B39133

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

EXAMINATION REPORT

OF

TOWN OF CLAYTON

HENDRICKS COUNTY, INDIANA

January 1, 2009 to December 31, 2010

FILED
08/25/2011

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OFFICIALS

Office	Official	Term
Clerk-Treasurer	Virginia McKamey	01-01-08 to 12-31-11
President of the Town Council	Lance Mitchell	01-01-09 to 12-31-09
	David Powell	01-01-10 to 12-31-11

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF CLAYTON, HENDRICKS COUNTY, INDIANA

We have examined the financial statements of the Town of Clayton (Town), for the period of January 1, 2009 to December 31, 2010. The Town's management is responsible for the financial statements. 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 statements 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 statements 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town for the years ended December 31, 2009 and 2010, on the basis of accounting described in Note 1.

The Combining Schedules 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 statements. They have not been subjected to the examination procedures applied to the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town's management and Town 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

July 28, 2011

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FINANCIAL STATEMENTS

TOWN OF CLAYTON
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2009

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
General	$ 14,000	$ 272,094	$ 204,881	$ 81,213
Motor Vehicle Highway	62,826	40,022	33,953	68,895
Local Road And Street	32,892	8,674	20,000	21,566
Economic Development Operating	14,470	67,495	2,184	79,781
Riverboat	8,955	4,337	-	13,292
Rainy Day	16,567	-	-	16,567
Law Enforcement	4,183	230	703	3,710
Cumulative Capl Imprv Cigarette Tax	16,596	2,126	1,498	17,224
Payroll	(300)	153,244	153,618	(674)
Wastewater Utility-Operating	21,989	233,054	235,655	19,388
Wastewater Util-Bond And Interest	6,623	40,068	45,000	1,691
Wastewater Utility-Deprec/Improve	1,688	16,571	7,800	10,459
Wastewater Utility-Other #1	61,830	4	-	61,834
	$ 262,319	$ 837,919	$ 705,292	$ 394,946

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

TOWN OF CLAYTON
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	$ 81,213	$ 253,579	$ 193,624	$ 141,168
Motor Vehicle Highway	68,895	35,140	37,216	66,819
Local Road And Street	21,566	9,061	16,904	13,723
Economic Development Operating	79,781	23,185	6,800	96,166
Riverboat	13,292	4,337	-	17,629
Rainy Day	16,567	-	-	16,567
Law Enforcement	3,710	2,435	3,873	2,272
Cumulative Capl Imprv Cigarette Tax	17,224	2,029	6,509	12,744
Payroll	(674)	134,114	135,169	(1,729)
Wastewater Utility-Operating	19,388	237,944	228,604	28,728
Wastewater Util-Bond And Interest	1,691	40,024	31,712	10,003
Wastewater Utility-Deprec/Improve	10,459	16,545	20,210	6,794
Wastewater Utility-Other #1	61,834	-	-	61,834
	$ 394,946	$ 758,393	$ 680,621	$ 472,718

The notes to the financial statement(s) are an integral part of this 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(s) present(s) the financial information for the Town (primary government), and does not include financial information for any of the Town'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 Town (primary government).

B. Basis of Accounting

The financial statement(s) are 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 statements. 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 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, 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 statements. 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 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.

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.

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 statements. 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 Town by recording as a disbursement and replacement items purchased.

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SUPPLEMENTARY INFORMATION – UNAUDITED

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

TOWN OF CLAYTON
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2009

	General	Motor Vehicle Highway	Local Road And Street	Economic Development Operating	Riverboat	Rainy Day	Law Enforcement
Cash and investments - beginning	$ 14,000	$ 62,826	$ 32,892	$ 14,470	$ 8,955	$ 16,567	$ 4,183
Receipts:							
Taxes	160,354	-	-	23,420	-	-	-
Licenses and permits	-	-	-	43,175	-	-	230
Intergovernmental	83,363	40,022	8,619	-	4,337	-	-
Charges for services	-	-	-	900	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	28,377	-	55	-	-	-	-
Total receipts	272,094	40,022	8,674	67,495	4,337	-	230
Disbursements:							
Personal services	68,927	22,854	-	-	-	-	-
Supplies	926	7,069	-	721	-	-	703
Other services and charges	88,182	3,755	-	1,031	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	3,671	275	20,000	432	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	43,175	-	-	-	-	-	-
Total disbursements	204,881	33,953	20,000	2,184	-	-	703
Excess (deficiency) of receipts over disbursements	67,213	6,069	(11,326)	65,311	4,337	-	(473)
Cash and investments - ending	$ 81,213	$ 68,895	$ 21,566	$ 79,781	$ 13,292	$ 16,567	$ 3,710

TOWN OF CLAYTON
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

	Cumulative Capl Imprv Cigarette Tax	Payroll	Wastewater Utility-Operating	Wastewater Util-Bond And Interest	Wastewater Utility-Deprec/Improve	Wastewater Utility-Other #1	Totals
Cash and investments - beginning	$ 16,596	$ (300)	$ 21,989	$ 6,623	$ 1,688	$ 61,830	$ 262,319
Receipts:							
Taxes	-	-	-	-	-	-	183,774
Licenses and permits	-	-	-	-	-	-	43,405
Intergovernmental	2,126	-	-	-	-	-	138,467
Charges for services	-	-	-	-	-	-	900
Utility fees	-	-	162,571	-	-	-	162,571
Other receipts	-	153,244	70,483	40,068	16,571	4	308,802
Total receipts	2,126	153,244	233,054	40,068	16,571	4	837,919
Disbursements:							
Personal services	-	-	-	-	-	-	91,781
Supplies	-	-	-	-	-	-	9,419
Other services and charges	-	-	-	-	-	-	92,968
Debt service - principal and interest	-	-	60,600	-	-	-	60,600
Capital outlay	1,498	-	12,203	-	-	-	38,079
Utility operating expenses	-	-	99,008	-	-	-	99,008
Other disbursements	-	153,618	63,844	45,000	7,800	-	313,437
Total disbursements	1,498	153,618	235,655	45,000	7,800	-	705,292
Excess (deficiency) of receipts over disbursements	628	(374)	(2,601)	(4,932)	8,771	4	132,627
Cash and investments - ending	$ 17,224	$ (674)	$ 19,388	$ 1,691	$ 10,459	$ 61,834	$ 394,946

