

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

AUDIT REPORT

OF

TOWN OF HARTSVILLE

BARTHOLOMEW COUNTY, INDIANA

January 1, 2006 to December 31, 2007



**FILED**  
09/15/2008



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Thelma A. Hargett	01-01-06 to 12-31-08
President of the Town Council	Steven Rucker Charles Luurtsema	01-01-06 to 12-31-07 01-01-08 to 12-31-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TOWN OF HARTSVILLE, BARTHOLOMEW COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hartsville (Town), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2006 and 2007, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated August 21, 2008, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

The Town has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, as listed in the Table of Contents, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

August 21, 2008



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF HARTSVILLE, BARTHOLOMEW COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hartsville (Town), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Town's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and pass-through entities 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 21, 2008

TOWN OF HARTSVILLE  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2006

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Totals	
Primary government:							
Governmental activities:							
General government	\$ 23,488	\$ -	\$ -	\$ -	\$ (23,488)	\$ -	\$ (23,488)
Public safety	6,434	-	259	-	(6,175)	-	(6,175)
Highways and streets	18,197	-	-	-	(18,197)	-	(18,197)
Economic development	-	549	-	-	549	-	549
Culture and recreation	-	-	75	-	75	-	75
Interest on long-term debt	-	-	-	-	-	-	-
Total governmental activities	<u>48,119</u>	<u>549</u>	<u>334</u>	<u>-</u>	<u>(47,236)</u>	<u>-</u>	<u>(47,236)</u>
Business-type activities:							
Wastewater	<u>174,508</u>	<u>76,874</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,634)</u>	<u>(97,634)</u>
Total business-type activities	<u>174,508</u>	<u>76,874</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,634)</u>	<u>(97,634)</u>
Total primary government	<u>\$ 222,627</u>	<u>\$ 77,423</u>	<u>\$ 334</u>	<u>\$ -</u>	<u>(47,236)</u>	<u>(97,634)</u>	<u>(144,870)</u>
General receipts:							
Property taxes					14,374	-	14,374
Other local sources					6,090	-	6,090
Bonds and loans					-	111,685	111,685
Grants and contributions not restricted to specific programs					<u>32,022</u>	<u>-</u>	<u>32,022</u>
Total general receipts					<u>52,486</u>	<u>111,685</u>	<u>164,171</u>
Change in net assets					5,250	14,051	19,301
Net assets - beginning					<u>148,972</u>	<u>23,894</u>	<u>172,866</u>
Net assets - ending					<u>\$ 154,222</u>	<u>\$ 37,945</u>	<u>\$ 192,167</u>
<u>Assets</u>							
Cash and investments					\$ 23,682	\$ 37,945	\$ 61,627
Restricted assets:							
Cash and investments					<u>130,540</u>	<u>-</u>	<u>130,540</u>
Total assets					<u>\$ 154,222</u>	<u>\$ 37,945</u>	<u>\$ 192,167</u>
<u>Net Assets</u>							
Restricted for:							
Culture and recreation					\$ 1,354	\$ -	\$ 1,354
Other purposes					129,186	-	129,186
Unrestricted					<u>23,682</u>	<u>37,945</u>	<u>61,627</u>
Total net assets					<u>\$ 154,222</u>	<u>\$ 37,945</u>	<u>\$ 192,167</u>

