

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

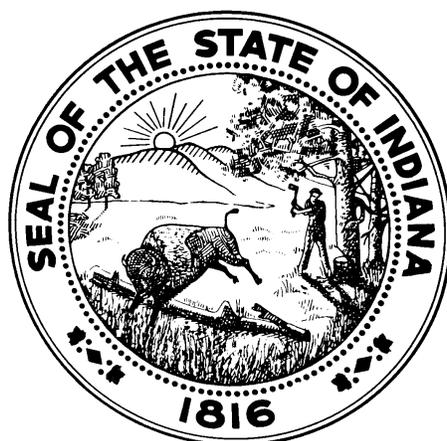
AUDIT REPORT

OF

TOWN OF CARTHAGE

RUSH COUNTY, INDIANA

January 1, 2007 to December 31, 2008



**FILED**  
12/29/2009



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Linda McMahan	01-07-05 to 12-31-11
President of the Town Council	Rick Bush	01-01-07 to 12-31-09
Superintendent of Utilities	Tim Wehr Jimmy Alcorn	01-01-07 to 05-07-07 05-08-07 to 12-31-09



**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 CARTHAGE, RUSH 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 Carthage (Town), as of and for the years ended December 31, 2007 and 2008, 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, 2007 and 2008, 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 September 30, 2009 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 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

September 30, 2009



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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 CARTHAGE, RUSH 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 Carthage (Town), as of and for the years ended December 31, 2007 and 2008, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 30, 2009. 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.

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

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. We consider the deficiency described in item Finding 2008-1 of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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. However, we believe that the significant deficiency described above is not a material weakness.

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 Town's response to the finding 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, the 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

September 30, 2009

TOWN OF CARTHAGE  
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	Governmental Activities	Business-Type Activities	Totals
<b>Primary government:</b>						
<b>Governmental activities:</b>						
General government	\$ 82,598	\$ 7,888	\$ 14,937	\$ (59,773)	\$ -	\$ (59,773)
Public safety	76,072	2,217	650	(73,205)	-	(73,205)
Highways and streets	102,137	-	36,650	(65,487)	-	(65,487)
Total governmental activities	260,807	10,105	52,237	(198,465)	-	(198,465)
<b>Business-type activities:</b>						
Water	260,932	162,504	-	-	(98,428)	(98,428)
Wastewater	202,739	193,672	-	-	(9,067)	(9,067)
Total business-type activities	463,671	356,176	-	-	(107,495)	(107,495)
Total primary government	<u>\$ 724,478</u>	<u>\$ 366,281</u>	<u>\$ 52,237</u>	<u>(198,465)</u>	<u>(107,495)</u>	<u>(305,960)</u>
<b>General receipts:</b>						
Property taxes				137,579	-	137,579
Other local sources				68,363	-	68,363
Bonds and loans				-	286,000	286,000
Unrestricted investment earnings				98	171	269
Total general receipts				206,040	286,171	492,211
Change in net assets				7,575	178,676	186,251
Net assets - beginning				77,781	72,972	150,753
Net assets - ending				<u>\$ 85,356</u>	<u>\$ 251,648</u>	<u>\$ 337,004</u>
<b>Assets</b>						
Cash and investments				\$ 41,790	\$ 56,741	\$ 98,531
Restricted assets:						
Cash and investments				43,566	194,907	238,473
Total assets				<u>\$ 85,356</u>	<u>\$ 251,648</u>	<u>\$ 337,004</u>
<b>Net Assets</b>						
Restricted for:						
Debt services				\$ -	\$ 177	\$ 177
Other purposes				43,566	194,730	238,296
Unrestricted				41,790	56,741	98,531
Total net assets				<u>\$ 85,356</u>	<u>\$ 251,648</u>	<u>\$ 337,004</u>

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

TOWN OF CARTHAGE  
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
<b>Receipts:</b>					
Taxes	\$ 108,353	\$ 29,226	\$ -	\$ -	\$ 137,579
Licenses and permits	-	-	-	570	570
Intergovernmental	60,439	42,685	3,601	3,909	110,634
Charges for services	5,188	-	-	3,313	8,501
Fines and forfeits	1,034	-	-	-	1,034
Other	10,042	-	-	22	10,064
<b>Total receipts</b>	<b>185,056</b>	<b>71,911</b>	<b>3,601</b>	<b>7,814</b>	<b>268,382</b>
<b>Disbursements:</b>					
General government	82,598	-	-	-	82,598
Public safety	73,871	-	-	2,201	76,072
Highways and streets	31,138	70,999	-	-	102,137
<b>Total disbursements</b>	<b>187,607</b>	<b>70,999</b>	<b>-</b>	<b>2,201</b>	<b>260,807</b>
Excess (deficiency) of receipts over disbursements	(2,551)	912	3,601	5,613	7,575
Cash and investment fund balance - beginning	11,256	29,653	9,533	27,339	77,781
Cash and investment fund balance - ending	<u>\$ 8,705</u>	<u>\$ 30,565</u>	<u>\$ 13,134</u>	<u>\$ 32,952</u>	<u>\$ 85,356</u>
<b><u>Cash and Investment Assets - December 31</u></b>					
Cash and investments	\$ 8,705	\$ -	\$ -	\$ 33,085	\$ 41,790
Restricted assets:					
Cash and investments	-	30,565	13,134	(133)	43,566
<b>Total cash and investment assets - December 31</b>	<b><u>\$ 8,705</u></b>	<b><u>\$ 30,565</u></b>	<b><u>\$ 13,134</u></b>	<b><u>\$ 32,952</u></b>	<b><u>\$ 85,356</u></b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>					
Restricted for:					
Other purposes	\$ 8,705	\$ 30,565	\$ 13,134	\$ (133)	\$ 43,566
Unrestricted	-	-	-	33,085	41,790
<b>Total cash and investment fund balance - December 31</b>	<b><u>\$ 8,705</u></b>	<b><u>\$ 30,565</u></b>	<b><u>\$ 13,134</u></b>	<b><u>\$ 32,952</u></b>	<b><u>\$ 85,356</u></b>

