

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

AUDIT REPORT

OF

TOWN OF MARSHALL

PARKE COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED

11/25/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Harmon	01-01-04 to 12-31-11
President of the Town Council	Charles C. Smith	01-01-06 to 12-31-08
Superintendent of Water Utility	Tom Knapke	01-01-06 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 MARSHALL, PARKE 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 Marshall (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 October 16, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. 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.

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 have 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 them.

STATE BOARD OF ACCOUNTS

October 16, 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 MARSHALL, PARKE 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 Marshall (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 October 16, 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.

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

October 16, 2008

TOWN OF MARSHALL
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	\$ 27,030	\$ 461	\$ -	\$ -	\$ (26,569)	\$ -	\$ (26,569)
Public safety	19,514	-	-	-	(19,514)	-	(19,514)
Highways and streets	5,839	-	13,059	1,232	8,452	-	8,452
Culture and recreation	3,136	100	-	-	(3,036)	-	(3,036)
Total governmental activities	<u>55,519</u>	<u>561</u>	<u>13,059</u>	<u>1,232</u>	<u>(40,667)</u>	<u>-</u>	<u>(40,667)</u>
Business-type activities:							
Water	<u>44,379</u>	<u>36,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,701)</u>	<u>(7,701)</u>
Total primary government	<u>\$ 99,898</u>	<u>\$ 37,239</u>	<u>\$ 13,059</u>	<u>\$ 1,232</u>	<u>(40,667)</u>	<u>(7,701)</u>	<u>(48,368)</u>
General receipts:							
Property taxes					23,837	-	23,837
Intergovernmental					15,024	-	15,024
Other local sources					-	375	375
Grants and contributions not restricted to specific programs					-	2,626	2,626
Unrestricted investment earnings					697	57	754
Transfers:							
Internal activities					(3,661)	3,661	-
Total general receipts and transfers					<u>35,897</u>	<u>6,719</u>	<u>42,616</u>
Change in net assets					(4,770)	(982)	(5,752)
Net assets - beginning					<u>141,872</u>	<u>89,490</u>	<u>231,362</u>
Net assets - ending					<u>\$ 137,102</u>	<u>\$ 88,508</u>	<u>\$ 225,610</u>
<u>Assets</u>							
Cash and investments					\$ 121,730	\$ 11,588	\$ 133,318
Restricted assets:							
Cash and investments					<u>15,372</u>	<u>76,920</u>	<u>92,292</u>
Total assets					<u>\$ 137,102</u>	<u>\$ 88,508</u>	<u>\$ 225,610</u>
<u>Net Assets</u>							
Restricted for:							
Highways and streets					\$ 15,372	\$ -	\$ 15,372
Debt service					-	72,615	72,615
Other purposes					-	4,305	4,305
Unrestricted					<u>121,730</u>	<u>11,588</u>	<u>133,318</u>
Total net assets					<u>\$ 137,102</u>	<u>\$ 88,508</u>	<u>\$ 225,610</u>

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

TOWN OF MARSHALL
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	\$ 23,837	\$ -	\$ -	\$ -	\$ 23,837
Intergovernmental	11,601	15,196	1,232	1,286	29,315
Charges for services	461	-	-	-	461
Other	797	-	-	-	797
Total receipts	36,696	15,196	1,232	1,286	54,410
Disbursements:					
General government	27,030	-	-	-	27,030
Public safety	19,514	-	-	-	19,514
Highways and streets	-	5,839	-	-	5,839
Culture and recreation	3,136	-	-	-	3,136
Total disbursements	49,680	5,839	-	-	55,519
Excess (deficiency) of receipts over disbursements	(12,984)	9,357	1,232	1,286	(1,109)
Other financing sources (uses):					
Transfers in	4,117	-	-	-	4,117
Transfers out	-	(7,778)	-	-	(7,778)
Total other financing sources (uses)	4,117	(7,778)	-	-	(3,661)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(8,867)	1,579	1,232	1,286	(4,770)
Cash and investment fund balance - beginning	47,861	78,643	14,140	1,228	141,872
Cash and investment fund balance - ending	<u>\$ 38,994</u>	<u>\$ 80,222</u>	<u>\$ 15,372</u>	<u>\$ 2,514</u>	<u>\$ 137,102</u>
Cash and Investment Assets - December 31					
Cash and investments	\$ 38,994	\$ 80,222	\$ -	\$ 2,514	\$ 121,730
Restricted assets:					
Cash and investments	-	-	15,372	-	15,372
Total cash and investment assets - December 31	<u>\$ 38,994</u>	<u>\$ 80,222</u>	<u>\$ 15,372</u>	<u>\$ 2,514</u>	<u>\$ 137,102</u>
Cash and Investment Fund Balance - December 31					
Restricted for:					
Highways and streets	\$ -	\$ -	\$ 15,372	\$ -	\$ 15,372
Unrestricted	38,994	80,222	-	2,514	121,730
Total cash and investment fund balance - December 31	<u>\$ 38,994</u>	<u>\$ 80,222</u>	<u>\$ 15,372</u>	<u>\$ 2,514</u>	<u>\$ 137,102</u>

