

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

AUDIT REPORT

OF

TOWN OF MONTEZUMA

PARKE COUNTY, INDIANA

January 1, 2009 to December 31, 2010



FILED
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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cathy L. Morgan	01-01-08 to 12-31-11
President of the Town Council	Allen Cobb	01-01-09 to 12-31-11
Superintendent of Utilities	Robert Allen	01-01-09 to 12-31-11



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 MONTEZUMA, PARKE COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Montezuma (Town), for the years ended December 31, 2009 and 2010. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over reporting. Accordingly, we express no such opinion. 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 1, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

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

In accordance with Government Auditing Standards, we have also issued a report dated August 1, 2011, 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 integral part of 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 an opinion on the Town's 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statements. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 1, 2011



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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 MONTEZUMA, PARKE COUNTY, INDIANA

We have audited the financial statements of the Town of Montezuma (Town), for the years ended December 31, 2009 and 2010, and have issued our report thereon dated August 1, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 to be material weaknesses.

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

Compliance and Other Matters

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

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

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 1, 2011

FINANCIAL STATEMENT(S)

TOWN OF MONTEZUMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2009 and 2010

	Cash and Investments			Cash and Investments			Cash and Investments
	01-01-09	Receipts	Disbursements	12-31-09	Receipts	Disbursements	12-31-10
General	\$ 127,102	\$ 180,420	\$ 151,723	\$ 155,799	\$ 207,851	\$ 157,018	\$ 206,632
MVH	122,977	39,053	10,365	151,665	37,537	12,864	176,338
Local Road And Street	21,508	4,168	-	25,676	4,262	-	29,938
Parks	3,231	9,401	6,271	6,361	6,405	6,510	6,256
Cemetery	7,720	10,645	12,433	5,932	14,761	11,962	8,731
Restricted Donations	1,325	1,200	1,000	1,525	1,200	1,000	1,725
Law Enforcement Continuing Education	2,627	575	-	3,202	370	239	3,333
Rainy Day Fund	2,200	2,270	-	4,470	3,011	-	7,481
Cemetery Perpetual Care	50,160	1,220	1,000	50,380	1,712	1,000	51,092
Excess Levy Fund	-	7,038	-	7,038	298	-	7,336
Fire Department Fund#1	12,857	18,098	14,840	16,115	17,781	18,552	15,344
OCRA Grant Fire Dept. Tanker	-	-	-	-	150,000	150,000	-
OCRA Grant Sewer Transfer	-	-	-	-	33,000	33,000	-
Park Plan Grant	-	-	-	-	20,000	20,000	-
Park Donation Fund	-	-	-	-	3,537	-	3,537
Public Safety	14,592	14,116	4,664	24,044	14,157	16,702	21,499
Cumulative Capital Development	62,838	3,597	258	66,177	3,558	7,375	62,360
Community Center Cumulative Improvement	504	576	-	1,080	570	-	1,650
Cumulative Capital Improvement	10,545	3,616	-	14,161	3,452	-	17,613
Cops Hiring Recovery Program Grant	-	1,925	5,134	(3,209)	34,052	34,116	(3,273)
Payroll	1,967	322,937	322,966	1,938	346,567	346,468	2,037
Electric Operating	1,637,553	1,234,104	1,162,934	1,708,723	1,291,917	1,098,082	1,902,558
Electric Depreciation	333,765	36,255	-	370,020	35,950	25,000	380,970
Electric Customer Deposit Fund	27,227	13,916	13,203	27,940	10,949	10,444	28,445
Electric Reserve	1,765	1,000	2,265	500	26,000	25,700	800
Gas Operating	382,177	424,396	484,759	321,814	433,732	428,964	326,582
Gas Depreciation	136,883	4,376	-	141,259	8,554	-	149,813
Gas Customer Deposit Fund	23,495	5,040	4,230	24,305	3,600	3,965	23,940
Gas Reserve	1,264	300	1,264	300	700	300	700
Sewage Works Construction	-	-	-	-	654,830	452,370	202,460
Sewer Operating	-	-	-	-	9,932	-	9,932
Sewer Construction Fund	-	50,000	18,970	31,030	-	31,030	-
Water Operating	125,602	188,432	192,265	121,769	181,342	184,256	118,855
Water Depreciation	31,360	2,620	-	33,980	6,045	-	40,025
Water Customer Deposit Fund	17,178	4,921	3,739	18,360	4,210	4,180	18,390
Water Reserve	1,528	500	1,728	300	600	300	600
	<u>\$ 3,161,950</u>	<u>\$ 2,586,715</u>	<u>\$ 2,416,011</u>	<u>\$ 3,332,654</u>	<u>\$ 3,572,442</u>	<u>\$ 3,081,397</u>	<u>\$ 3,823,699</u>

The notes to the financial statement(s) are an integral part of this statement.