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

TOWN OF CARTHAGE  
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	Wastewater Utility	Totals
Operating receipts:			
Metered receipts:			
Residential	\$ 107,850	\$ 114,614	\$ 222,464
Commercial	19,408	41,100	60,508
Industrial	16,326	927	17,253
Governmental	2,838	3,174	6,012
Penalties	3,265	4,043	7,308
Other receipts	<u>6,278</u>	<u>29,814</u>	<u>36,092</u>
Total operating receipts	<u>155,965</u>	<u>193,672</u>	<u>349,637</u>
Operating disbursements:			
Salaries and wages	48,274	58,334	106,608
Employee pensions and benefits	9,555	4,959	14,514
Purchased water	-	618	618
Purchased power	5,549	19,375	24,924
Sludge removal	-	4,308	4,308
Fuel for power production	2,479	2,875	5,354
Chemicals	1,186	6,321	7,507
Material and supplies	16,033	14,443	30,476
Contractual services	40,183	42,078	82,261
Rents	17	470	487
Transportation disbursements	818	502	1,320
Insurance disbursements	7,526	7,526	15,052
Other	<u>16,759</u>	<u>37,508</u>	<u>54,267</u>
Total operating disbursements	<u>148,379</u>	<u>199,317</u>	<u>347,696</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>7,586</u>	<u>(5,645)</u>	<u>1,941</u>
Nonoperating receipts (disbursements):			
Bond proceeds	286,000	-	286,000
Water System Improvement Costs	(94,595)	-	(94,595)
Interest and investment receipts	181	90	271
Interest and investment disbursement	<u>(11,519)</u>	<u>(3,422)</u>	<u>(14,941)</u>
Total nonoperating receipts (disbursements)	<u>180,067</u>	<u>(3,332)</u>	<u>176,735</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	187,653	(8,977)	178,676
Cash and investment fund balance - beginning	<u>25,096</u>	<u>47,876</u>	<u>72,972</u>
Cash and investment fund balance - ending	<u>\$ 212,749</u>	<u>\$ 38,899</u>	<u>\$ 251,648</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 12,894	\$ 43,847	\$ 56,741
Restricted assets:			
Cash and investments	<u>199,855</u>	<u>(4,948)</u>	<u>194,907</u>
Total cash and investment assets - December 31	<u>\$ 212,749</u>	<u>\$ 38,899</u>	<u>\$ 251,648</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ -	\$ 177	\$ 177
Other purposes	199,855	(5,125)	194,730
Unrestricted	<u>12,894</u>	<u>43,847</u>	<u>56,741</u>
Total cash and investment fund balance - December 31	<u>\$ 212,749</u>	<u>\$ 38,899</u>	<u>\$ 251,648</u>

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

TOWN OF CARTHAGE  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2008

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	\$ 71,182	\$ 7,115	\$ 18,253	\$ -	\$ (45,814)	\$ -	\$ (45,814)
Public safety	80,188	1,079	750	-	(78,359)	-	(78,359)
Highways and streets	107,242	-	28,075	-	(79,167)	-	(79,167)
Culture and recreation	4,543	-	-	-	(4,543)	-	(4,543)
Total governmental activities	<u>263,155</u>	<u>8,194</u>	<u>47,078</u>	<u>-</u>	<u>(207,883)</u>	<u>-</u>	<u>(207,883)</u>
Business-type activities:							
Water	2,929,253	261,225	-	1,239,000	-	(1,429,028)	(1,429,028)
Wastewater	205,289	197,991	-	-	-	(7,298)	(7,298)
Total business-type activities	<u>3,134,542</u>	<u>459,216</u>	<u>-</u>	<u>1,239,000</u>	<u>-</u>	<u>(1,436,326)</u>	<u>(1,436,326)</u>
Total primary government	<u>\$ 3,397,697</u>	<u>\$ 467,410</u>	<u>\$ 47,078</u>	<u>\$ 1,239,000</u>	<u>(207,883)</u>	<u>(1,436,326)</u>	<u>(1,644,209)</u>
General receipts:							
Property taxes					137,318	-	137,318
Other local sources					67,252	-	67,252
Bonds and loans					-	1,333,000	1,333,000
Unrestricted investment earnings					79	654	733
Total general receipts					<u>204,649</u>	<u>1,333,654</u>	<u>1,538,303</u>
Change in net assets					(3,234)	(102,672)	(105,906)
Net assets - beginning					<u>85,356</u>	<u>251,648</u>	<u>337,004</u>
Net assets - ending					<u>\$ 82,122</u>	<u>\$ 148,976</u>	<u>\$ 231,098</u>
<u>Assets</u>							
Cash and investments					\$ 39,052	\$ 69,689	\$ 108,741
Restricted assets:							
Cash and investments					<u>43,070</u>	<u>79,287</u>	<u>122,357</u>
Total assets					<u>\$ 82,122</u>	<u>\$ 148,976</u>	<u>\$ 231,098</u>
<u>Net Assets</u>							
Restricted for:							
Debt services					\$ -	\$ 70,035	\$ 70,035
Other purposes					43,070	9,252	52,322
Unrestricted					<u>39,052</u>	<u>69,689</u>	<u>108,741</u>
Total net assets					<u>\$ 82,122</u>	<u>\$ 148,976</u>	<u>\$ 231,098</u>

