

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

TOWN OF KENNARD

HENRY COUNTY, INDIANA

January 1, 2011 to December 31, 2012



**FILED**  
08/28/2013



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kylie Doubman Karen Stanley	01-01-11 to 07-31-12 08-01-12 to 12-31-15
President of the Town Council	Beth A. Coy John Ryan	01-01-11 to 12-31-11 01-01-12 to 12-31-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF KENNARD, HENRY COUNTY, INDIANA

We have examined the accompanying financial statement of the Town of Kennard (Town), for the period of January 1, 2011 to December 31, 2012. The financial statement is the responsibility of the Town's management. Our responsibility is to express an opinion on the financial statement 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 Town 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 effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012, on the basis of accounting described in Note 1.

Our examination was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Receivables, Schedule of Debt, and Schedule of Capital Assets, 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.

Bruce Hartman  
State Examiner

July 24, 2013

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## FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Town. The financial statement and notes are presented as intended by the Town.

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TOWN OF KENNARD  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 60,491	\$ 112,810	\$ 109,025	\$ 64,276	\$ 109,738	\$ 111,984	\$ 62,030
Motor Vehicle Highway	51,418	16,475	5,794	62,099	16,089	5,048	73,140
Local Road And Street	15,642	2,016	725	16,933	1,681	797	17,817
Riverboat	18,007	2,848	2,013	18,842	2,790	-	21,632
Rainy Day	1,990	-	-	1,990	-	-	1,990
Levy Excess	85	-	-	85	-	-	85
Cumulative Capital Improvement Cigarette Tax	7,838	1,307	-	9,145	588	-	9,733
Payroll	-	27,848	27,389	459	26,970	26,833	596
Trash	-	8,287	6,718	1,569	10,993	10,649	1,913
Wastewater Utility Operating	92,324	71,906	62,259	101,971	86,026	86,231	101,766
Wastewater Utility Bond And Interest	38,750	12,000	10,050	40,700	12,000	10,700	42,000
Wastewater Utility Depreciation/Improvement	20,491	6,000	-	26,491	6,000	-	32,491
Wastewater Construction	30,220	18	5,451	24,787	10	21,583	3,214
Totals	<u>\$ 337,256</u>	<u>\$ 261,515</u>	<u>\$ 229,424</u>	<u>\$ 369,347</u>	<u>\$ 272,885</u>	<u>\$ 273,825</u>	<u>\$ 368,407</u>

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

TOWN OF KENNARD  
NOTES TO FINANCIAL STATEMENT

**Note 1. 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 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 Town.

*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 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 Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses 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.

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,

TOWN OF KENNARD  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

Penalties which include fees received for late payments.

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 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 Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

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

TOWN OF KENNARD  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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 Town 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 Town. 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 Town. 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 Town 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 Town 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 Town 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.

TOWN OF KENNARD  
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 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.

**Note 5. *Risk Management***

The Town 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 Town 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.

**Note 6. *Subsequent Event***

The Town has entered into construction contracts for the improvement of its collection system and its wastewater treatment plant totaling approximately \$3,100,000. These construction costs are expected to be paid using grants and loans. Loans are expected to total \$1,074,000.

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## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's Annual Report information for years 2011 and later can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Town which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF KENNARD  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011