TOWN OF MONTEZUMA, PARKE COUNTY
NOTES TO FINANCIAL STATEMENT(S)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement(s) present(s) the financial information for the Town (primary government), and does not include financial information for any of the Town's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the Town (primary government).

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

TOWN OF MONTEZUMA, PARKE COUNTY
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

TOWN OF MONTEZUMA, PARKE COUNTY
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

TOWN OF MONTEZUMA, PARKE COUNTY
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Note 4. *Deposits and Investments*

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. *Risk Management*

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the Town by recording as a disbursement and replacement items purchased.

SUPPLEMENTARY INFORMATION – UNAUDITED

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

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

	General	MVH	Local Road And Street	Parks	Cemetery	Restricted Donations	Law Enforcement Continuing Education
Cash and investments - beginning	\$ 127,102	\$ 122,977	\$ 21,508	\$ 3,231	\$ 7,720	\$ 1,325	\$ 2,627
Receipts:							
Taxes	66,348	-	-	7,782	3,891	-	-
Licenses and permits	195	-	-	-	-	-	575
Intergovernmental	74,196	33,678	4,168	1,582	792	-	-
Charges for services	5,389	-	-	-	4,283	-	-
Fines and forfeits	1,293	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	32,999	5,375	-	37	1,679	1,200	-
Total receipts	<u>180,420</u>	<u>39,053</u>	<u>4,168</u>	<u>9,401</u>	<u>10,645</u>	<u>1,200</u>	<u>575</u>
Disbursements:							
Personal services	65,090	2,516	-	-	979	-	-
Supplies	8,434	6,657	-	83	784	-	-
Other services and charges	43,960	165	-	5,829	10,403	1,000	-
Capital outlay	30,009	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	4,230	1,027	-	359	267	-	-
Total disbursements	<u>151,723</u>	<u>10,365</u>	<u>-</u>	<u>6,271</u>	<u>12,433</u>	<u>1,000</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>28,697</u>	<u>28,688</u>	<u>4,168</u>	<u>3,130</u>	<u>(1,788)</u>	<u>200</u>	<u>575</u>
Cash and investments - ending	<u>\$ 155,799</u>	<u>\$ 151,665</u>	<u>\$ 25,676</u>	<u>\$ 6,361</u>	<u>\$ 5,932</u>	<u>\$ 1,525</u>	<u>\$ 3,202</u>

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

	Rainy Day Fund	Cemetery Perpetual Care	Excess Levy Fund	Fire Department Fund#1	Public Safety	Cumulative Capital Development
Cash and investments - beginning	\$ 2,200	\$ 50,160	\$ -	\$ 12,857	\$ 14,592	\$ 62,838
Receipts:						
Taxes	-	-	-	14,595	-	2,636
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	3,503	14,116	536
Charges for services	-	750	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	2,270	470	7,038	-	-	425
Total receipts	<u>2,270</u>	<u>1,220</u>	<u>7,038</u>	<u>18,098</u>	<u>14,116</u>	<u>3,597</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	2,512	-	-
Other services and charges	-	1,000	-	11,331	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	997	4,664	258
Total disbursements	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>14,840</u>	<u>4,664</u>	<u>258</u>
Excess (deficiency) of receipts over disbursements	<u>2,270</u>	<u>220</u>	<u>7,038</u>	<u>3,258</u>	<u>9,452</u>	<u>3,339</u>
Cash and investments - ending	<u>\$ 4,470</u>	<u>\$ 50,380</u>	<u>\$ 7,038</u>	<u>\$ 16,115</u>	<u>\$ 24,044</u>	<u>\$ 66,177</u>