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

TOWN OF HARTSVILLE  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2006

	General	Motor Vehicle Highway	Local Road and Street	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 14,374	\$ -	\$ -	\$ -	\$ 14,374
Licenses and permits	549	-	-	-	549
Intergovernmental	9,295	14,509	4,768	3,784	32,356
Other	6,090	-	-	-	6,090
<b>Total receipts</b>	<b>30,308</b>	<b>14,509</b>	<b>4,768</b>	<b>3,784</b>	<b>53,369</b>
Disbursements:					
General government	23,488	-	-	-	23,488
Public safety	6,434	-	-	-	6,434
Highways and streets	-	14,135	4,062	-	18,197
<b>Total disbursements</b>	<b>29,922</b>	<b>14,135</b>	<b>4,062</b>	<b>-</b>	<b>48,119</b>
Excess (deficiency) of revenue over disbursements	386	374	706	3,784	5,250
Cash and investment fund balance - beginning	7,208	88,488	39,618	13,658	148,972
Cash and investment fund balance - ending	<u>\$ 7,594</u>	<u>\$ 88,862</u>	<u>\$ 40,324</u>	<u>\$ 17,442</u>	<u>\$ 154,222</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 7,594	\$ -	\$ -	\$ 16,088	\$ 23,682
Restricted assets:					
Cash and investments	-	88,862	40,324	1,354	130,540
<b>Total cash and investment assets - December 31</b>	<u>\$ 7,594</u>	<u>\$ 88,862</u>	<u>\$ 40,324</u>	<u>\$ 17,442</u>	<u>\$ 154,222</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Culture and recreation	\$ -	\$ -	\$ -	\$ 1,354	\$ 1,354
Other purposes	-	88,862	40,324	-	129,186
Unrestricted	7,594	-	-	16,088	23,682
<b>Total cash and investment fund balance - December 31</b>	<u>\$ 7,594</u>	<u>\$ 88,862</u>	<u>\$ 40,324</u>	<u>\$ 17,442</u>	<u>\$ 154,222</u>

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

TOWN OF HARTSVILLE  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUND  
As of and for the Year Ended December 31, 2006

	Wastewater Utility
Operating receipts:	
Flat rate receipts	\$ 76,808
Other	66
Total operating receipts	76,874
Operating disbursements:	
Salaries and wages	3,230
Purchased power	7,162
Material and supplies	969
Contractual services	31,841
Insurance disbursements	3,490
Miscellaneous disbursements	5,750
Total operating disbursements	52,442
Excess of operating receipts over operating disbursements	24,432
Nonoperating receipts (disbursements):	
Debt service principal	(8,000)
Interest disbursement	(2,381)
Loan proceeds	111,685
Construction expenditures	(111,685)
Total nonoperating receipts (disbursements)	(10,381)
Excess of receipts over disbursements and nonoperating receipts (disbursements)	14,051
Cash and investment fund balance - beginning	23,894
Cash and investment fund balance - ending	\$ 37,945
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 37,945
Total cash and investment assets - December 31	\$ 37,945
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	\$ 37,945
Total cash and investment fund balance - December 31	\$ 37,945

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

TOWN OF HARTSVILLE  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2007

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Totals	
Primary government:							
Governmental activities:							
General government	\$ 27,205	\$ -	\$ -	\$ -	\$ (27,205)	\$ -	\$ (27,205)
Public safety	6,016	349	1,000	525,000	520,333	-	520,333
Highways and streets	36,744	-	-	-	(36,744)	-	(36,744)
Sanitation	525,000	-	-	-	(525,000)	-	(525,000)
Economic development	-	803	-	-	803	-	803
Culture and recreation	-	-	50	-	50	-	50
Total governmental activities	<u>594,965</u>	<u>1,152</u>	<u>1,050</u>	<u>525,000</u>	<u>(67,763)</u>	<u>-</u>	<u>(67,763)</u>
Business-type activities:							
Wastewater	<u>354,506</u>	<u>85,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(269,445)</u>	<u>(269,445)</u>
Total business-type activities	<u>354,506</u>	<u>85,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(269,445)</u>	<u>(269,445)</u>
Total primary government	<u>\$ 949,471</u>	<u>\$ 86,213</u>	<u>\$ 1,050</u>	<u>\$ 525,000</u>	<u>(67,763)</u>	<u>(269,445)</u>	<u>(337,208)</u>
General receipts:							
Property taxes					16,270	-	16,270
Other local sources					53,806	-	53,806
Bonds and loans					-	277,528	277,528
Grants and contributions not restricted to specific programs					<u>29,934</u>	<u>-</u>	<u>29,934</u>
Total general receipts					<u>100,010</u>	<u>277,528</u>	<u>377,538</u>
Change in net assets					32,247	8,083	40,330
Net assets - beginning					<u>154,222</u>	<u>37,945</u>	<u>192,167</u>
Net assets - ending					<u>\$ 186,469</u>	<u>\$ 46,028</u>	<u>\$ 232,497</u>
<u>Assets</u>							
Cash and investments					\$ 30,502	\$ 46,028	\$ 76,530
Restricted assets:							
Cash and investments					<u>155,967</u>	<u>-</u>	<u>155,967</u>
Total assets					<u>\$ 186,469</u>	<u>\$ 46,028</u>	<u>\$ 232,497</u>
<u>Net Assets</u>							
Restricted for:							
Culture and recreation					\$ 1,404	\$ -	\$ 1,404
Other purposes					154,563	-	154,563
Unrestricted					<u>30,502</u>	<u>46,028</u>	<u>76,530</u>
Total net assets					<u>\$ 186,469</u>	<u>\$ 46,028</u>	<u>\$ 232,497</u>