	General	Motor Vehicle Highway	Local Road And Street	Riverboat	Rainy Day	Levy Excess	Cumulative Capital Improvement Cigarette Tax
Cash and investments - beginning	\$ 60,491	\$ 51,418	\$ 15,642	\$ 18,007	\$ 1,990	\$ 85	\$ 7,838
Receipts:							
Taxes	31,005	4,503	-	-	-	-	-
Intergovernmental	17,023	11,972	2,016	2,848	-	-	1,307
Charges for services	7,604	-	-	-	-	-	-
Reimbursements from INDOT	53,388	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	3,790	-	-	-	-	-	-
Total receipts	<u>112,810</u>	<u>16,475</u>	<u>2,016</u>	<u>2,848</u>	<u>-</u>	<u>-</u>	<u>1,307</u>
Disbursements:							
Personal services	13,498	-	-	2,013	-	-	-
Supplies	513	63	-	-	-	-	-
Other services and charges	41,626	5,731	725	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Capital Outlay	53,388	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>109,025</u>	<u>5,794</u>	<u>725</u>	<u>2,013</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>3,785</u>	<u>10,681</u>	<u>1,291</u>	<u>835</u>	<u>-</u>	<u>-</u>	<u>1,307</u>
Cash and investments - ending	<u>\$ 64,276</u>	<u>\$ 62,099</u>	<u>\$ 16,933</u>	<u>\$ 18,842</u>	<u>\$ 1,990</u>	<u>\$ 85</u>	<u>\$ 9,145</u>

TOWN OF KENNARD  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

	Payroll	Trash	Wastewater Utility Operating	Wastewater Utility Bond And Interest	Wastewater Utility Depreciation/ Improvement	Wastewater Construction	Totals
Cash and investments - beginning	\$ -	\$ -	\$ 92,324	\$ 38,750	\$ 20,491	\$ 30,220	\$ 337,256
Receipts:							
Taxes	-	-	-	-	-	-	35,508
Intergovernmental	-	-	-	-	-	-	35,166
Charges for services	-	-	-	-	-	-	7,604
Reimbursements from INDOT	-	-	-	-	-	-	53,388
Utility fees	-	8,287	71,906	-	-	-	80,193
Other receipts	27,848	-	-	12,000	6,000	18	49,656
Total receipts	27,848	8,287	71,906	12,000	6,000	18	261,515
Disbursements:							
Personal services	27,389	-	-	-	-	-	42,900
Supplies	-	-	-	-	-	-	576
Other services and charges	-	-	-	-	-	-	48,082
Debt service - principal and interest	-	-	-	10,050	-	-	10,050
Utility operating expenses	-	6,718	44,259	-	-	-	50,977
Capital Outlay	-	-	-	-	-	5,451	58,839
Other disbursements	-	-	18,000	-	-	-	18,000
Total disbursements	27,389	6,718	62,259	10,050	-	5,451	229,424
Excess (deficiency) of receipts over disbursements	459	1,569	9,647	1,950	6,000	(5,433)	32,091
Cash and investments - ending	\$ 459	\$ 1,569	\$ 101,971	\$ 40,700	\$ 26,491	\$ 24,787	\$ 369,347

TOWN OF KENNARD  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Riverboat	Rainy Day	Levy Excess	Cumulative Capital Improvement Cigarette Tax
Cash and investments - beginning	\$ 64,276	\$ 62,099	\$ 16,933	\$ 18,842	\$ 1,990	\$ 85	\$ 9,145
Receipts:							
Taxes	30,585	4,575	-	-	-	-	-
Intergovernmental	18,701	11,514	1,681	2,790	-	-	588
Charges for services	7,351	-	-	-	-	-	-
Reimbursements from INDOT	25,192	-	-	-	-	-	-
Reimbursements from insurance	19,249	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	8,660	-	-	-	-	-	-
Total receipts	<u>109,738</u>	<u>16,089</u>	<u>1,681</u>	<u>2,790</u>	<u>-</u>	<u>-</u>	<u>588</u>
Disbursements:							
Personal services	15,883	-	180	-	-	-	-
Supplies	4,302	-	-	-	-	-	-
Other services and charges	43,516	5,048	617	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Capital outlay	44,441	-	-	-	-	-	-
Other disbursements	3,842	-	-	-	-	-	-
Total disbursements	<u>111,984</u>	<u>5,048</u>	<u>797</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(2,246)</u>	<u>11,041</u>	<u>884</u>	<u>2,790</u>	<u>-</u>	<u>-</u>	<u>588</u>
Cash and investments - ending	<u>\$ 62,030</u>	<u>\$ 73,140</u>	<u>\$ 17,817</u>	<u>\$ 21,632</u>	<u>\$ 1,990</u>	<u>\$ 85</u>	<u>\$ 9,733</u>