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

TOWN OF CARTHAGE  
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, 2008

	General	Motor Vehicle Highway	Local Road and Street	Other Governmental Funds	Totals
<b>Receipts:</b>					
Taxes	\$ 72,310	\$ 65,008	\$ -	\$ -	\$ 137,318
Licenses and permits	-	-	-	545	545
Intergovernmental	59,607	38,345	3,186	9,853	110,991
Charges for services	4,465	-	-	2,655	7,120
Fines and forfeits	-	-	-	529	529
Other	3,400	-	-	18	3,418
<b>Total receipts</b>	<b>139,782</b>	<b>103,353</b>	<b>3,186</b>	<b>13,600</b>	<b>259,921</b>
<b>Disbursements:</b>					
General government	66,354	-	-	4,828	71,182
Public safety	78,566	-	-	1,622	80,188
Highways and streets	-	107,242	-	-	107,242
Culture and recreation	4,543	-	-	-	4,543
<b>Total disbursements</b>	<b>149,463</b>	<b>107,242</b>	<b>-</b>	<b>6,450</b>	<b>263,155</b>
Excess (deficiency) of receipts over disbursements	(9,681)	(3,889)	3,186	7,150	(3,234)
<b>Other financing sources (uses):</b>					
Transfers in	15,924	-	-	-	15,924
Transfers out	-	-	-	(15,924)	(15,924)
<b>Total other financing sources (uses)</b>	<b>15,924</b>	<b>-</b>	<b>-</b>	<b>(15,924)</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	6,243	(3,889)	3,186	(8,774)	(3,234)
Cash and investment fund balance - beginning	8,705	30,565	13,134	32,952	85,356
Cash and investment fund balance - ending	<u>\$ 14,948</u>	<u>\$ 26,676</u>	<u>\$ 16,320</u>	<u>\$ 24,178</u>	<u>\$ 82,122</u>
<b><u>Cash and Investment Assets - December 31</u></b>					
Cash and investments	\$ 14,948	\$ -	\$ -	\$ 24,104	\$ 39,052
Restricted assets:					
Cash and investments	-	26,676	16,320	74	43,070
<b>Total cash and investment assets - December 31</b>	<b><u>\$ 14,948</u></b>	<b><u>\$ 26,676</u></b>	<b><u>\$ 16,320</u></b>	<b><u>\$ 24,178</u></b>	<b><u>\$ 82,122</u></b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>					
Restricted for:					
Other purposes	\$ -	\$ 26,676	\$ 16,320	\$ 74	\$ 43,070
Unrestricted	14,948	-	-	24,104	39,052
<b>Total cash and investment fund balance - December 31</b>	<b><u>\$ 14,948</u></b>	<b><u>\$ 26,676</u></b>	<b><u>\$ 16,320</u></b>	<b><u>\$ 24,178</u></b>	<b><u>\$ 82,122</u></b>

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

TOWN OF CARTHAGE  
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, 2008

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Totals</u>
Operating receipts:			
Metered receipts:			
Residential	\$ 206,619	\$ 120,046	\$ 326,665
Commercial	26,934	34,555	61,489
Industrial	1,399	1,349	2,748
Governmental	4,389	2,710	7,099
Penalties	351	4,059	4,410
Other receipts	<u>5,782</u>	<u>35,272</u>	<u>41,054</u>
 Total operating receipts	 <u>245,474</u>	 <u>197,991</u>	 <u>443,465</u>
 Operating disbursements:			
Salaries and wages	64,539	63,878	128,417
Employee pensions and benefits	16,147	15,434	31,581
Purchased water	-	791	791
Purchased power	5,198	21,497	26,695
Sludge removal	-	2,038	2,038
Fuel for power production	4,151	3,766	7,917
Chemicals	2,168	5,562	7,730
Material and supplies	22,616	20,327	42,943
Contractual services	10,858	13,452	24,310
Rents	325	773	1,098
Transportation disbursements	405	708	1,113
Insurance disbursements	7,953	7,475	15,428
Other	<u>25,051</u>	<u>45,476</u>	<u>70,527</u>
 Total operating disbursements	 <u>159,411</u>	 <u>201,177</u>	 <u>360,588</u>
 Excess (deficiency) of operating receipts over operating disbursements	 <u>86,063</u>	 <u>(3,186)</u>	 <u>82,877</u>
 Nonoperating receipts (disbursements):			
Bond proceeds	1,483,000	-	1,483,000
Capital grants	1,239,000	-	1,239,000
Water system improvement costs	(2,734,185)	-	(2,734,185)
Interest and investment receipts	616	38	654
Debt service of principal	(150,000)	-	(150,000)
Interest and investment disbursement	<u>(19,906)</u>	<u>(4,112)</u>	<u>(24,018)</u>
 Total nonoperating receipts (disbursements)	 <u>(181,475)</u>	 <u>(4,074)</u>	 <u>(185,549)</u>
 Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	 <u>(95,412)</u>	 <u>(7,260)</u>	 <u>(102,672)</u>
 Cash and investment fund balance - beginning	 <u>212,749</u>	 <u>38,899</u>	 <u>251,648</u>
 Cash and investment fund balance - ending	 <u>\$ 117,337</u>	 <u>\$ 31,639</u>	 <u>\$ 148,976</u>
 <u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 29,714	\$ 39,975	\$ 69,689
Restricted assets:			
Cash and investments	<u>87,623</u>	<u>(8,336)</u>	<u>79,287</u>
 Total cash and investment assets - December 31	 <u>\$ 117,337</u>	 <u>\$ 31,639</u>	 <u>\$ 148,976</u>
 <u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 70,035	\$ -	\$ 70,035
Other purposes	17,588	(8,336)	9,252
Unrestricted	<u>29,714</u>	<u>39,975</u>	<u>69,689</u>
 Total cash and investment fund balance - December 31	 <u>\$ 117,337</u>	 <u>\$ 31,639</u>	 <u>\$ 148,976</u>

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

TOWN OF CARTHAGE  
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), highways and streets, health and social services, culture and recreation, general administrative services, and water and wastewater utilities.

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

Primary Government: Town of Carthage

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 except for fiduciary funds. 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. Currently, the Town does not maintain fiduciary funds.

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 and proprietary 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 accounts for financial resources accumulated and used for upgrades to roads and related infrastructure.

The local road and street fund accounts for financial resources accumulated and used for upgrades to roads and related infrastructure similar to the motor vehicle highway fund with the exception no administrative or indirect cost can be paid.