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

	Community Center Cumulative Improvement	Cumulative Capital Improvement	Cops Hiring Recovery Program Grant	Payroll	Electric Operating	Electric Depreciation
Cash and investments - beginning	\$ 504	\$ 10,545	\$ -	\$ 1,967	\$ 1,637,553	\$ 333,765
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	3,616	-	-	7	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	1,164,760	-
Penalties	-	-	-	-	6,176	-
Other receipts	576	-	1,925	322,937	63,161	36,255
Total receipts	<u>576</u>	<u>3,616</u>	<u>1,925</u>	<u>322,937</u>	<u>1,234,104</u>	<u>36,255</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	5,134	-	-	-
Capital outlay	-	-	-	-	15,000	-
Utility operating expenses	-	-	-	-	960,528	-
Other disbursements	-	-	-	322,966	187,406	-
Total disbursements	<u>-</u>	<u>-</u>	<u>5,134</u>	<u>322,966</u>	<u>1,162,934</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>576</u>	<u>3,616</u>	<u>(3,209)</u>	<u>(29)</u>	<u>71,170</u>	<u>36,255</u>
Cash and investments - ending	<u>\$ 1,080</u>	<u>\$ 14,161</u>	<u>\$ (3,209)</u>	<u>\$ 1,938</u>	<u>\$ 1,708,723</u>	<u>\$ 370,020</u>

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

	Electric Customer Deposit Fund	Electric Reserve	Gas Operating	Gas Depreciation	Gas Customer Deposit Fund	Gas Reserve
Cash and investments - beginning	\$ 27,227	\$ 1,765	\$ 382,177	\$ 136,883	\$ 23,495	\$ 1,264
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	7	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	383,582	-	-	-
Penalties	-	-	3,019	-	-	-
Other receipts	13,916	1,000	37,788	4,376	5,040	300
Total receipts	<u>13,916</u>	<u>1,000</u>	<u>424,396</u>	<u>4,376</u>	<u>5,040</u>	<u>300</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	5,925	-	-	-
Utility operating expenses	5,565	-	409,447	-	4,190	-
Other disbursements	7,638	2,265	69,387	-	40	1,264
Total disbursements	<u>13,203</u>	<u>2,265</u>	<u>484,759</u>	<u>-</u>	<u>4,230</u>	<u>1,264</u>
Excess (deficiency) of receipts over disbursements	<u>713</u>	<u>(1,265)</u>	<u>(60,363)</u>	<u>4,376</u>	<u>810</u>	<u>(964)</u>
Cash and investments - ending	<u>\$ 27,940</u>	<u>\$ 500</u>	<u>\$ 321,814</u>	<u>\$ 141,259</u>	<u>\$ 24,305</u>	<u>\$ 300</u>

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

	Sewer Construction Fund	Water Operating	Water Depreciation	Water Customer Deposit Fund	Water Reserve	Totals
Cash and investments - beginning	\$ -	\$ 125,602	\$ 31,360	\$ 17,178	\$ 1,528	\$ 3,161,950
Receipts:						
Taxes	-	-	-	-	-	95,252
Licenses and permits	-	-	-	-	-	770
Intergovernmental	-	-	-	-	-	136,201
Charges for services	-	-	-	-	-	10,422
Fines and forfeits	-	-	-	-	-	1,293
Utility fees	-	165,701	-	-	-	1,714,043
Penalties	-	-	-	-	-	9,195
Other receipts	50,000	22,731	2,620	4,921	500	619,539
Total receipts	<u>50,000</u>	<u>188,432</u>	<u>2,620</u>	<u>4,921</u>	<u>500</u>	<u>2,586,715</u>
Disbursements:						
Personal services	-	-	-	-	-	68,585
Supplies	-	-	-	-	-	18,470
Other services and charges	-	-	-	-	-	78,822
Capital outlay	-	14,409	-	-	-	65,343
Utility operating expenses	-	132,693	-	3,563	-	1,515,986
Other disbursements	18,970	45,163	-	176	1,728	668,805
Total disbursements	<u>18,970</u>	<u>192,265</u>	<u>-</u>	<u>3,739</u>	<u>1,728</u>	<u>2,416,011</u>
Excess (deficiency) of receipts over disbursements	<u>31,030</u>	<u>(3,833)</u>	<u>2,620</u>	<u>1,182</u>	<u>(1,228)</u>	<u>170,704</u>
Cash and investments - ending	<u>\$ 31,030</u>	<u>\$ 121,769</u>	<u>\$ 33,980</u>	<u>\$ 18,360</u>	<u>\$ 300</u>	<u>\$ 3,332,654</u>

