004	<u>69,181</u>	<u>1,391</u>
Total Wastewater Utility	<u>853,026</u>	<u>620,750</u>
Total business-type activities debt	<u>\$ 2,491,837</u>	<u>\$ 765,580</u>

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS

The City's management is responsible for the financial statement. The financial statement prepared by the Clerk-Treasurer and presented for examination did not represent the financial activity of the City. Numerous financial transactions recorded in the City's records were not included on the financial statement. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Accountant's Report for the financial statement. A similar comment appeared in prior Report B37744.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS

Financial records presented for examination were incomplete and not reflective of the financial activity. The following deficiencies were noted in the financial records:

1. Transactions of the Water Bond and Interest Fund, used to account for the State Revolving Fund Loans, were not properly posted. Disbursements by the trust agent for principal and interest were posted as negative receipts to the financial records. The cumulative effect of these errors resulted in negative receipts of \$223,218 and zero disbursements being posted to the Water Bond and Interest Fund.
2. Transactions of the Payroll Fund were not properly posted. Both the employee and employer portions of FICA and Medicare taxes and the total amount for medical insurance premiums were paid from payroll withholding accounts. Only employee deductions were receipted into the payroll withholding accounts, contributing to a negative cash balance of \$18,289.
3. There were some receipts that were either not posted to the ledger, or improperly posted. For example, a state excise tax distribution in the amount of \$413 was deposited by electronic funds transfer (EFT) on September 8, 2010, but was not receipted to the records.

A similar comment appeared in prior Report B37744.

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)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not properly completed during the period examined. Per the City's general ledger, total cash and investments at December 31, 2010, was \$759,589. At December 31, 2010, net bank balances exceeded fund balances by \$19,314 as follows.

1. City funds recorded in the ledger were less than the net bank balance by \$10,657.
2. Water Utility funds recorded in the ledger were less than the net bank balance by \$4,483.
3. Wastewater Utility funds recorded in the ledger were less than the net bank balance by \$4,174.

A similar comment appeared in prior Report B37744.

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

"All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

Capital asset records as presented for examination were incomplete and not reflective of the activity of the City for the period examined. A detailed listing of capital assets with historical or estimated historical cost for all City-owned assets was not presented for examination. Detailed listings of additions and disposals were not presented for examination. A similar comment appeared in prior Report B37744.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset 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)

APPROPRIATIONS

The Local Road and Street Fund expenditures exceeded budgeted appropriations by \$2,943 in 2010.

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 6-1.1-18-4 states in part:

". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CREDIT CARDS

The City is using credit cards to purchase items without an approved credit card policy. A similar comment appeared in prior Report B37744.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

CUSTOMER DEPOSIT REGISTER

The cash balance of the Water Customer Deposit Fund exceeded the detailed customer deposit register by \$1,502 at December 31, 2010. A similar comment appeared in prior Report B37744.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

Not all delinquent wastewater fees and penalties had been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property. A similar comment appeared in prior Report B37744.

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

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

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

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

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

DONATIONS FUND - SOURCES AND USES

The City maintains a Donations Fund. A review of the receipt and disbursement activity of this fund disclosed the following items that were incorrectly receipted and/or disbursed from this fund.

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

1. The City received \$100 in the trade of guns between the Police Department and a former City employee as authorized by the Board of Public Works.
2. The City received \$350 for the sale of a van.
3. The City received \$600 for the sale of a 1997 Chevrolet.
4. The City received \$1,004 in cash proceeds for the sale of scrap metal taken from City properties and other areas of the City.
5. An insurance check of \$2,866 related to the wreck of a police vehicle was receipted on August 4, 2010. On August 6, 2010, a related payment was made to an auto repair vendor in the amount of \$3,150.
6. On December 29, 2010, a payment was made in the amount of \$252 for a staff Christmas party dinner.

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)

Following is a brief list of procedures to be followed by city and town officials in receiving and accounting for monetary contributions, donations, or gifts received by the municipality. (Since the term "donation" in this instance is synonymous to "contribution" and "gift" that term will be used.)

1. Unrestricted donations are defined as those to which the donor has not attached terms, conditions, or purposes.
2. Restricted donations are defined as those to which the donor has attached terms, conditions, or purposes.
3. The governing body of the unit has the option and responsibility to either accept or reject, in writing, any proposed donation. . . .
6. Income or revenues in the form of tax distributions, tax receipts, fees, rentals, contractual payments, etc., are not to be considered donations. . . .

(Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2006, page 13)

OFFICIAL BOND

The official bond for the Clerk-Treasurer was not filed in the Office of the County Recorder for 2010. Additionally, the bond was in the amount of \$15,000. A similar comment appeared in prior Report B37744.

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-4-1-18 states in part:

(c) Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

- (1) The amount of annual coverage must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount of annual coverage may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount of annual coverage for the officer or employee."

PAYROLL FUND - OVERDRAWN CASH BALANCE

Per the City's general ledger, the cash balance of the Payroll Fund was overdrawn \$18,289 at December 31, 2010. A similar comment appeared in prior Report B37744.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

REVENUE BOND ORDINANCE

The City has adopted ordinance 11-2004 concerning the sewage works revenue bond issue of 2004 and the segregation and application of revenues. The ordinance requires the transfer of funds to meet the debt service reserve requirement. This reserve requirement may be satisfied by transferring the least of (i) the maximum annual debt service on the bonds, (ii) 125 percent of the average annual debt service on the bonds, or (iii) 10 percent of the principal amount of the bonds. The least of the three amounts is 10 percent of the bond issue which is \$20,000. This reserve requirement could have been satisfied by transferring a lump sum or equal monthly amounts over a five-year period, from the time the bonds were issued, until the total required amount was accumulated in the debt service reserve account. Alternatively, the debt service reserve requirement can be satisfied in part or whole by depositing a Reserve Fund Credit Facility in the reserve account provided that such a deposit does not adversely affect any existing rating on the bonds.

The City has not transferred funds sufficient to meet the required amount of the debt service reserve requirement related to the 2004 bond issue. Additionally, officials have not provided any information or documentation indicating a Reserve Fund Credit Facility is properly in place.

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)

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

UTILITY RECEIPTS TAX

The utility receipts tax was not properly calculated for the year 2010. Nontaxable water sales were included in determining total taxable utility receipts. This resulted in an overpayment of \$171.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF JONESBORO
EXIT CONFERENCE

The contents of this report were discussed on August 23, 2011, with Karen S. Owen, Clerk-Treasurer; Jay R. Akers, Mayor; and Terry Poling, Common Council member. The Official Response has been made a part of this report and may be found on pages 26 through 28.

To Whom It May Concern:

The following comments are in response to our annual audit just completed by Doug Whitham. Mr. Whitham asked that they be sent via regular mail, although I can send the following by e-mail if you request.

Financial Report Opinion Modification

I have acquired at my own expense the help of two accountants who can help with the bank reconciliations. I have been doing them myself for the past three years, and can account for every receipt and deposit, but have misunderstood one of the banking techniques used to account for our business. The accountants and I are working hard to straighten up this issue. Also, I can understand now the problems with accountants having to follow my "chicken scratches" and have developed a much clearer, more understandable, printed form for the reconciliations.

Condition of Records

1) When I started this job, I did not know that I had to receipt the SRF disbursements and receipts to my own records. I did start doing so in 2010, which resulted in the negative receipting problem with three years of corrections. Now I do receipt all payments to the Bank of New York account into my fund balance, as well as their disbursements.

2) I have had a hard time trying to figure out how to pay the payroll account back, as I could find no real way through appropriations to make this happen, nor from the records of the previous clerk. Now I do know how to do it, and am making corrections this year with a positive balance in the account. I think that a former auditor tried to show me how to do it, as she visited two weeks after I started, but I did not understand the concept at all at the time.

3) I routinely check on any and all of the eft posting immediately after the bank statements come at the end of the month and have no idea how I might have missed it. I will try to make sure that such an error does not happen in the future.

Bank Account Reconciliations

Again, these figures are becoming much more correct and eminently more readable this year. I do wish to add that the clerk whom I replaced did not do any bank reconciliations. The clerk before her is the accountant that I have hired to see that they are correct. I actually hired him in December, 2010, but his health did not allow him to start until this summer. For that reason, I have contacted another accountant friend of mine this year who will help to see that the situation is corrected.

Capital Asset Records

The City does maintain capital asset records, but they are not complete, according to our audit. Per our ordinance, the records only contain equipment over \$5,000 in value and I do not have true values listed for several of them. During our audit, I came to understand that I can list an "estimated value" for equipment for which I do not have a value listed. I will work with the department heads to arrive at values for the older vehicles for which I have very little information.

Appropriations

I now realize since the audit that the Local Road and Street funds were overspent. I try to be very careful in explaining the appropriations to department heads, but apparently became confused last year between the spending habits of two utility department heads due to a termination and a rehiring at the end of the year and a period of four months when no utility department head was available. In the confusion, bills were paid from LRS which should have been paid from MVH or one of the utilities.