TOWN OF CARTHAGE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The Town reports the following major proprietary funds:

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

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 charges between the government's water and wastewater function. 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 CARTHAGE  
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. 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 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 functional 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.

TOWN OF CARTHAGE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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.

TOWN OF CARTHAGE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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/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, 2007 and 2008, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2007	2008
General Fund	\$ 31,811	\$ -
Motor Vehicle Highway Fund	-	4,778
Totals	\$ 31,811	\$ 4,778

These disbursements were funded by available fund balances.

C. Cash and Investment Balance Deficits

At December 31, 2007 and 2008, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2007	2008
Law Enforcement Continuing Education Fund	\$ 783	\$ 612
Wastewater Utility Sanitation Fund	4,948	8,336

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

TOWN OF CARTHAGE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. 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.

2. Investments

Statutory Authorization for Investments

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.

TOWN OF CARTHAGE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town must follow state statute and limit the stated final maturities of the investments to no more than two years. The Town does not have a formal investment policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Town does not have a formal investment policy for credit risk for investments.

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2008, were as follows:

Transfer From	Transfer To	2008
Other governmental funds	General Fund	\$ 15,924

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

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; 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.

During 2001, the Town joined with other governmental entities in the Indiana Public Employers Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for 676 member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of worker's compensation. The Town pays an annual premium to the risk pool for its worker's compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Subsequent Events

Wastewater Improvement Project

The Town of Carthage has been approved for a \$2,432,000 grant and a \$1,958,000 loan from Rural Development for a future Wastewater improvement project. Bids are anticipated to be awarded in the near future.

TOWN OF CARTHAGE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Interfund Loan

On May 27, 2009, the Carthage Water Utility - Operating Fund loaned the Town of Carthage General Fund \$20,000 to be repaid by December 31, 2009.

C. Rate Structure – Enterprise Funds

Water Utility

Prior to December 16, 2002, the Town Council adopted an ordinance to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Town Council on January 28, 2008.

Wastewater Utility

The current rate structure was approved by the Town Council on February 26, 2007.

TOWN OF CARTHAGE  
 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

	Law Enforcement Continuing Education	Cemetery	Rainy Day	Indiana Criminal Justice Police Grant	Economic Development Income Tax	Cumulative Capital Improvement	Totals
<b>Receipts:</b>							
Licenses and permits	\$ 570	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 570
Intergovernmental	-	-	-	650	-	3,259	3,909
Charges for services	613	2,700	-	-	-	-	3,313
Other	-	-	22	-	-	-	22
<b>Total receipts</b>	<b>1,183</b>	<b>2,700</b>	<b>22</b>	<b>650</b>	<b>-</b>	<b>3,259</b>	<b>7,814</b>
<b>Disbursements:</b>							
Public safety	2,201	-	-	-	-	-	2,201
<b>Excess (deficiency) of receipts over disbursements</b>	<b>(1,018)</b>	<b>2,700</b>	<b>22</b>	<b>650</b>	<b>-</b>	<b>3,259</b>	<b>5,613</b>
Cash and investment fund balance - beginning	235	3,000	7,097	-	7,360	9,647	27,339
<b>Cash and investment fund balance - ending</b>	<b>\$ (783)</b>	<b>\$ 5,700</b>	<b>\$ 7,119</b>	<b>\$ 650</b>	<b>\$ 7,360</b>	<b>\$ 12,906</b>	<b>\$ 32,952</b>
<u><b>Cash and Investment Assets - December 31</b></u>							
Cash and investments	\$ -	\$ 5,700	\$ 7,119	\$ -	\$ 7,360	\$ 12,906	\$ 33,085
Restricted assets:							
Cash and investments	(783)	-	-	650	-	-	(133)
<b>Total cash and investment assets - December 31</b>	<b>\$ (783)</b>	<b>\$ 5,700</b>	<b>\$ 7,119</b>	<b>\$ 650</b>	<b>\$ 7,360</b>	<b>\$ 12,906</b>	<b>\$ 32,952</b>
<u><b>Cash and Investment Fund Balance - December 31</b></u>							
Restricted for:							
Other purposes	\$ (783)	\$ -	\$ -	\$ 650	\$ -	\$ -	\$ (133)
Unrestricted	-	5,700	7,119	-	7,360	12,906	33,085
<b>Total cash and investment fund balance - December 31</b>	<b>\$ (783)</b>	<b>\$ 5,700</b>	<b>\$ 7,119</b>	<b>\$ 650</b>	<b>\$ 7,360</b>	<b>\$ 12,906</b>	<b>\$ 32,952</b>

TOWN OF CARTHAGE  
 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, 2008

	Law Enforcement Continuing Education	Cemetery	Rainy Day	Indiana Criminal Justice Police Grant	Economic Development Income Tax	Cumulative Capital Improvement	Totals
<b>Receipts:</b>							
Licenses and permits	\$ 545	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 545
Intergovernmental	-	-	6,085	750	-	3,018	9,853
Charges for services	5	2,650	-	-	-	-	2,655
Fines and forfeits	529	-	-	-	-	-	529
Other	-	-	18	-	-	-	18
<b>Total receipts</b>	<b>1,079</b>	<b>2,650</b>	<b>6,103</b>	<b>750</b>	<b>-</b>	<b>3,018</b>	<b>13,600</b>
<b>Disbursements:</b>							
General government	-	1,202	3,626	-	-	-	4,828
Public safety	908	-	-	714	-	-	1,622
<b>Total disbursements</b>	<b>908</b>	<b>1,202</b>	<b>3,626</b>	<b>714</b>	<b>-</b>	<b>-</b>	<b>6,450</b>
Excess of receipts over disbursements	171	1,448	2,477	36	-	3,018	7,150
<b>Other financing sources (uses):</b>							
Transfers out	-	-	-	-	-	(15,924)	(15,924)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	171	1,448	2,477	36	-	(12,906)	(8,774)
Cash and investment fund balance - beginning	(783)	5,700	7,119	650	7,360	12,906	32,952
Cash and investment fund balance - ending	\$ (612)	\$ 7,148	\$ 9,596	\$ 686	\$ 7,360	\$ -	\$ 24,178
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ -	\$ 7,148	\$ 9,596	\$ -	\$ 7,360	\$ -	\$ 24,104
Restricted assets:							
Cash and investments	(612)	-	-	686	-	-	74
<b>Total cash and investment assets - December 31</b>	<b>\$ (612)</b>	<b>\$ 7,148</b>	<b>\$ 9,596</b>	<b>\$ 686</b>	<b>\$ 7,360</b>	<b>\$ -</b>	<b>\$ 24,178</b>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Other purposes	\$ (612)	\$ -	\$ -	\$ 686	\$ -	\$ -	\$ 74
Unrestricted	-	7,148	9,596	-	7,360	-	24,104
<b>Total cash and investment fund balance - December 31</b>	<b>\$ (612)</b>	<b>\$ 7,148</b>	<b>\$ 9,596</b>	<b>\$ 686</b>	<b>\$ 7,360</b>	<b>\$ -</b>	<b>\$ 24,178</b>