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

TOWN OF HARTSVILLE  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2007

	General	Motor Vehicle Highway	Local Road and Street	Community Focus Grant	Mitchell & Stark Escrow Fund	Other Governmental Funds	Totals
<b>Receipts:</b>							
Taxes	\$ 16,270	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,270
Licenses and permits	803	-	-	-	-	-	803
Intergovernmental	7,261	14,051	4,930	525,000	-	4,742	555,984
Fines and forfeits	349	-	-	-	-	-	349
Other	11,165	300	-	-	42,341	-	53,806
<b>Total receipts</b>	<b>35,848</b>	<b>14,351</b>	<b>4,930</b>	<b>525,000</b>	<b>42,341</b>	<b>4,742</b>	<b>627,212</b>
<b>Disbursements:</b>							
General government	27,205	-	-	-	-	-	27,205
Public safety	5,516	-	-	-	-	500	6,016
Highways and streets	-	26,579	10,165	-	-	-	36,744
Sanitation	-	-	-	525,000	-	-	525,000
<b>Total disbursements</b>	<b>32,721</b>	<b>26,579</b>	<b>10,165</b>	<b>525,000</b>	<b>-</b>	<b>500</b>	<b>594,965</b>
Excess (deficiency) of revenue over disbursements	3,127	(12,228)	(5,235)	-	42,341	4,242	32,247
Cash and investment fund balance - beginning	7,594	88,862	40,324	-	-	17,442	154,222
Cash and investment fund balance - ending	<u>\$ 10,721</u>	<u>\$ 76,634</u>	<u>\$ 35,089</u>	<u>\$ -</u>	<u>\$ 42,341</u>	<u>\$ 21,684</u>	<u>\$ 186,469</u>
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ 10,721	\$ -	\$ -	\$ -	\$ -	\$ 19,780	\$ 30,501
Restricted assets:							
Cash and investments	-	76,634	35,089	-	42,341	1,904	155,968
<b>Total cash and investment assets - December 31</b>	<u>\$ 10,721</u>	<u>\$ 76,634</u>	<u>\$ 35,089</u>	<u>\$ -</u>	<u>\$ 42,341</u>	<u>\$ 21,684</u>	<u>\$ 186,469</u>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,404	\$ 1,404
Other purposes	-	76,634	35,089	-	42,341	500	154,564
Unrestricted	10,721	-	-	-	-	19,780	30,501
<b>Total cash and investment fund balance - December 31</b>	<u>\$ 10,721</u>	<u>\$ 76,634</u>	<u>\$ 35,089</u>	<u>\$ -</u>	<u>\$ 42,341</u>	<u>\$ 21,684</u>	<u>\$ 186,469</u>

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

TOWN OF HARTSVILLE  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUND  
As of and for the Year Ended December 31, 2007

