

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF DEMOTTE

JASPER COUNTY, INDIANA

January 1, 2020 to December 31, 2023



FILED
11/26/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Margaret Michelin Cindy Shepherd	01-01-20 to 01-07-23 01-08-23 to 12-31-24
President of the Town Council	Jeffrey Cambe	01-01-20 to 12-31-24



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

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TO: THE OFFICIALS OF THE TOWN OF DEMOTTE, JASPER COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Demotte (Town), for the period from January 1, 2020 to December 31, 2023. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with the Financial Statements Audit Report of the Town, which provides our opinions on the Town's financial statements. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

October 29, 2024

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CLERK-TREASURER
TOWN OF DEMOTTE

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The Town had a complete turnover of personnel within the Offices of the Clerk-Treasurer and the Town Manager during 2021 and 2022. The Clerk-Treasurer resigned at the end of 2022 and a new Clerk-Treasurer was appointed in January 2023.

Due to the turnover, the Town contracted with a financial consultant in March of 2022 to help the Clerk-Treasurer with the accounting and required monthly bank reconciliations.

Financial Transactions and Reporting

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. With the inexperience of the new personnel, the Town had not separated incompatible activities related to cash and investments, receipts, disbursements, and reporting to ensure the accuracy, completeness, and timeliness of the recordkeeping.

Furthermore, effective internal controls over financial reporting required the Town to assess risk and monitor the quality of the system of internal controls which was not completed.

Cash and Investments

Internal controls had not been designed to ensure reconcilements of the accounting record balances to the bank depository balances were completed at least monthly, as required by state statute.

Receipts

The Town had not designed or implemented a system of internal controls that ensured utility receipts were recorded timely and properly. One employee received the deposit information and recorded the receipts without an oversight or review process evidenced.

The Town had designed and implemented internal controls over Town receipts but was not effective, specifically for state distributions, in ensuring distributions were recorded timely. State distributions were electronically wired and deposited into the depository account and state notifications identifying the reason for the distribution were received via email. However, the notifications were going to an unused email account which resulted in the delay of posting receipts.

Disbursements

The Town had not properly designed or implemented internal controls to ensure the accuracy of payroll and payroll withholding disbursements. Since 2022, the Town Manager processed payroll and payroll withholdings without an oversight or review process evidenced.

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

*Sewage Works Revenue Bonds - Receipts, Disbursements,
and Cash and Investment Balances*

The Town had not properly designed or implemented internal controls to ensure the completeness of the financial activity for the new debt approved by governance for the I-65 Utilities Extension Improvement project. In 2021, the Town Council approved issuing \$6,560,000 Sewage Works Revenue Bonds via the State Revolving Fund (SRF) program. The Town did not record the activity related to the sale of the bonds or subsequent disbursements for the project and repayment of the debt. Due to the lack of internal controls, receipts, disbursements and ending cash and investment balances were understated by \$7,157,869, \$5,835,231, and \$1,322,638, respectively.

Audit adjustments were proposed, accepted by the Town, and made to the financial statements and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statements Audit Report of the Town.

Financial Close and Reporting

The Town prepared and submitted the financial information into the Indiana Gateway for Government Units financial reporting system, which was the source for the financial statements, from the Town's financial accounting system. There was no evidence of an oversight or review process to detect and correct errors prior to submission for 2022 and 2023.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. Clear documentation should be maintained for continuity as well as ease of communication to outside parties."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. 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](#)."

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTERNAL CONTROLS - COMPLIANCE

Condition and Context

Internal control deficiencies resulted in noncompliance over:

- Monthly Bank Account Reconciliations

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

- Timely Recording
- Penalties, Interest, and Other Charges
- Overdrawn Cash Balances
- Annual Financial Report - Other Information
- Monthly and Annual Gateway Uploads
- Capital Assets

These internal control deficiencies are further detailed in the comments below.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

MONTHLY BANK ACCOUNT RECONCILIATIONS

Condition and Context

Internal controls had not been designed to ensure reconciliations of the accounting record balances to the bank depository balances were completed at least monthly, as required by state statute. Additional audit procedures were performed to test the year-end adjusted depository balances to the ledger balances due to the lack of monthly reconciliations.

Monthly bank reconciliations were either not performed timely or not performed as follows:

- For July 2021 through December 2021, monthly reconciliations were completed in January 2022.

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

- For February 2022 through November 2023, monthly reconciliations were not performed. For 2023, the financial consultant performed reconciliations for six months at a time instead of each month as required.
- For December 2022, the Town was able to provide a detailed listing of outstanding checks and deposits in transit. The auditor determined reconciled depository balance, without any other reconciling items considered, was determined to be greater than the fund report by \$149,655. The 2022 Annual Financial Report was adjusted by the financial consultant for some of the items, which resulted in a remaining variance of \$15,370 at year end. The financial statements were not adjusted for this variance.
- For December 2023, the monthly reconciliations were completed in April 2024. As of December 31, 2023, the reconciled depository balance was determined to be \$139,157 greater than the financial statement ending cash and investment balance. The financial statements were not adjusted for this variance.