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

	General	MVH	Local Road And Street	Parks	Cemetery	Restricted Donations	Law Enforcement Continuing Education
Cash and investments - beginning	\$ 155,799	\$ 151,665	\$ 25,676	\$ 6,361	\$ 5,932	\$ 1,525	\$ 3,202
Receipts:							
Taxes	73,560	-	-	5,254	3,709	-	-
Licenses and permits	200	-	-	-	-	-	370
Intergovernmental	80,098	32,494	4,262	831	611	-	-
Charges for services	6,936	-	-	-	8,260	-	-
Fines and forfeits	1,257	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	45,800	5,043	-	320	2,181	1,200	-
Total receipts	<u>207,851</u>	<u>37,537</u>	<u>4,262</u>	<u>6,405</u>	<u>14,761</u>	<u>1,200</u>	<u>370</u>
Disbursements:							
Personal services	61,050	2,564	-	-	999	-	-
Supplies	6,508	5,812	-	66	811	-	239
Other services and charges	67,812	4,488	-	6,444	10,152	1,000	-
Capital outlay	20,182	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,466	-	-	-	-	-	-
Total disbursements	<u>157,018</u>	<u>12,864</u>	<u>-</u>	<u>6,510</u>	<u>11,962</u>	<u>1,000</u>	<u>239</u>
Excess (deficiency) of receipts over disbursements	<u>50,833</u>	<u>24,673</u>	<u>4,262</u>	<u>(105)</u>	<u>2,799</u>	<u>200</u>	<u>131</u>
Cash and investments - ending	<u>\$ 206,632</u>	<u>\$ 176,338</u>	<u>\$ 29,938</u>	<u>\$ 6,256</u>	<u>\$ 8,731</u>	<u>\$ 1,725</u>	<u>\$ 3,333</u>

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

	Rainy Day Fund	Cemetery Perpetual Care	Excess Levy Fund	Fire Department Fund#1	OCRA Grant Fire Dept. Tanker	OCRA Grant Sewer Transfer
Cash and investments - beginning	\$ 4,470	\$ 50,380	\$ 7,038	\$ 16,115	\$ -	\$ -
Receipts:						
Taxes	-	-	-	14,836	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	2,446	150,000	33,000
Charges for services	-	1,450	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	3,011	262	298	499	-	-
Total receipts	<u>3,011</u>	<u>1,712</u>	<u>298</u>	<u>17,781</u>	<u>150,000</u>	<u>33,000</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	3,389	-	-
Other services and charges	-	1,000	-	15,163	-	-
Capital outlay	-	-	-	-	150,000	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	33,000
Total disbursements	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>18,552</u>	<u>150,000</u>	<u>33,000</u>
Excess (deficiency) of receipts over disbursements	<u>3,011</u>	<u>712</u>	<u>298</u>	<u>(771)</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 7,481</u>	<u>\$ 51,092</u>	<u>\$ 7,336</u>	<u>\$ 15,344</u>	<u>\$ -</u>	<u>\$ -</u>

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

	Park Plan Grant	Park Donation Fund	Public Safety	Cumulative Capital Development	Community Center Cumulative Capital Improvement	Cumulative Capital Improvement
Cash and investments - beginning	\$ -	\$ -	\$ 24,044	\$ 66,177	\$ 1,080	\$ 14,161
Receipts:						
Taxes	-	-	-	2,856	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	20,000	-	14,157	471	-	3,452
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	3,537	-	231	570	-
Total receipts	<u>20,000</u>	<u>3,537</u>	<u>14,157</u>	<u>3,558</u>	<u>570</u>	<u>3,452</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	20,000	-	16,702	7,375	-	-
Total disbursements	<u>20,000</u>	<u>-</u>	<u>16,702</u>	<u>7,375</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	-	3,537	(2,545)	(3,817)	570	3,452
Cash and investments - ending	<u>\$ -</u>	<u>\$ 3,537</u>	<u>\$ 21,499</u>	<u>\$ 62,360</u>	<u>\$ 1,650</u>	<u>\$ 17,613</u>