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

TOWN OF MARSHALL
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As Of And For The Year Ended December 31, 2006

	Water Utility
Operating receipts:	
Unmetered water receipts	\$ 29,078
Fire protection receipts	<u>7,600</u>
Total operating receipts	<u>36,678</u>
Operating disbursements:	
Purchased water	6,117
Chemicals	294
Material and supplies	398
Contractual services	4,520
Miscellaneous disbursements	<u>19,318</u>
Total operating disbursements	<u>30,647</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>6,031</u>
Nonoperating receipts (disbursements):	
Loan proceeds	2,626
Interest and investment receipts	57
Customer deposits received	375
Customer deposits refunded	(50)
Equipment and capital improvements	<u>(13,682)</u>
Total nonoperating receipts (disbursements)	<u>(10,674)</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(4,643)
Transfers in	7,778
Transfers out	<u>(4,117)</u>
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(982)
Cash and investment fund balance - beginning	<u>89,490</u>
Cash and investment fund balance - ending	<u><u>\$ 88,508</u></u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 11,588
Restricted assets:	
Cash and investments	<u>76,920</u>
Total cash and investment assets - December 31	<u><u>\$ 88,508</u></u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Water improvement	\$ 72,615
Other purposes	4,305
Unrestricted	<u>11,588</u>
Total cash and investment fund balance - December 31	<u><u>\$ 88,508</u></u>

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

TOWN OF MARSHALL
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	\$ 445,923	\$ 453	\$ -	\$ -	\$ (445,470)	\$ -	\$ (445,470)
Public safety	15,805	-	-	-	(15,805)	-	(15,805)
Highways and streets	12,689	-	12,985	1,236	1,532	-	1,532
Water improvement	-	-	421,594	-	421,594	-	421,594
Culture and recreation	3,300	149	-	-	(3,151)	-	(3,151)
Total governmental activities	<u>477,717</u>	<u>602</u>	<u>434,579</u>	<u>1,236</u>	<u>(41,300)</u>	<u>-</u>	<u>(41,300)</u>
Business-type activities:							
Water	111,136	84,732	-	-	-	(26,404)	(26,404)
Total primary government	<u>\$ 588,853</u>	<u>\$ 85,334</u>	<u>\$ 434,579</u>	<u>\$ 1,236</u>	<u>(41,300)</u>	<u>(26,404)</u>	<u>(67,704)</u>
General receipts:							
Property taxes					20,935	-	20,935
Intergovernmental					20,462	-	20,462
Other local sources					1,590	300	1,890
Bonds and loans					-	2,299	2,299
Grants and contributions not restricted to specific programs					195	-	195
Unrestricted investment earnings					735	195	930
Transfers:							
Internal activities					7,778	(7,778)	-
Total general receipts and transfers					<u>51,695</u>	<u>(4,984)</u>	<u>46,711</u>
Change in net assets					10,395	(31,388)	(20,993)
Net assets - beginning					<u>137,102</u>	<u>88,508</u>	<u>225,610</u>
Net assets - ending					<u>\$ 147,497</u>	<u>\$ 57,120</u>	<u>\$ 204,617</u>
<u>Assets</u>							
Cash and investments					\$ 130,889	\$ 52,515	\$ 183,404
Restricted assets:							
Cash and investments					<u>16,608</u>	<u>4,605</u>	<u>21,213</u>
Total assets					<u>\$ 147,497</u>	<u>\$ 57,120</u>	<u>\$ 204,617</u>
<u>Net Assets</u>							
Restricted for:							
Public safety					\$ 16,608	\$ -	\$ 16,608
Other purposes					-	4,605	4,605
Unrestricted					<u>130,889</u>	<u>52,515</u>	<u>183,404</u>
Total net assets					<u>\$ 147,497</u>	<u>\$ 57,120</u>	<u>\$ 204,617</u>