	Wastewater Utility
Operating receipts:	
Flat rate receipts	\$ 84,962
Other	99
Total operating receipts	85,061
Operating disbursements:	
Salaries and wages	3,230
Purchased power	6,654
Material and supplies	1,477
Contractual services	36,007
Insurance disbursements	2,050
Miscellaneous disbursements	7,460
Total operating disbursements	56,878
Excess of operating receipts over operating disbursements	28,183
Nonoperating receipts (disbursements):	
Loan proceeds	277,528
Construction expenditures	(277,528)
Debt service principal	(14,000)
Interest	(6,100)
Total nonoperating receipts (disbursements)	(20,100)
Excess of receipts over disbursements and nonoperating receipts (disbursements)	8,083
Cash and investment fund balance - beginning	37,945
Cash and investment fund balance - ending	\$ 46,028
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 46,028
Total cash and investment assets - December 31	\$ 46,028
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	\$ 46,028
Total cash and investment fund balance - December 31	\$ 46,028

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

TOWN OF HARTSVILLE  
NOTES TO FINANCIAL STATEMENTS

I. 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 the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, and wastewater.

The Town's financial reporting entity is composed of the following:

Primary Government: Town of Hartsville

In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The motor vehicle highway fund accounts for the state motor vehicle highway distributions. The fund is used principally for the construction and maintenance of streets and alleys.

The local road and street fund accounts for the state gasoline tax distributions. The funds are mainly used for engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of both local and arterial road and street systems.

The community focus grant fund is a federal grant fund. This fund accounts for transactions relating to the improvements to the wastewater treatment plant.

TOWN OF HARTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The Mitchell & Stark escrow fund is an escrow fund for the contractors working on the wastewater treatment plant improvements.

The Town reports the following major proprietary funds:

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection systems.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, and proprietary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, 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 cash and investment 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. Investment transactions are not presented on the financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The Town does not have any internal service funds.

TOWN OF HARTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the Town's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

TOWN OF HARTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit(s) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

TOWN OF HARTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Prior to the first required publication, the fiscal officer of the Town submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the Town receives approval of the Indiana Department of Local Government Finance.

The Town's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the years ended December 31, 2006 and 2007, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2006	2007
General	\$ 29,992	\$ 942
Local Road and Street	4,062	-
Motor Vehicle Highway	14,135	-
Totals	\$ 48,189	\$ 942

These disbursements were funded by state and local tax distributions.

III. Detailed Notes on All Funds

Deposits and Investments

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

TOWN OF HARTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

Investment Policies

Indiana Code 5-13-9 authorizes the Town to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Town to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Town and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Town may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Town's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

IV. Other Information

A. Risk Management

The Town is 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; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

TOWN OF HARTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Rate Structure – Enterprise Funds

Wastewater Utility

The current rate structure was approved by the Town Council on September 5, 2006.

TOWN OF HARTSVILLE  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2006

	Riverboat	Cumulative Capital Improvement	Playground	Totals
Receipts:				
Intergovernmental	\$ 2,366	\$ 1,343	\$ 75	\$ 3,784
Total receipts	<u>2,366</u>	<u>1,343</u>	<u>75</u>	<u>3,784</u>
Disbursements:				
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>2,366</u>	<u>1,343</u>	<u>75</u>	<u>3,784</u>
Cash and investment fund balance - beginning	<u>2,995</u>	<u>9,384</u>	<u>1,279</u>	<u>13,658</u>
Cash and investment fund balance - ending	<u>\$ 5,361</u>	<u>\$ 10,727</u>	<u>\$ 1,354</u>	<u>\$ 17,442</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 5,361	\$ 10,727	\$ -	\$ 16,088
Restricted assets:				
Cash and investments	<u>-</u>	<u>-</u>	<u>1,354</u>	<u>1,354</u>
Total cash and investment assets - December 31	<u>\$ 5,361</u>	<u>\$ 10,727</u>	<u>\$ 1,354</u>	<u>\$ 17,442</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Culture and recreation	\$ -	\$ -	\$ 1,354	\$ 1,354
Unrestricted	<u>5,361</u>	<u>10,727</u>	<u>-</u>	<u>16,088</u>
Total cash and investment fund balance - December 31	<u>\$ 5,361</u>	<u>\$ 10,727</u>	<u>\$ 1,354</u>	<u>\$ 17,442</u>