Credit Cards

I have made the City Council aware of the need for a credit card policy on several occasions, but the City Attorney advised against such a policy two years ago when the mayor ordered a credit card due to the specificity or lack therein of such a policy. The council has reconsidered the matter and, as a matter of fact, one of the council members supplied a couple of versions of such a policy recently. We will make every effort to pass such a policy as soon as possible.

Customer Deposit Register

We have continued to research the deposit register, with our billing clerk noting that as of May, 2011, the discrepancy was approximately \$500. We have tried to research this back to 2006 and 2005, with no luck. We find things back in former years which statements such as "needs more study" and/or just question marks beside entries. Our billing clerk has now checked the customer deposits and my receipts back as far as 2009 and has found no errors. We will continue checking both sets of figures and ultimately, I think, have to have Board of Works permission to "write off" the older, unresearchable figures.

Delinquent Wastewater Accounts

We have made some progress this year with filing liens on delinquent wastewater accounts and will continue to do so in the future. The billing clerk has filed liens twice this year so far. The city received \$742.15 on July 5, 2011, for 2010 liens which were filed.

Donations Fund

This fund was in use for grants from the Community Foundation when I started as a restricted donation for use for our park. That continuing grant is used only for the purposes of acquiring things for the park. I continued that mode of operation to avoid any conflict with appropriation limits in the general fund, always considering receipts into the fund as donations restricted to specific causes. No tax money, rental money, contractual payments or the like have been receipted into the fund. The city also had more than \$9,000 in donations for our Grant County Garfield (Fireman Garfield) statue, again which were used only for the development and placement of the statue. Police department sales of equipment have been deposited in the fund and have been used only for the ongoing requirements of the department, although I have found an unbudgeted appropriation in the Law Enforcement non-tax supported fund this year where those sales would be easier to account for. Receipts from the sale of scrap metal also need to be transferred to a utility account which will be easier and more appropriate to account for. I

understand that the fund can seem to be a confusing mess, but I do keep track of every receipt into the account and the department from which it is received and am very sure to spend from the fund for the correct department only those amounts which can be supported by the receipts. I will take every step possible, though, to remove those funds from the Donation fund which can be more specifically and more transparently served in the future.

Official Bond

I have copies in my office of bonds for every year I have served, but did not know when I started that it had to be filed in the County Recorder's office. Last year, I did know that it had to be filed, but it was written from Jan. 1, 2010 to Jan. 1, 2010. I asked that it be re-written (Bond 66315620) and it was, for Jan. 1, 2010, to Jan. 1, 2011. I received a copy in my office on June 29, 2010, and filed it with the Recorder, but did not realize that it had to be written for \$30,000 and not for the previous \$15,000 in past years. For 2011, the same mistake in dating appeared and I did make the insurance agency aware of it. I asked that they correct that error and re-write the bond for \$30,000 instead of \$15,000, but when it was re-written the rider to the bond was just dated effective July 20, 2011. I am in the process of investigating that now, so that the original bond reads so that it covers the entire year. The bond was originally executed Jan. 1, 2007 and subsequently has been updated with riders.

Revenue Bond Ordinance

Until this audit, I had no idea that the 2004 sewage works revenue bonds required a special debt service reserve of approximately \$20,000. I called the bank at the auditor's request and our account manager at Salin Bank, Susan Bournique, said that with only \$75,000 left to pay off (including this December's principal payment), she saw no reason to create such an account. But I have, as requested by our auditor, started a "Salin Sewer Savings" appropriation and have placed almost \$17,000 in it already, with plans to add to it up to \$20,000 per our auditor's request. I would like to wait a month or two to see if the CD's are starting to be marketed at a little better interest rate before we commit the \$20,000 to a CD. The current interest rate that I have been quoted in the past two weeks is a bit less than the money we are receiving from our current bank accounts, so it seems unwise to move the money into a CD at this point.

Utility Receipts Tax

Again, I am usually very careful with subtracting the non-taxable water sales from the total taxable utility receipts and on a monthly basis, have completed this correctly. However, I do see the error reported above on the 2010 tax return (URT-1) and will have to file an amended return for 2010 with my quarterly payment on Sept. 21. I probably did not find the error because we routinely overpay the quarterly return with an estimated \$1,200 and always have an overpayment which is refunded the next year as requested. My original overpayment was listed as \$857.48; it should be \$170.53 and I will correct it in the next two weeks.