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

	General	Motor Vehicle Highway	Local Road And Street	Economic Development Operating	Riverboat	Rainy Day	Law Enforcement
Cash and investments - beginning	$ 81,213	$ 68,895	$ 21,566	$ 79,781	$ 13,292	$ 16,567	$ 3,710
Receipts:							
Taxes	119,491	-	-	22,129	-	-	-
Licenses and permits	-	-	-	-	-	-	440
Intergovernmental	126,172	35,140	9,026	-	4,337	-	420
Charges for services	-	-	-	980	-	-	5
Utility fees	-	-	-	-	-	-	-
Other receipts	7,916	-	35	76	-	-	1,570
Total receipts	253,579	35,140	9,061	23,185	4,337	-	2,435
Disbursements:							
Personal services	48,246	22,171	-	-	-	-	-
Supplies	1,498	11,219	-	432	-	-	3,873
Other services and charges	111,480	3,826	-	5,466	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	2,400	-	16,904	902	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	30,000	-	-	-	-	-	-
Total disbursements	193,624	37,216	16,904	6,800	-	-	3,873
Excess (deficiency) of receipts over disbursements	59,955	(2,076)	(7,843)	16,385	4,337	-	(1,438)
Cash and investments - ending	$ 141,168	$ 66,819	$ 13,723	$ 96,166	$ 17,629	$ 16,567	$ 2,272

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

	Cumulative Capl Imprv Cigarette Tax	Payroll	Wastewater Utility-Operating	Wastewater Util-Bond And Interest	Wastewater Utility-Deprec/Improve	Wastewater Utility-Other #1	Totals
Cash and investments - beginning	$ 17,224	$ (674)	$ 19,388	$ 1,691	$ 10,459	$ 61,834	$ 394,946
Receipts:							
Taxes	-	-	-	-	-	-	141,620
Licenses and permits	-	-	-	-	-	-	440
Intergovernmental	2,029	-	-	-	-	-	177,124
Charges for services	-	-	-	-	-	-	985
Utility fees	-	-	165,388	-	-	-	165,388
Other receipts	-	134,114	72,556	40,024	16,545	-	272,836
Total receipts	2,029	134,114	237,944	40,024	16,545	-	758,393
Disbursements:							
Personal services	-	-	-	-	-	-	70,417
Supplies	-	-	-	-	-	-	17,022
Other services and charges	-	-	-	-	-	-	120,772
Debt service - principal and interest	-	-	58,845	-	-	-	58,845
Capital outlay	6,509	-	1,439	-	-	-	28,154
Utility operating expenses	-	-	106,337	-	-	-	106,337
Other disbursements	-	135,169	61,983	31,712	20,210	-	279,074
Total disbursements	6,509	135,169	228,604	31,712	20,210	-	680,621
Excess (deficiency) of receipts over disbursements	(4,480)	(1,055)	9,340	8,312	(3,665)	-	77,772
Cash and investments - ending	$ 12,744	$ (1,729)	$ 28,728	$ 10,003	$ 6,794	$ 61,834	$ 472,718

TOWN OF CLAYTON
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2010

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal Due Within One Year
Wastewater Utility		
Notes and Loans:		
SRF loan	$ 310,000	$ 45,000
Total Debt	$ 310,000	$ 45,000

OVERDRAWN FUND BALANCE

The Payroll Fund was overdrawn in 2009 and 2010. A similar comment appeared in prior Report B35290.

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

ORDINANCES AND RESOLUTIONS

The Town of Clayton has an ordinance concerning wastewater fees; however, the Town did not charge the appropriate fee for businesses during the examination period. An amendment was made for residential wastewater customers that increased fees in 2004 but did not include an increase for business customers. Business customers were subsequently charged based on the increased fees which were more than the published fee for business customers in the Town's ordinance.

Additionally, the Town has a salary ordinance for Town employees; however, the Town employed and paid staff that was not included in the salary ordinance.

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)

CREDIT CARDS

The Town of Clayton is using credit cards to purchase items without an approved credit card policy. The Town has a combined total of approximately $30,000 in lines of credit from various cards without a policy for usage. Additionally, it was identified during the testing of claim expenditures that the Town lacked supporting documentation for credit card purchases and made some payments on the basis of a statement only.

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)

LAW ENFORCEMENT EXPENDITURES THE FROM MVH FUND

Motor Vehicle Highway funds used for law enforcement purposes exceeded statutory limits. Amounts expended for law enforcement purposes represented 19 percent and 28 percent of amounts distributed in 2009 and 2010, respectively. A similar comment appeared in prior Report B35290.

Indiana Code 8-14-1-5 allows cities and towns to use a portion of motor vehicle highway funds for law enforcement purposes, subject to the following limitations:

"(1) For cities and towns with a population of 5,000 or more, no more than 10% of the amounts distributed may be spent for law enforcement purposes.

(2) For cities and towns with a population of less than 5,000, no more than 15% of the amounts distributed may be spent for law enforcement purposes."

TOWN OF CLAYTON
EXIT CONFERENCE

The contents of this report were discussed on July 28, 2011, with Virginia McKamey, Clerk-Treasurer.