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

	Cops Hiring Recovery Program Grant	Payroll	Electric Operating	Electric Depreciation	Electric Customer Deposit Fund	Electric Reserve
Cash and investments - beginning	\$ (3,209)	\$ 1,938	\$ 1,708,723	\$ 370,020	\$ 27,940	\$ 500
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	785	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	1,178,409	-	-	-
Penalties	-	-	5,960	-	-	-
Other receipts	34,052	346,567	106,763	35,950	10,949	26,000
Total receipts	<u>34,052</u>	<u>346,567</u>	<u>1,291,917</u>	<u>35,950</u>	<u>10,949</u>	<u>26,000</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	34,116	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	964,992	-	5,600	-
Other disbursements	-	346,468	133,090	25,000	4,844	25,700
Total disbursements	<u>34,116</u>	<u>346,468</u>	<u>1,098,082</u>	<u>25,000</u>	<u>10,444</u>	<u>25,700</u>
Excess (deficiency) of receipts over disbursements	<u>(64)</u>	<u>99</u>	<u>193,835</u>	<u>10,950</u>	<u>505</u>	<u>300</u>
Cash and investments - ending	<u>\$ (3,273)</u>	<u>\$ 2,037</u>	<u>\$ 1,902,558</u>	<u>\$ 380,970</u>	<u>\$ 28,445</u>	<u>\$ 800</u>

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

	Gas Operating	Gas Depreciation	Gas Customer Deposit Fund	Gas Reserve	Sewage Works Construction	Sewer Construction Fund
Cash and investments - beginning	\$ 321,814	\$ 141,259	\$ 24,305	\$ 300	\$ -	\$ 31,030
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	326	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	404,508	-	-	-	-	-
Penalties	3,230	-	-	-	-	-
Other receipts	25,668	8,554	3,600	700	654,830	-
Total receipts	<u>433,732</u>	<u>8,554</u>	<u>3,600</u>	<u>700</u>	<u>654,830</u>	<u>-</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	90,063	-
Utility operating expenses	372,003	-	3,965	-	362,307	-
Other disbursements	56,961	-	-	300	-	31,030
Total disbursements	<u>428,964</u>	<u>-</u>	<u>3,965</u>	<u>300</u>	<u>452,370</u>	<u>31,030</u>
Excess (deficiency) of receipts over disbursements	<u>4,768</u>	<u>8,554</u>	<u>(365)</u>	<u>400</u>	<u>202,460</u>	<u>(31,030)</u>
Cash and investments - ending	<u>\$ 326,582</u>	<u>\$ 149,813</u>	<u>\$ 23,940</u>	<u>\$ 700</u>	<u>\$ 202,460</u>	<u>\$ -</u>

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

	Sewer Operating	Water Operating	Water Depreciation	Water Customer Deposit Fund	Water Reserve	Totals
Cash and investments - beginning	\$ -	\$ 121,769	\$ 33,980	\$ 18,360	\$ 300	\$ 3,332,654
Receipts:						
Taxes	-	-	-	-	-	100,215
Licenses and permits	-	-	-	-	-	570
Intergovernmental	-	-	-	-	-	342,933
Charges for services	-	-	-	-	-	16,646
Fines and forfeits	-	-	-	-	-	1,257
Utility fees	-	160,131	-	-	-	1,743,048
Penalties	-	-	-	-	-	9,190
Other receipts	9,932	21,211	6,045	4,210	600	1,358,583
Total receipts	<u>9,932</u>	<u>181,342</u>	<u>6,045</u>	<u>4,210</u>	<u>600</u>	<u>3,572,442</u>
Disbursements:						
Personal services	-	-	-	-	-	64,613
Supplies	-	-	-	-	-	16,825
Other services and charges	-	-	-	-	-	140,175
Capital outlay	-	-	-	-	-	260,245
Utility operating expenses	-	143,597	-	4,180	-	1,856,644
Other disbursements	-	40,659	-	-	300	742,895
Total disbursements	<u>-</u>	<u>184,256</u>	<u>-</u>	<u>4,180</u>	<u>300</u>	<u>3,081,397</u>
Excess (deficiency) of receipts over disbursements	<u>9,932</u>	<u>(2,914)</u>	<u>6,045</u>	<u>30</u>	<u>300</u>	<u>491,045</u>
Cash and investments - ending	<u>\$ 9,932</u>	<u>\$ 118,855</u>	<u>\$ 40,025</u>	<u>\$ 18,390</u>	<u>\$ 600</u>	<u>\$ 3,823,699</u>