TOWN OF HARTSVILLE  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2007

	<u>Riverboat</u>	<u>Cumulative Capital Improvement</u>	<u>Playground</u>	<u>Law Enforcement Grant</u>	<u>Totals</u>
Receipts:					
Intergovernmental	\$ 2,371	\$ 1,321	\$ 50	\$ 1,000	\$ 4,742
Total receipts	<u>2,371</u>	<u>1,321</u>	<u>50</u>	<u>1,000</u>	<u>4,742</u>
Disbursements:					
Public safety	-	-	-	500	500
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>500</u>
Excess (deficiency) of receipts over disbursements	<u>2,371</u>	<u>1,321</u>	<u>50</u>	<u>500</u>	<u>4,242</u>
Cash and investment fund balance - beginning	<u>5,361</u>	<u>10,727</u>	<u>1,354</u>	<u>-</u>	<u>17,442</u>
Cash and investment fund balance - ending	<u>\$ 7,732</u>	<u>\$ 12,048</u>	<u>\$ 1,404</u>	<u>\$ 500</u>	<u>\$ 21,684</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 7,732	\$ 12,048	\$ -	\$ -	\$ 19,780
Restricted assets:					
Cash and investments	-	-	1,404	500	1,904
Total cash and investment assets - December 31	<u>\$ 7,732</u>	<u>\$ 12,048</u>	<u>\$ 1,404</u>	<u>\$ 500</u>	<u>\$ 21,684</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Culture and recreation	\$ -	\$ -	\$ 1,404	\$ -	\$ 1,404
Other purposes	-	-	-	500	500
Unrestricted	<u>7,732</u>	<u>12,048</u>	<u>-</u>	<u>-</u>	<u>19,780</u>
Total cash and investment fund balance - December 31	<u>\$ 7,732</u>	<u>\$ 12,048</u>	<u>\$ 1,404</u>	<u>\$ 500</u>	<u>\$ 21,684</u>

TOWN OF HARTSVILLE  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2007

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Wastewater Utility		
Notes and Loans:		
WW Hartsville 10-06	\$ 14,000	\$ 14,700
WW 0515031	<u>353,213</u>	<u>-</u>
Total business-type activities debt:	<u>\$ 367,213</u>	<u>\$ 14,700</u>

Loan #WW 0515031 has not been fully drawn, therefore, there is no amortization schedule available indicating the Principal and Interest that will be due within one year.

TOWN OF HARTSVILLE  
AUDIT RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

The Town and the Wastewater Utility do not maintain capital asset records. A similar comment appeared in prior Report B27499.

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

DEPOSITS

In numerous instances, receipts were deposited later than the next business day. Delays in depositing ranged from 2 to 20 days. During 2006, 35 receipts were traced to deposit with an average deposit delay of 11½ days; during 2007, 46 receipts were traced to deposit with an average deposit delay of 5½ days. A similar comment appeared in prior Report B27499.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

CONTRACTS NOT AVAILABLE FOR REVIEW

Contractual services such as mowing, street paving, and fire protection were paid without a written contract. In addition to the lack of a contract, payments for these services were not supported by itemized receipts, invoices, or bills.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPORTING DOCUMENTATION

Several payments were observed which were not supported by adequate documentation, such as receipts, invoices, and other public records. In some cases, these payments were made only from a monthly statement that did not contain detailed information describing the purchase; in other instances, the purchase was not even supported by a statement. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF HARTSVILLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