TOWN OF CARTHAGE  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
December 31, 2008

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
Computers (1/3 share)	\$ 3,929	\$ 2,758
Copier (1/3 share)	1,150	421
Police Car	<u>23,818</u>	<u>10,370</u>
Total governmental activities debt	<u>\$ 28,897</u>	<u>\$ 13,549</u>
Business-type activities:		
Water Utility:		
Capital leases:		
Computers (1/3 share)	\$ 3,929	\$ 2,758
Copier (1/3 share)	1,149	421
John Deere Back Hoe	18,202	10,909
Revenue bonds		
Rural Development Bonds of 2007, Series A	1,606,000	85,880
Rural Development Bonds of 2007, Series B	<u>163,000</u>	<u>9,202</u>
Total Water Utility	<u>1,792,280</u>	<u>109,170</u>
Wastewater Utility:		
Capital leases:		
Computers (1/3 share)	3,928	2,757
Copier (1/3 share)	1,149	421
Bond Anticipation Note of 2005	<u>150,000</u>	<u>8,730</u>
Total Wastewater Utility	<u>155,077</u>	<u>11,908</u>
Total business-type activities debt	<u>\$ 1,947,357</u>	<u>\$ 121,078</u>

TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

Neither the Town nor its municipal utilities maintain records of capital assets.

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)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period.

- (1) Not all claims were adequately itemized for the Wastewater Utility.
- (2) Some claims or invoices were not accompanied by evidence in support of the receipt of goods or services for the Town and both Utilities.
- (3) Some claims did not contain evidence that the fiscal officer audited and certified before payment that the invoice or bill was true and correct for the Town and the Water Utility.
- (4) It could not be determined if the payment of some claims was allowed by the governmental entity's board for the Town and Water Utility.

IC 5-11-10-1.6 states in part:

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

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

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

TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

PRESCRIBED FORMS

Some of the time/attendance records did not contain the certification of the appropriate official or department head. Payroll schedule and voucher (General Payroll Form 99) provides for the certification of the appropriate official or department head, the disbursing officer, and the approval of the governing board. General Payroll Form 99 or an approved alternative form was not in use during the audit period.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BUDGETED LINE ITEMS

During 2008, a total of \$7,558.75 of the Town Marshal salary was paid from the Motor Vehicle Highway Fund Deputy Town Marshal salary line item. This amount represents approximately 19.7% of the Town's 2008 allocation of Motor Vehicle Highway funds. A transfer of appropriation from the Motor Vehicle Highway Fund Deputy Town Marshal salary line item to the Town Marshal salary line item was not documented in the Board minutes.

Disbursements should be paid from properly authorized line items. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Cities and towns may use a portion of their Motor Vehicle Highway funds for law enforcement. Not more than 15% of the amounts distributed may be used by cities and towns under 5,000 population. (IC 8-14-1-5)

PENALTIES, INTEREST, AND OTHER CHARGES – JANET WARREN DEBOARD

Penalties, interest and other charges totaling \$3,626.36 were paid to the Internal Revenue Service concerning under reported Social Security and Medicare wages (Form 941's) for reporting periods ending June 30, 2004, September 30, 2004, and December 31, 2004. The amount was paid on September 17, 2008, by Town bank account garnishment.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Since this condition was present in the prior three audit periods and the Town Official was informed of this condition and the responsibilities associated with it, we have requested that Janet Warren DeBoard, former Clerk-Treasurer, repay a total of \$3,626.36 to the Town for reimbursement of penalties, interest, and other charges accumulated during the current audit period. (See Summary, page 45)

TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

DISBURSEMENTS WITHOUT SUFFICIENT APPROPRIATION

Disbursements in the amount of \$15,053.73 were made from the Town's Motor Vehicle Highway Fund for a portion of the Town Works Superintendent salary during the year 2007. The appropriation in the Motor Vehicle Highway Fund for the Town Works Superintendent salary was \$12,763.00 resulting in excess appropriation disbursements of \$2,290.73. The overall Motor Vehicle Highway Fund expenditures were not in excess of appropriations, during the year 2007.

IC 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."

APPROPRIATIONS

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

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
General Fund	2007	\$ 31,811
Motor Vehicle Highway Fund	2008	4,778

IC 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."

OVERDRAWN FUND BALANCES

The Law Enforcement Continuing Education Fund and the Wastewater Utility - Sanitation Fund were overdrawn in 2007 in the amounts of \$783 and \$4,948, respectively.

The Law Enforcement Continuing Education Fund and the Wastewater Utility - Sanitation Fund were overdrawn in 2008 in the amounts of \$612 and \$8,336, respectively.