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

TOWN OF MARSHALL
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	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 20,935	\$ -	\$ -	\$ -	\$ 20,935
Intergovernmental	438,941	14,836	1,236	1,264	456,277
Charges for services	453	-	-	-	453
Other	1,571	903	-	195	2,669
Total receipts	461,900	15,739	1,236	1,459	480,334
Disbursements:					
General government	445,923	-	-	-	445,923
Public safety	15,805	-	-	-	15,805
Highways and streets	-	12,689	-	-	12,689
Culture and recreation	3,300	-	-	-	3,300
Total disbursements	465,028	12,689	-	-	477,717
Excess (deficiency) of receipts over disbursements	(3,128)	3,050	1,236	1,459	2,617
Other financing sources (uses):					
Transfers in	7,778	-	-	298	8,076
Transfers out	(298)	-	-	-	(298)
Total other financing sources (uses)	7,480	-	-	298	7,778
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	4,352	3,050	1,236	1,757	10,395
Cash and investment fund balance - beginning	38,994	80,222	15,372	2,514	137,102
Cash and investment fund balance - ending	<u>\$ 43,346</u>	<u>\$ 83,272</u>	<u>\$ 16,608</u>	<u>\$ 4,271</u>	<u>\$ 147,497</u>
Cash and Investment Assets - December 31					
Cash and investments	\$ 43,346	\$ 83,272	\$ -	\$ 4,271	\$ 130,889
Restricted assets:					
Cash and investments	-	-	16,608	-	16,608
Total cash and investment assets - December 31	<u>\$ 43,346</u>	<u>\$ 83,272</u>	<u>\$ 16,608</u>	<u>\$ 4,271</u>	<u>\$ 147,497</u>
Cash and Investment Fund Balance - December 31					
Restricted for:					
Public safety	\$ -	\$ -	\$ 16,608	\$ -	\$ 16,608
Unrestricted	43,346	83,272	-	4,271	130,889
Total cash and investment fund balance - December 31	<u>\$ 43,346</u>	<u>\$ 83,272</u>	<u>\$ 16,608</u>	<u>\$ 4,271</u>	<u>\$ 147,497</u>

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

TOWN OF MARSHALL
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As Of And For The Year Ended December 31, 2007

	Water Utility
Operating receipts:	
Unmetered water receipts	\$ 80,932
Fire protection receipts	3,800
Total operating receipts	84,732
Operating disbursements:	
Purchased water	5,455
Fuel for power production	195
Chemicals	49
Material and supplies	2,604
Contractual services	3,335
Miscellaneous disbursements	26,853
Total operating disbursements	38,491
Excess (deficiency) of operating receipts over operating disbursements	46,241
Nonoperating receipts (disbursements):	
Loan proceeds	2,299
Interest and investment receipts	195
Customer deposits received	300
Equipment and capital improvements	(72,645)
Total nonoperating receipts (disbursements)	(69,851)
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(23,610)
Transfers out	(7,778)
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(31,388)
Cash and investment fund balance - beginning	88,508
Cash and investment fund balance - ending	\$ 57,120
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 52,515
Restricted assets:	
Cash and investments	4,605
Total cash and investment assets - December 31	\$ 57,120
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Other purposes	\$ 4,605
Unrestricted	52,515
Total cash and investment fund balance - December 31	\$ 57,120

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

TOWN OF MARSHALL
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, general administrative services, and water.

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

Primary Government: Town

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 Statements of Activities and Net Assets – Cash and Investment Basis display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish 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, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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 is used for construction, reconstruction and maintenance of the streets of the city.

The local road and street fund is used for engineering, land acquisition, construction, resurfacing, maintenance, restoration or rehabilitation of local road and street systems.

The Town reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

TOWN OF MARSHALL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, governmental funds 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 and other charges between the Town and the Water Utility. 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.

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. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and in December. 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

TOWN OF MARSHALL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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% 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 become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

3. 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.

4. 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.

5. 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 MARSHALL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds 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:

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 government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

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.

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/

TOWN OF MARSHALL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

<u>Fund</u>	<u>2006</u>
General	<u>\$ 9,679</u>

These disbursements were funded by available fund balance.

III. Detailed Notes on All Funds

A. Deposits and Investments

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 Town does not have a deposit policy for custodial credit risk. At December 31, 2007, the Town had deposit balances in the amount of \$204,618. 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.

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2006 and 2007, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2006</u>	<u>2007</u>
General Fund	Other governmental funds	\$ -	\$ 298
Water Utility Fund	General Fund	4,117	7,778
Motor Vehicle Highway Fund	Water Utility Fund	<u>7,778</u>	<u>-</u>
Totals		<u>\$ 11,895</u>	<u>\$ 8,076</u>

The Town typically uses transfers for cash flow purposes as provided by various statutory provisions.

TOWN OF MARSHALL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

B. Rate Structure – Enterprise Funds

Water Utility

On June 3, 2003, the Town Council adopted Ordinance 2003-3 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on October 30, 2006.