TOWN OF MONTEZUMA
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
For The Year Ended December 31, 2010

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 103,690
Infrastructure	59,345
Buildings	1,035,430
Improvements other than buildings	120,735
Machinery and equipment	132,236
Construction in progress	-
Vehicles	421,592
Total governmental activities, capital assets not being depreciated	<u>\$ 1,873,028</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ -
Construction in progress	-
Buildings	206,592
Improvements other than buildings	98,831
Machinery and equipment	18,925
Vehicles	45,793
Total Water Utility capital assets	<u>370,141</u>
Gas Utility:	
Capital assets, not being depreciated:	
Land	-
Construction in progress	-
Buildings	45,000
Improvements other than buildings	506,781
Machinery and equipment	41,354
Vehicles	60,143
Total Gas Utility capital assets	<u>653,278</u>
Electric Utility:	
Capital assets, not being depreciated:	
Land	-
Construction in progress	-
Buildings	54,050
Improvements other than buildings	72,813
Machinery and equipment	45,748
Vehicles	434,618
Total Electric Utility capital assets	<u>607,229</u>
Total business-type activities capital assets	<u>\$ 1,630,648</u>

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

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
Postage Meter	\$ 721	\$ 444
Notes and loans payable	<u>13,502</u>	<u>9,327</u>
Total governmental activities debt	<u>\$ 12,309</u>	<u>\$ 9,327</u>
Business-type activities:		
Wastewater Utility:		
Revenue bonds:		
Sewage Treatment Plant & Distribution System	<u>-</u>	<u>125,685</u>
Total Wastewater Utility	<u>-</u>	<u>125,685</u>
Total business-type activities debt	<u>\$ -</u>	<u>\$ 125,685</u>

TOWN OF MONTEZUMA
AUDIT RESULT(S) AND COMMENT(S)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

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.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ORDINANCES AND RESOLUTIONS

The Town has Ordinance 03-05 concerning Security Lights. However, the Town did not comply with the correct charges for billing the customers for security lights. Officials have stated that the ordinance was not written in accordance with the intention of the Council and has since been replaced with a new ordinance.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MONTEZUMA
AUDIT RESULT(S) AND COMMENT(S)

RECORDS OF HOURS WORKED

Cathy Morgan, Clerk Treasurer, held more than one position. A record of hours worked for the housekeeping position was not presented for audit.

Indiana Code 5-11-9-4(b) states in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

PENALTIES, INTEREST, AND OTHER CHARGES

The Pitney Bowes Purchase Power statements included late fees and finance charges which were paid by the unit.

<u>Month</u>	<u>Late Fee</u>	<u>Finance Charge</u>
January 2009	\$ 20.00	\$ 6.25
March 2009	20.00	7.97
May 2009	39.00	8.63
January 2010	39.00	8.33
September 2010	<u>20.00</u>	<u>9.05</u>
Totals	<u>\$ 138.00</u>	<u>\$ 40.23</u>

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)

BOARD MINUTES

The following deficiencies were noted in the Park Board minutes:

There was notation in the minutes of approval of previous minutes, but minutes were not signed by the secretary and the president. There was no record of motions, seconds or votes taken on subjects discussed. There was no evidence of approval of claims. A similar comment was included in the prior audit report.

TOWN OF MONTEZUMA
AUDIT RESULT(S) AND COMMENT(S)
(Continued)

Indiana Code 5-14-1.5-4 states in part:

"(b) As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2."

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping of the Park Department that were cited in the prior audit report, were again present during our period of audit:

- (1) The following prescribed forms were not in use: Ledger of Receipts, Disbursements and Balances; Receipt; and Accounts Payable Voucher.