To reconcile the depository balances to the ledgers for 2022 in 2023, the financial consultant prepared a spreadsheet which noted receipts posted as positive amounts and deposits listed as negative amounts which could not be easily match and cleared for all months in the year. A similar listing was provided comparing benefits and taxes paid to the amounts posted in ledger. The net variance was the adjustment provided to the Town. Documentation was not provided that any work was done to determine the cause for the variances. It was also unclear as to how the fund and account the adjustment was recorded to was determined. The following deficiencies were noted during the review of the adjustments:

- A negative \$36,097 receipt adjustment was posted to the General fund. However, upon review of the receipt and deposit listing, a \$36,736 withdrawal for payroll was included and should not have been. The receipt adjustment should have been a positive \$639.
- A \$82,056 receipt adjustment was posted to the Sewage Utility Operating fund. However, upon review of the receipt and deposit listing, \$43,092 of collections for the regional water district which were deposited to and then withdrawn from the Sewage Operating bank were not included and should have been. This resulted in the overstatement of the receipt adjustment by \$38,964.
- A negative \$10,572 receipt adjustment was posted to the Sewage Utility Operating fund for the Automatic Clearing House (ACH) returns or nonsufficient funds (NSF) checks based on the financial consultant's advice. A detailed listing of ACH fees totaling \$1,566 was provided. This resulted in a \$9,006 negative receipt adjustment that could not be verified since proper supporting documentation was not provided.
- Disbursement adjustments totaling \$134,423 were posted to the General fund for \$119,653 and the Motor Vehicle Highway fund for \$14,770. A review of the benefits and taxing listing that supported the disbursement adjustment noted outstanding disbursements posted for the payment of payroll withholding taxes that had been posted to the Payroll Fund. We determined the Town had double posted \$33,468 of payroll withholding tax payments in the Payroll Fund. The disbursement adjustment resulted in the ending cash and investment balances of the General fund to be overstated and the Payroll Fund to be understated by the \$33,468 which was erroneously netted to the General fund.

The financial statements were not adjusted for the variances noted above.

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

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 must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TIMELY RECORDING

Condition and Context

Internal controls were not in place to ensure timely recording of financial transactions. The following financial transactions were not recorded in the records of the Town at the time of transaction as required:

- There were 31 distributions received in 2022 from the State of Indiana totaling \$201,428 that were not posted until 2023. Since the 2022 financial software was closed and adjustments could no longer be recorded, the financial consultant adjusted the 2022 and 2023 Annual Financial Reports to report the receipts in the correct accounting period.
- Various state distributions totaling \$20,154 from January 2022 were determined to not have been recorded in the ledger. The financial statements were not adjusted for these items.
- In 2021, the required monthly debt service and debt service reserve transfers were not paid timely. On November 5, 2021, the July to December \$75,600 debt service and the May to December \$37,336 debt service reserve transfers from the Sewage Utility Operating fund were completed.

Criteria

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

Condition and Context

The Town did not have internal controls in place to ensure the accurate and timely payment of payroll withholdings and other payroll related disbursements. In January 2022, the Town Manager took over the duties of preparing and posting payroll, which included the processing and paying of the federal and state withholdings and other related payroll disbursements.

The Town incurred and paid penalties, interest, and other charges totaling \$12,711 to the Internal Revenue Service (IRS), the Indiana Department of Revenue (IDOR), the Indiana Department of Workforce Development (IDWD), the De Lage Landen Financial Services, Inc, and a credit card company as follows:

- The Town paid biweekly federal tax deposits inaccurately for June 2021, January, February, and March 2022. Total penalties and interest paid to the IRS totaled \$8,946.
- The Town paid monthly Indiana State Payroll Withholding taxes untimely for February, March, and December 2022 as well as April 2023 and July 2024. Total penalties and interest paid to the IDOR totaled \$2,960.
- The Town paid quarterly Unemployment Taxes untimely for quarters 2 and 3 in 2023. Total penalties and interest paid to the IDWD totaled \$69.
- The Town paid late fees on contracted services in November 2022 and January 2023 totaling \$672 to the De Lage Landen Financial Services, Inc.
- The Town paid late fees to a credit card company in September, October, and November 2023 totaling \$64.

Criteria

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 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 unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OVERDRAWN CASH BALANCES

Condition and Context

Internal controls were not in place to ensure fund cash balances are not overdrawn. The financial statements included funds with overdrawn cash balances at December 31, 2021, 2022, and 2023.

The Payroll Fund ending cash balances at December 31, 2021, 2022, and 2023 was overdrawn by \$31,962; \$64,936; and \$39,977, respectively.