TOWN OF KENNARD  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Payroll	Trash	Wastewater Utility Operating	Wastewater Utility Bond And Interest	Wastewater Utility Depreciation/ Improvement	Wastewater Construction	Totals
Cash and investments - beginning	\$ 459	\$ 1,569	\$ 101,971	\$ 40,700	\$ 26,491	\$ 24,787	\$ 369,347
Receipts:							
Taxes	-	-	-	-	-	-	35,160
Intergovernmental	-	-	-	-	-	-	35,274
Charges for services	-	-	-	-	-	-	7,351
Reimbursements from INDOT	-	-	-	-	-	-	25,192
Reimbursements from insurance	-	-	-	-	-	-	19,249
Utility fees	-	10,993	86,026	-	-	-	97,019
Other receipts	26,970	-	-	12,000	6,000	10	53,640
Total receipts	<u>26,970</u>	<u>10,993</u>	<u>86,026</u>	<u>12,000</u>	<u>6,000</u>	<u>10</u>	<u>272,885</u>
Disbursements:							
Personal services	21,066	-	-	-	-	-	37,129
Supplies	-	-	-	-	-	-	4,302
Other services and charges	-	-	-	-	-	-	49,181
Debt service - principal and interest	-	-	-	10,700	-	-	10,700
Utility operating expenses	-	10,649	73,607	-	-	-	84,256
Capital outlay	-	-	12,624	-	-	-	57,065
Other disbursements	5,767	-	-	-	-	21,583	31,192
Total disbursements	<u>26,833</u>	<u>10,649</u>	<u>86,231</u>	<u>10,700</u>	<u>-</u>	<u>21,583</u>	<u>273,825</u>
Excess (deficiency) of receipts over disbursements	<u>137</u>	<u>344</u>	<u>(205)</u>	<u>1,300</u>	<u>6,000</u>	<u>(21,573)</u>	<u>(940)</u>
Cash and investments - ending	<u>\$ 596</u>	<u>\$ 1,913</u>	<u>\$ 101,766</u>	<u>\$ 42,000</u>	<u>\$ 32,491</u>	<u>\$ 3,214</u>	<u>\$ 368,407</u>

TOWN OF KENNARD  
SCHEDULE OF RECEIVABLES  
December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Receivable</u>
Wastewater	\$ <u>9,417</u>

TOWN OF KENNARD  
SCHEDULE OF DEBT  
December 31, 2012

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater: Revenue bonds	Establishment of Wastewater Works	<u>\$ 46,000</u>	<u>\$ 10,300</u>

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TOWN OF KENNARD  
 SCHEDULE OF CAPITAL ASSETS  
 December 31, 2012

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.

	<u>Ending Balance</u>
Governmental activities	\$ <u>2,028,350</u>
Total governmental activities	<u>2,028,350</u>
Wastewater	<u>905,641</u>
Total Wastewater	<u>905,641</u>
Total capital assets	\$ <u><u>2,933,991</u></u>

TOWN OF KENNARD  
EXAMINATION RESULTS AND COMMENTS

**ANNUAL REPORTS**

The Annual Reports for 2011 and 2012 contained a number of errors and did not properly reflect the financial activity of the Town of Kennard. Adjustments were made and approved by the Town so that this report would be fairly presented.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

**ERRORS ON CLAIMS**

A test of claims identified the following deficiencies:

1. Many claims did not have adequate supporting documentation.
2. Some of the claims did not have Board approval.
3. Some of the claims did not have evidence to support receipt of goods or services.
4. Many claims did not have proper approval by the fiscal officer.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

TOWN OF KENNARD  
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2013, with Karen Stanley, Clerk-Treasurer, and John Ryan, President of the Town Council. The officials concurred with our findings.