TOWN OF MARSHALL
 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

	Parks and Recreation	Levy Excess	Cumulative Capital Improvement	Totals
Receipts:				
Intergovernmental	\$ -	\$ -	\$ 1,286	\$ 1,286
Disbursements	-	-	-	-
Excess (deficiency) of receipts over disbursements	-	-	1,286	1,286
Cash and investment fund balance - beginning	271	-	957	1,228
Cash and investment fund balance - ending	<u>\$ 271</u>	<u>\$ -</u>	<u>\$ 957</u>	<u>\$ 1,228</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	<u>\$ 271</u>	<u>\$ -</u>	<u>\$ 2,243</u>	<u>\$ 2,514</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Unrestricted	<u>\$ 271</u>	<u>\$ -</u>	<u>\$ 2,243</u>	<u>\$ 2,514</u>

TOWN OF MARSHALL
 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

	Parks and Recreation	Levy Excess	Cumulative Capital Improvement	Totals
Receipts:				
Intergovernmental	\$ -	\$ -	\$ 1,264	\$ 1,264
Other	195	-	-	195
Total receipts	<u>195</u>	<u>-</u>	<u>1,264</u>	<u>1,459</u>
Disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>195</u>	<u>-</u>	<u>1,264</u>	<u>1,459</u>
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>298</u>	<u>-</u>	<u>298</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	195	298	1,264	1,757
Cash and investment fund balance - beginning	<u>271</u>	<u>-</u>	<u>2,243</u>	<u>2,514</u>
Cash and investment fund balance - ending	<u>\$ 466</u>	<u>\$ 298</u>	<u>\$ 3,507</u>	<u>\$ 4,271</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	<u>\$ 466</u>	<u>\$ 298</u>	<u>\$ 3,507</u>	<u>\$ 4,271</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Unrestricted	<u>\$ 466</u>	<u>\$ 298</u>	<u>\$ 3,507</u>	<u>\$ 4,271</u>

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

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Water Utility		
Revenue bonds:		
State Revolving Fund	\$ 297,000	\$ 18,871

TOWN OF MARSHALL
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

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

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General Fund	2006	<u>\$ 9,679</u>

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."

HYDRANT RENTAL RECEIVABLE (PAYABLE)

The Town of Marshall owes the Water Utility hydrant rental of \$400 and \$1,100 for the years 2006 and 2007, respectively, pursuant to Rate Ordinance 1997-3 passed by the Council on December 10, 1997.

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)

ORDINANCES AND RESOLUTIONS

Ordinance 1997-3 establishes that water bills delinquent for two consecutive months shall be disconnected. However, the billings test disclosed that one of ten accounts was more than two months in arrears.

Ordinance 2006-2 establishes a penalty of two dollars per month for unpaid bills to be assessed 15 days after the due date. The late fee was assessed, but not until the end of the month.

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)

TOWN OF MARSHALL
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSET RECORDS

The Town does not maintain records of capital assets for its Utility Plant in Service accounts or its Town funds.

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)

PUBLIC WORKS PROJECTS

The Town entered into change orders with Dashiell Contracting for \$110,215 which is 29% of the original contract amount. The change order was for the purchase and installation of water meters. This work was originally planned in phase II, but it was determined that funds were available in phase I for this work.

Indiana Code 36-1-12-18 states in part ". . .The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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 MARSHALL, PARKE COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Marshall (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.

In our opinion, the Town complied in all material respects with the requirements referred to above that are applicable to each of its 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 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.

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)

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.

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.

Our consideration of the internal control over compliance 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 compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

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

October 16, 2008

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

Federal Grantor Agency/Pass-Through Entity 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 Programs	14.228	CF-06-111	\$ 3,120	\$ 496,880
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Clean Water State Revolving Funds	66.458	DW060361-01	108,822	21,684
Total federal awards expended			<u>\$ 111,942</u>	<u>\$ 518,564</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF MARSHALL
NOTES 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 Marshall (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 Towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

II. State Revolving Fund Loan

The Town received a State Revolving Fund Loan in the amount of \$297,000. Although the expenditures related to this loan appear on the Schedule of Expenditures of Federal Awards, the funds were not actually received and disbursed from the Town. The Town submitted claims to the federal agency and the agency paid the contractors directly.

TOWN OF MARSHALL
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
Significant deficiencies 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
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

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.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF MARSHALL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF MARSHALL
EXIT CONFERENCE

The contents of this report were discussed on October 16, 2008, with Sharon Harmon, Clerk-Treasurer; and Charles C. Smith, President of the Town Council. The officials concurred with our audit findings.