The Cares Relief - COVID-19 fund was overdrawn by \$13,244 at December 31, 2022 and 2023.

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Other Information is required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The Town did not have effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

Leases and Debt

The lease with the Demotte Municipal Facilities Building Corporation was erroneously classified as both a long-term debt obligation and a lease. This resulted in the overstatement of the governmental long-term debt ending principal balance and principal due within one-year balances for each AFR filed for 2020, 2021, 2022, and 2023.

Adjustments were proposed, accepted by the Town, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report of the Town.

Payables and Receivables

The accounts payable and receivable information was omitted from the AFR in 2022. The Town reported amounts for 2020, 2021, and 2023; however, supporting documentation could not be provided.

The Town approved the omission of the Schedule of Payables and Receivables from the Financial Statements Audit Report of the Town.

Capital Assets

The Town prepared and submitted the capital asset information into Gateway. However, records provided did not support the capital asset information reported. For 2023, the Town reported \$30,943,119 in capital assets; however, the detailed listing totaled \$28,858,768, which resulted in a variance of \$2,084,351.

In addition, the detailed listing was determined to not be accurate as discussed in more detail in the *CAPITAL ASSET* comment.

The Town approved the omission of the Schedule of Capital Assets from the Financial Statements Audit Report of the Town.

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. 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](#)."

MONTHLY AND ANNUAL GATEWAY UPLOADS

Condition and Context

Internal controls were not in place to ensure the required monthly and annual uploads to the Indiana Gateway for Government Units financial reporting system were completed.

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliements, bank statements, outstanding check lists, approved Town Council minutes, and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the detail of receipt activity, detail of disbursement activity, current year salary ordinance and amendments, annual vendor history report, annual funds ledger, and annual payroll history report. Starting in 2023, the annual uploads also include accounts payable and receivable schedule support and the personnel policy.

The Town did not comply with the State Examiner Directive since the required monthly bank reconciliements and outstanding check lists from February 2022 through November 2023 were not uploaded.

In addition, the required annual uploads were not completed for the 2023 Salary Ordinance and Amendments, annual payroll history report, accounts payable and receivable schedule supporting documentation, and the personnel policy.

Criteria

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and effective with uploads due February 15, 2021, Updated October 30, 2023)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS

Condition and Context

The Town did not establish internal control procedures to ensure the activity and amounts contained in the capital assets listing was accurate and complete. Due to the lack of internal controls, the Town's detailed listing was determined to not be accurate and complete based on the following discrepancies:

- The detailed listing did not provide a value for roads that should be classified as infrastructure owned by the Town.
- The detailed listing did not include the general government's street light poles for \$227,010 or two wastewater lift stations totaling \$889,600 that were completed in 2023.
- The detailed listing did not include either construction in progress or infrastructure additions for the I-65 Utilities Extension Improvement project that started in 2021 funded by \$6,560,000 of bond proceeds.
- The original cost of some assets was not properly included in the totals for specific category of capital assets (land, infrastructure, buildings, etc.).
- General government vehicles totaling \$87,479 were erroneously classified as Improvements Other Than Buildings instead of Machinery and Equipment. Sewer vehicles totaling \$57,948 were erroneously classified as infrastructure instead of Machinery and Equipment.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records.

The list of capital assets should include the following categories:

Land: The records of each unit must include a description of land owned by the unit, its location, amount of acreage (if relevant), its acquisition date and the purchase price. If the purchase price is not available, appraised value may be used.

Infrastructure: A capital asset account for the cost of infrastructure must reflect the location and brief description identifying each road, bridge, tunnel, drainage system, storm water system, dam, or lighting system owned by the unit.

Buildings: A capital asset account for buildings must reflect the location of each building and the purchase price or construction cost and the cost of improvements, if applicable. If a building is acquired by gift, the account must reflect its appraised value at the time of acquisition.

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS
(Continued)

Improvements Other than Buildings: A capital asset account must reflect the acquisition value of permanent improvements, other than buildings, which have been added to the land. Examples of such improvements are fences, retaining walls, sidewalks, and gutters. The improvements must be valued at the purchase or construction cost.

Equipment: Tangible property of a permanent nature (other than land, buildings, and improvements) must be inventoried. Examples include machinery, trucks, cars, furniture, office equipment including but not limited to computers and data processing equipment, and desks, safes, cabinets, books, cellphones, etc. The value of such items must be carried in the inventory at the purchase cost.

Construction Work in Progress: Where construction work has not been completed in the current reporting fiscal year, the cost of the project must be carried as "construction work in progress." When the project is completed, it must be placed on the inventory applicable to the assigned asset account.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF DEMOTTE
EXIT CONFERENCE

The contents of this report were discussed on October 29, 2024, with, Cindy Shepherd, Clerk-Treasurer; Jeffrey Cambe, President of the Town Council; Michael Cain, Town Manager; and Tara Howard, Deputy Clerk-Treasurer.