UTILITY DEPOSITS

Utility receipts were deposited later than the next business day. Collections were not stamped or marked with the date received but were all posted to the consumer ledgers as received on the 15<sup>th</sup> of the month (if timely) and the actual date received if late or penalties paid. Deposits were made only once each month until November 2007. November and December 2007 each had two deposits. A similar comment appeared in prior Report B27499.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

Accounts receivable for utility billings due to the Wastewater Utility, for some accounts, were deleted from the Consumer Ledgers and marked as "write-off." The minutes presented for audit did not indicate approval of the governing body for these adjustments. Additionally, documentation was not always presented for audit concerning unsuccessful collection procedures prior to adjustments to the records. Unapproved write-offs for the year 2006 totaled \$565.50 and for 2007 totaled \$470.97.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OFFICIAL BOND

The following official bonds were not filed in the Office of the County Recorder:

Thelma A. Hargett - Clerk-Treasurer  
Mary McGuire – Utility Clerk

A similar comment appeared in prior Report B27499.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

ORDINANCES, RESOLUTIONS, AND POLICIES

The Town Council authorized the Council president to sign contracts on behalf of the Council as long as he had Council approval of the contract. It was noted that the president was signing contracts and authorizing change orders before he had Council approval of the contract negotiation. The Council was then approving the contract, including the financing, purchase, and installation of equipment, after the contract was already signed.

TOWN OF HARTSVILLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

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)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
General	2007	\$ 942
General	2006	29,992
Local Road and Street	2006	4,062
Motor Vehicle Highway	2006	14,135

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."

BUDGET APPROVAL

The Town budget for the year 2006 was not approved by the Department of Local Government Finance (DLGF).

The December 2004 Cities and Towns Bulletin states in part that the following funds require both DLGF approval and City/Town Council approval:

". . . Cumulative Capital Improvement Fund . . . 36-9-16 . . . General . . . 6-1.1-18 . . . Local Road and Street . . . 8-14-2 . . . Motor Vehicle Highway . . . 8-14-1 . . ."

(Cities and Towns Bulletin, December 2004, Page 6)

COLLECTION OF AMOUNTS DUE - WASTEWATER UTILITY

Penalties were not uniformly assessed and collected from customers making late payments. The utility clerk routinely wrote-off account balances and unpaid penalties or did not assess the penalties. Penalties are to be assessed at 10% of the overdue balance. During 2007, the billing for each month was \$48.43 and 10% of that amount is \$4.84. However, during 2007, penalties were assessed at only \$4 each. In addition, account balances ranging from \$4 to \$192.50 were written-off by the clerk without Council approval.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF HARTSVILLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 36-9-23-31 states in part: "A penalty of ten percent (10%) of the amount of the fees attaches to the delinquent fees."

Indiana Code 36-9-23-33 (k) (1) states in part: "A board may write off a fee or penalty . . . that is less than forty dollars (\$40)."

INTERNAL CONTROLS - WASTEWATER UTILITY

Controls over the accounts receivable records (receipting, recording, and accounting for customer ledger accounts) were insufficient. The utility clerk is responsible for opening mail and receiving payments, preparing and making bank deposits, and posting customer accounts. Mail remittances are allowed to collect in the Utility's post office box and are opened only once per month. Payment stubs are not stamped with the date paid and copies of the checks are not maintained; therefore, there is no way to determine which payments are made late and whether penalties are assessed fairly. Almost all postings to the Customer Ledger are marked as the 15<sup>th</sup> of the month (as no date of actual payment or receipt is noted) with late payments marked as dates other than the 15<sup>th</sup>. Again, there is no way to verify the accuracy of these postings and penalty assessments as no date of actual receipt is available for examination. Also, the payment stub does not indicate whether payment was received in the form of cash, check, or money order. This negates the ability to determine that the composition of the deposit is the same as the composition of the receipts.