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

ADVANCE PAYMENTS - TRAVEL EXPENSE - SUBSEQUENT EVENT

On April 17, 2009, the Town of Carthage Town Council approved advancing travel (mileage expense) from the Town of Carthage to the Police Academy in Plainfield for Dan Murphy, the Town Marshal. Check number 5678 was issued from the General Fund in the amount of \$400.00. In July of 2009, a "settle-up" claim was submitted by the Town Marshal detailing miles driven to the Police Academy in Plainfield covering the dates of April 27, 2009 to June 26, 2009. An additional amount owed of \$442.16 was calculated and paid by the General Fund by check number 5815.

TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

Later it was determined that the one-way mileage between the Town of Carthage and the Police Academy in Plainfield reported by the Town Marshal was excessive. On July 24, 2009, the Town of Carthage received a partial refund from the Town Marshal for the excess one-way mileage charges in the amount of \$82.28.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PERSONAL EXPENSES - TOWN MARSHAL – SUBSEQUENT EVENT

The Town of Carthage received a statement from a local auto parts business for \$238.88, in early May of 2009, which included six charge invoices dated from April 15, 2009 through April 24, 2009. Upon review of the invoices attached and inquiry of Dan Murphy, the Town Marshal, it was determined that five of the six invoices were for auto parts that were used for the Town Marshal's personal vehicle. These five invoices were for a power steering pump, brake pads, oil filter and oil at a total of \$218.71. The sixth invoice was for molding tape and a fastener for a Town vehicle for \$20.17. All six invoices were billed to the Town's account in the Town's name, received a discounted "net" price and did not include any sales tax charges.

Upon inquiry of the Town Marshal concerning these five invoices, \$218.71 was paid to the local auto parts business by the Town Marshal. The Clerk-Treasurer was shown a receipt totaling \$218.71. The remaining sixth invoice was paid by the Town on May 8, 2009, by check number 5695 for \$20.17.

On April 18, 2009, the Town Marshal purchased four tires at a nearby alignment and service business (vendor) for a total of \$296.00 in the name of the Town of Carthage/Police Department as reflected on invoice number 239671. The invoice did not reflect any sales tax charged. It indicated the tires were for a 2001 Ford Crown Victoria police car. The Town received a copy of the invoice by mail. Upon inquiry of the Town Marshal, it was determined that the tires were for the Town Marshal's personal vehicle (also a 2001 Ford Crown Victoria).

The Town, subsequently, received a statement from the vendor dated May 31, 2009, reflecting the \$296.00 charge was still unpaid. A \$10.00 penalty (interest) charge was assessed on May 31, 2009, relating to invoice number 239671. The Clerk-Treasurer contacted the vendor concerning the tires purchased. On June 29, 2009, the Town Marshal paid the vendor \$296.00. The \$10.00 penalty was waived. A copy of the paid receipt for \$296.00 was faxed to the Town of Carthage on June 30, 2009.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUMULATIVE CAPITAL IMPROVEMENT FUND TRANSFER

A transfer of \$15,924.38 was made from the Cumulative Capital Improvement Fund to the General Fund during 2008. It could not be determined if the transfer was authorized by the appropriate officials. No documentation of approval was noted in the Town Council minutes.

TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

IC 6-7-1-31.1 (b) states: ". . . Any city or town may at any time, by ordinance or resolution, transfer to its general fund any monies derived under this chapter (6-7-1-1 -- 6-7-1-36), which have been deposited in the city's or town's cumulative capital improvement fund."

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

Gross revenues were not being distributed to the various Utility funds in accordance with Revenue Bond Ordinance 2007-G during 2008.

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)

TEMPORARY TRANSFER OF FUNDS NOT REPAID

A temporary transfer of \$6,804 was made in 2003 from the Water Utility - Operating Fund to the Wastewater Utility - Bond and Interest Fund and not repaid by December 31, 2003. The loan had not been repaid as of December 31, 2008.

A temporary transfer of \$2,141 was made in 2003 from the Utilities Clearing Fund to the Wastewater Utility - Bond and Interest Fund and not repaid by December 31, 2003. The loan had not been repaid as of December 31, 2008.

A temporary transfer of \$5,000 was made in 2003 from the Water Utility - Operating Fund to the Town General Fund and not repaid by December 31, 2003. The loan had not been repaid as of December 31, 2008.

A temporary transfer of \$6,456 was made in 2004 from the Water Utility - Operating Fund to the Wastewater Utility - Bond and Interest Fund and not repaid by December 31, 2004. The loan had not been repaid as of December 31, 2008.

A temporary transfer of \$20,000 was made in 2005 from the Utilities Clearing Fund to the Town General Fund and not repaid by December 31, 2005. The loan had not been repaid as of December 31, 2008.

IC 36-1-8-4 concerning temporary transfer states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

REPAYMENTS AND TRANSFERS - YEAR 2005

The amount of \$621 was paid from the Wastewater Utility - Operating Fund for sales tax due on Water Utility sales. The \$621 was not repaid to the Wastewater Utility - Operating Fund by December 31, 2005. The \$621 had not been repaid as of December 31, 2008.

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS – RECEIPT CLASSIFICATION

The following deficiencies relating to receipt classification were present during our period of audit:

Posting errors for 2007 included receipts not recorded in the proper receipt categories for general property taxes, various other county taxes, state distributions, and fines and fees. The funds affected were the General Fund, the Motor Vehicle Highway Fund, and the Law Enforcement Continuing Education Fund. These posting errors had resulted in net understatements of general property taxes in the amount of (\$11,363), other local sources (\$21,452), charges for services (\$588), and a net overstatement of operating grants of \$33,403.