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)

- (2) An alternative ledger was kept. Transactions were not always posted sequentially by date or check number. Transactions were included in the ledger in the month they cleared the bank rather than the month in which the transaction occurred. Some transactions were posted with the bank clearing date rather than the transaction date. Receipts and disbursements were not footed.

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)

- (3) Bank reconcilements were not presented for audit for 2009 and 2010.

Indiana Code 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."

- (4) Claims were not prepared for disbursements. There was not adequate supporting documentation for some disbursements.

Indiana Code 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.

TOWN OF MONTEZUMA
AUDIT RESULT(S) AND COMMENT(S)
(Continued)

- (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."
- (5) Disbursements were made by the Park Board Secretary without evidence of approval of the Park Board. Traditionally, the only disbursement from this bank account should be to the Clerk-Treasurer who would deposit it into the proper fund, such as Park Donations or Park and Recreation.

Indiana Code 36-5-6-6 states in part: "(a) The Clerk-Treasurer shall do the following: Receive and care for all town money . . ."

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
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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 MONTEZUMA, PARKE COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Montezuma (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, 2009 and 2010. 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, 2009 and 2010.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 1, 2011

TOWN OF MONTEZUMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2009 and 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-09	Total Federal Awards Expended 12-31-10
<u>U.S. DEPARTMENT OF AGRICULTURE - RURAL DEVELOPMENT</u>				
Direct Grant				
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	IN-705-92-01	\$ -	\$ 621,829
Total for program			-	621,829
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs Community Development Block Grant Cluster				
Community Development Block Grant\State's Program	14.228			
		PL-05-080	-	20,000
		DR1A-09-036	-	3,405
		DR2-09-070	-	33,000
		DR2-09-041	-	150,000
Total for program			-	206,405
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Direct Grant				
Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0351	1,925	34,052
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Parke County Highway Safety Cluster				
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	OP-10-02-02-12	-	1,125
Total federal awards expended			\$ 1,925	\$ 863,411

The accompanying note(s) are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF MONTEZUMA
NOTE(S) TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Montezuma (Town) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

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 MONTEZUMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement(s):

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	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
10.781	ARRA – Water and Waste Disposal Systems for Rural Communities

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 2010-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.

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

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

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.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that the Town redistribute assigned duties to provide for better segregation of duties. The Town should analyze and assess the risk of material misstatement of the financial statements and implement controls sufficient to prevent and detect misstatements. The Town Council should examine each claim for propriety and closely monitor financial reports and budgets.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF MONTEZUMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

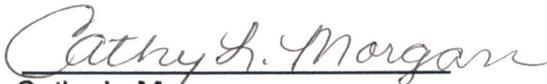
**FEDERAL FINDING 2010-1, INTERNAL CONTROLS OVER FINANCIAL
TRANSACTIONS AND REPORTING**

TOWN OF MONTEZUMA CORRECTIVE ACTION PLAN

CONTACT PERSON: CATHY L. MORGAN

THE FOLLOWING STEP WILL BE IMPLEMENTED IMMEDIATELY IN ORDER TO ESTABLISH EFFECTIVE CONTROLS TO PREVENT OR DETECT MATERIAL MISSTATEMENTS OR IRREGULARITIES TO GO UNDETECTED:

1. BANK STATEMENTS RECEIVED IN MAIL WILL BE OPENED AND RECORDED BY PERSONNEL NOT RESPONSIBLE FOR DOING THE BANK RECONCILIATIONS. BALANCES WILL BE RECORDED BEFORE BANK STATEMENT ISSUED TO PARTY RESPONSIBLE FOR THE RECONCILIATION. A SPREADSHEET HAS BEEN DEVELOPED FOR ACCOUNTABILITY. BANK STATEMENT BALANCE RECEIVED IN MAIL WILL BE VERIFIED VIA INTERNET BANK STATEMENT BALANCE.



Cathy L. Morgan
Clerk Treasurer/Office Manager

6-28-2011

Date

TOWN OF MONTEZUMA
EXIT CONFERENCE

The contents of this report were discussed on August 1, 2011, with Allen Cobb, President of the Town Council; Paul K. Bartlow, President of the Park Board; and Penny Cox, Secretary of the Park Board. The officials concurred with our audit findings.

The contents of this report were discussed on August 1, 2011, with Cathy L. Morgan, Clerk-Treasurer.