The utility clerk makes, without Council approval, write-offs to customer accounts. In addition to the unauthorized write-offs, several posting and addition errors were noted. With no checks and balances in place, these errors have gone unnoticed and uncorrected. This has resulted in some accounts showing a zero balance when, in actuality, amounts are still due.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER

Officials or employees of the Town had money due from the Town, but a list of such employees was not certified to the County Treasurer. The last such list was filed in 2004.

Indiana Code 6-1.1-22-14(a) states in part: "on or before June 1 and December 1 of each year . . . the disbursing officer of each political subdivision . . . shall certify the names and addresses of each person who has money due from the political subdivision to the treasurer of each county in which the political subdivision is located."

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF HARTSVILLE, BARTHOLOMEW COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Hartsville (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2006 and 2007. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

As described in item 2007-1 in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding equipment and real property management that are applicable to its Community Development Block Grants/State's Program. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended December 31, 2006 and 2007.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a Town's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2007-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, and federal awarding agencies and pass-through entities 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 21, 2008

TOWN OF HARTSVILLE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended December 31, 2006 and 2007

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-06	Total Federal Awards Expended 12-31-07
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs Community Development Block Grants/State's Program Community Focus Fund	14.228	CF-05-129	\$ -	\$ 525,000
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster State and Community Highway Safety Operation Pullover	20.600		-	500
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Finance Authority Capitalization Grants for Clean Water State Revolving Funds WW Hartsville 10-06 WW 0515031	66.458		15,854 54,735	- 117,461
Total for program			<u>70,589</u>	<u>117,461</u>
Total federal awards expended			<u>\$ 70,589</u>	<u>\$ 642,961</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF HARTSVILLE  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Hartsville (Town) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of unit types with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF HARTSVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Qualified for Community Development Block Grants/State's Program; Unqualified for all other grants

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

TOWN OF HARTSVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2007-1, EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program  
CFDA Number: 14.228  
Pass-Through: Indiana Office of Community and Rural Affairs  
Award: CF-05-129

Town officials have not developed and maintained adequate capital asset records, which would account for all capital assets including those acquired with federal financial assistance. Also, a property and equipment inventory had not been conducted within the two year period ending December 31, 2007.

24 CFR Subpart C, Section 85.32 states in part:

"(d) . . .

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

(e) Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

- (1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.
- (2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.

TOWN OF HARTSVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.
  
- (f) Federal equipment. In the event a grantee or subgrantee is provided federally-owned equipment:
  - (1) Title will remain vested in the Federal Government.
  - (2) Grantees or subgrantees will manage the equipment in accordance with Federal agency rules and procedures, and submit an annual inventory listing.
  - (3) When the equipment is no longer needed, the grantee or subgrantee will request disposition instructions from the Federal agency."

As a result, Town officials are unable to effectively monitor the retention or disposition of capital assets acquired with federal funds. Failure to conduct complete and accurate inventories and to reconcile the results to the detailed capital asset records could result in assets being lost, stolen, or misappropriated and not detected with a reasonable time by Town officials.

We recommended that the Town maintain detailed records to account for capital assets including those acquired with federal funds. Also, the Town should design and properly monitor internal control policies and procedures that would ensure that inventories of property and equipment are conducted at least every two years and the results of those inventories are reconciled to the detailed capital assets records.

TOWN OF HARTSVILLE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

**CORRECTIVE ACTION PLAN**

Finding 2007-1. Allowable Costs/Cost Principles

Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program  
CFDA Number: 14.228  
Award Number: CF-05-129

Auditee Contact Person: Thelma A. Hargett, Clerk-Treasurer  
Telephone: (812) 546-5959

Expected Completion Date: December 31, 2008

We will compile capital asset records and include the funding source in order to comply with the federal regulations. We will also develop and adopt a written policy for complying with the federal regulation concerning physical inventories.



Thelma A. Hargett, Clerk-Treasurer  
Town of Hartsville, Indiana

*8.28.08*

\_\_\_\_\_  
Date

TOWN OF HARTSVILLE  
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2008, with Thelma A. Hargett, Clerk-Treasurer. The official concurred with our audit findings.