The 2008 funds affected were the General Fund, the Motor Vehicle Highway Fund, and the Rainy Day Fund. These posting errors had resulted in a net understatement of general property taxes in the amount of (\$137,318), and net overstatements of other local sources \$59,184 and operating grants \$78,134.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS – ANNUAL FINANCIAL REPORT

The following deficiencies relating to the recordkeeping were present during our period of audit:

- (1) The Annual Financial Report (CTAR-1) did not contain receipt or disbursement detail for the Water Utility Bond and Interest Fund and the Water Utility Debt Service Reserve Fund for the 2008 year. These funds were only reported in the CTAR-1 combined statement in total. There were no electronic or manual records maintained for these monies. These funds should have been established on February 21, 2008, in the Utility records. It was necessary to abstract all detailed activity from the respective bank account statements.
- (2) The Annual Financial Report (CTAR-1) did not contain receipt or disbursement detail for the Water Utility Construction Fund for the 2008 year. The fund was only reported in the CTAR-1 combined statement in total. It was necessary to summarize all detailed activity from the Town's electronic ledgers and related grant files.

TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (3) The receipt detail was incomplete or not reported in the 2008 Annual Financial Report (CTAR-1) for the following funds: Law Enforcement Continuing Education Fund, the Indiana Criminal Justice Police Grant Fund, the Rainy Day Fund, the Cemetery Fund, and the Cumulative Capital Improvement Fund. It was necessary to summarize detailed receipt activity from the Town's electronic ledgers.
- (4) The disbursement detail was not reported in the 2008 Annual Financial Report (CTAR-1) for the Indiana Criminal Justice Police Grant Fund. It was necessary to summarize detailed disbursement activity from the Town's electronic ledgers.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS - FUNDS NOT SEPARATELY REPORTED

The following deficiencies relating to the recordkeeping were present during our period of audit:

- (1) The Water Utility Customer Deposit Fund activity was reported in the Water Utility Operating Fund in the Annual Financial Report (CTAR-1) in 2007 and 2008. The manually posted Water Utility ledger was utilized to determine the activity of the Water Utility Customer Deposit Fund for reporting purposes.
- (2) The Wastewater Utility Sanitation Fund activity was reported in the Wastewater Utility Operating Fund in the Annual Financial Report (CTAR-1) in 2007 and 2008. The manually posted Wastewater Utility ledger was utilized to determine the activity of the Wastewater Utility Sanitation Fund for reporting purposes.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS - UNDISTRIBUTED UTILITIES CLEARING FUND BALANCES

Daily Utility collections were deposited into a "utilities clearing checking account" for the Water Utility, the Wastewater Utility, and the Sanitation collections. These monies were not timely transferred to the Water Utility Operating Fund, the Wastewater Utility Operating Fund, and the Wastewater Utility Sanitation Fund. In addition, nonsufficient fund check activity and other miscellaneous activity was accounted for in this clearing account.

The balances of the "utilities clearing checking account" at December 31, 2006, 2007, and 2008, were \$25,236, \$3,742, and \$42,254, respectively. These balances were reported as the "Utilities Clearing Fund" in each Annual Financial Report (CTAR-1). As a result, the fund balances in the Water Utility Operating Fund, the Wastewater Utility Operating Fund, and the Wastewater Utility Sanitation Fund were understated at December 31, 2006, 2007, and 2008, by their respective portions in the total clearing account balance.

IC 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

CONDITION OF RECORDS - PAYROLL FUND NOT IN USE

All payroll activity was initially paid from the General Fund, including payroll relating to the Water and Wastewater Utilities and the Motor Vehicle Highway Fund in 2007 and 2008. The Water and Wastewater Utilities reimbursed the General Fund for their respective payroll expenditures monthly. The Motor Vehicle Highway Fund reimbursed the General Fund for its payroll expenditures at year end. The payroll expenditures were posted to General Fund miscellaneous appropriation 1394 when made and the reimbursement was posted to General Fund miscellaneous revenue account 1990.

The Water and Wastewater Utilities and the Motor Vehicle Highway payroll expenditures and reimbursements were \$106,608 and \$159,236 for the 2007 and 2008 year, respectively. These payroll expenditures and their related reimbursements resulted in an overstatement of receipt and disbursement activity for the General Fund in the amount of \$106,608 in 2007 and \$159,236 in 2008, as reported in the Annual Financial Reports (CTAR-1).

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS OVER SEGREGATION OF DUTIES

One important aspect of internal control is the segregation of duties among employees to prevent employees from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Due to the size of the Town of Carthage, there is very little segregation of duties within the accounting, billing, and collection functions. All duties are performed by two individuals, the Clerk-Treasurer and Deputy Clerk-Treasurer.

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)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties were not always recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

IC 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

(A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;

(B) A description of the premises, as shown by the records of the county auditor; and

(C) The amount of the delinquent fees, together with the penalty; or

(2) An individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

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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 CARTHAGE, RUSH COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Carthage (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, 2007 and 2008. 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, 2007 and 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item Finding 2008-2.

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.

The Town's response to the finding 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, the 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

September 30, 2009

TOWN OF CARTHAGE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended December 31, 2007 and 2008

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-07	Total Federal Awards Expended 12-31-08
<u>U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760			
Water System Improvement Project Loan			\$ 111,499	\$ 1,494,501
Water System Improvement Project Sub Loan			-	163,000
Water System Improvement Project Grant			-	478,200
Water System Improvement Project Sub Grant			-	252,587
Total for federal grantor agency			<u>111,499</u>	<u>2,388,288</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Lt. Governor Office of Community and Rural Affairs				
Community Development Block Grant	14.228			
Water System Improvement Project		CF-07-103	<u>10,000</u>	<u>490,000</u>
Total for federal grantor agency			<u>10,000</u>	<u>490,000</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Indiana Criminal Justice Institute				
Operation Pullover	20.602	OP-08-01-01-87	313	1,087
Click It or Ticket Incentive Grant		INEQ-07-01-01-02	<u>2,500</u>	<u>-</u>
Total for federal grantor agency			<u>2,813</u>	<u>1,087</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-Through Indiana Department of Homeland Security				
Disaster Grants - Public Assistance	97.036	1766	-	6,383
Total for federal grantor agency			<u>-</u>	<u>6,383</u>
Total federal awards expended			<u>\$ 124,312</u>	<u>\$ 2,885,758</u>

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

TOWN OF CARTHAGE  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Carthage (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.

TOWN OF CARTHAGE  
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?	yes

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? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities
14.228	Community Development Block Grant

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

FINDING 2008-1, INTERNAL CONTROLS OVER SEGREGATION OF DUTIES-SIGNIFICANT DEFICIENCY

One important aspect of internal control is the segregation of duties among employees to prevent employees from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Due to the size of the Town of Carthage, there is very little segregation of duties within the accounting, billing, and collection functions. All duties are performed by two individuals, the Clerk-Treasurer and Deputy Clerk-Treasurer.

The accounting, billing, and collection functions should be performed by multiple individuals to assure a proper segregation of duties.

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

The Town of Carthage is unable to assure that its assets are properly safeguarded.

We realize segregation of duties is difficult with a limited number of employees. However, the Town should review its control procedures to obtain the maximum internal control possible under the circumstances.

Section III – Federal Award Findings and Questioned Costs

FINDING 2008-2, INTERNAL CONTROL CONTROL DEFICIENCY/  
EQUIPMENT AND REAL PROPERTY MANAGEMENT

CFDA No.: 10.760

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA No.: 14.228

Federal Program: Community Development Block Grant

The Town of Carthage does not maintain records of capital assets, nor do the Utilities maintain records of their Utility Plant in Service accounts. The Town of Carthage does not maintain records that identify equipment and other property acquired with Federal monies. No system exists to provide separated identification for items acquired with Federal and non-Federal funds. Without adequate accounting records, periodic physical inventories cannot be compared to property records.

Item Number three, on page four of the Water or Waste System Grant Agreement, United States Department of Agriculture Rural Utilities Service Bulletin 1780-12 states: "(a) Records which accurately provide for a description of the equipment, manufacturer's serial number or other identification number; acquisition date and cost; source of the equipment, percentage (at the end of budget year) of Federal participation in the cost of the project for which the equipment was acquired; location, use and condition of the equipment and the date the information was reported; and ultimate disposition data including sales price or the method used to determine current fair market value if the Grantee reimburses the Grantor for its share. (b) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years to verify the existence, current utilization, and continued need for the equipment."

Pursuant to 24 CFR 84.34 (f)(1) through (3):

"(f) The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following.

- (1) Equipment records shall be maintained accurately and shall include the following information.
  - (i) A description of the equipment.
  - (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.
  - (iii) Source of the equipment, including the award number.
  - (iv) Whether title vests in the recipient or the Federal Government.

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

- (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.
  - (vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).
  - (vii) Location and condition of the equipment and the date the information was reported.
  - (viii) Unit acquisition cost.
  - (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates HUD for its share.
- (2) Equipment owned by the Federal Government shall be identified to indicate Federal ownership.
- (3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment."

Failure to maintain detailed and accurate equipment and property records and to reconcile physical inventory could result in assets being lost, stolen, misappropriated, or disposed of improperly and not detected within a reasonable time.

We recommended that the Town of Carthage design and properly monitor procedures that would ensure accurate detailed capital asset records are maintained and that inventories of property and equipment are conducted at least once every two years and reconciled to the detailed capital asset ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also any assets acquired with Federal Funds must be designated as such so the assets are not disposed of improperly.

TOWN OF CARTHAGE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

**TOWN OF CARTHAGE  
6 WEST FIRST STREET  
P. O. BOX 26  
CARTHAGE, IN 46115**

Finding 2008-1, Internal Controls Over Segregation of Duties-Significant Deficiency

**CORRECTIVE ACTION PLAN**

The Town Of Carthage will review its control procedures to obtain required maximum internal control.

*Linda Q. McMahon 9/30/09*

**TOWN OF CARTHAGE  
6 WEST FIRST STREET  
P. O. BOX 26  
CARTHAGE, IN 46115**

Finding 2008-2, Internal Control Deficiency/Equipment and Real Property Management.

Federal Agencies: U.S. Department of Agriculture Rural Development  
U.S. Department of Housing and Urban Development

Federal Programs: Water and Waste Disposal Systems for Rural Communities  
Community Development Block Grant

CFDA numbers: 10.760  
14.228

Federal award number CF-07-103

Pass-through entity: Lt. Governor Office of Community and Rural Affairs

**CORRECTIVE ACTION PLAN**

The Town Of Carthage has recently installed a capital asset and utility plant in service account software program from Keystone and received training on its use. It is anticipated the Town Of Carthage will accumulate the needed information to generate these records in the near future and will maintain these records in future years.

*Linda A. McMahon 9/30/09*

TOWN OF CARTHAGE  
EXIT CONFERENCE

The contents of this report were discussed on September 30, 2009, with Wanda Henderson, Vice President of the Town Council; Jack Taylor, Town Council member; and Linda McMahan, Clerk-Treasurer. The officials concurred with our audit findings.

The contents of this report were discussed on September 30, 2009, with Rick Bush, President of the Town Council; Doris Wyatt, Town Council member; and Linda McMahan, Clerk-Treasurer.

A copy of an audit result and comment entitled, "Penalties, Interest, and Other Charges - Janet Warren DeBoard" was mailed to Janet Warren DeBoard along with an exit conference form. As of September 30, 2009, there has been no response received.

TOWN OF CARTHAGE  
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Janet Warren DeBoard, former Clerk-Treasurer:			
Penalties, Interest, and Other Charges, page 26	<u>\$ 3,626.36</u>	<u>\$ -</u>	<u>\$ 3,626.36</u>

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AFFIDAVIT

STATE OF INDIANA )  
HENRY COUNTY )

I, Brenda K. Helms, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Town of Carthage, Rush County, Indiana, for the period from January 1, 2007 to December 31, 2008, is true and correct to the best of my knowledge and belief.

Brenda K. Helms  
Field Examiner

Subscribed and sworn to before me this 24 day of NOVEMBER, 2009.

Julia Miller  
(Notary Public)

My Commission Expires: 09/14/2012

County of Residence: HENRY