

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

FALL CREEK TOWNSHIP

HENRY COUNTY, INDIANA

January 1, 2010 to December 31, 2010



FILED

01/11/2012

TABLE OF CONTENTS

| <u>Description</u> | <u>Page</u> |
|---|-------------|
| Officials | 2 |
| Independent Accountant's Report..... | 3 |
| Financial Statement: | |
| Statement of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis | 6 |
| Notes to Financial Statement..... | 7-10 |
| Supplementary Information: | |
| Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis | 12 |
| Examination Results and Comments: | |
| Overdrawn Fund Balance..... | 13 |
| Old Outstanding Checks (Warrants)..... | 13 |
| Payroll Deductions..... | 13-14 |
| Optical Images of Checks..... | 14 |
| Disbursement Documentation | 14-15 |
| Contracts | 15 |
| Exit Conference..... | 16 |

OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|-----------------------------------|-------------------|----------------------|
| Trustee | Don Osborne | 01-01-07 to 12-31-14 |
| Chairman of the Township Board | Richard Thornburg | 01-01-10 to 12-31-11 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF FALL CREEK TOWNSHIP, HENRY COUNTY, INDIANA

We have examined the financial statement of Fall Creek Township (Township), for the period of January 1, 2010 to December 31, 2010. The Township's management is responsible for the financial statement. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Township for the year ended December 31, 2010, on the basis of accounting described in Note 1.

The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the financial statement. It has not been subjected to the examination procedures applied to the financial statement and, accordingly, we express no opinion on it.

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

November 14, 2011

(This page intentionally left blank.)

FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Township. The financial statement and notes are presented as intended by the Township.

FALL CREEK TOWNSHIP, HENRY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

| | Cash and Investments 01-01-10 | Receipts | Disbursements | Cash and Investments 12-31-10 |
|---------------------------|-------------------------------------|-------------------|-------------------|-------------------------------------|
| Township | \$ 52,476 | \$ 57,671 | \$ 55,703 | \$ 54,444 |
| Township Assistance | 54,724 | - | 7,904 | 46,820 |
| Fire Fighting | 48,184 | 26,028 | 18,500 | 55,712 |
| Cumulative Fire | 50,030 | 11,029 | 40,000 | 21,059 |
| Levy Excess | - | 188 | - | 188 |
| Rainy Day | - | 1,013 | - | 1,013 |
| Capital Improvements | 14,218 | - | - | 14,218 |
| COIT Special Distribution | 420 | - | - | 420 |
| Payroll Deduction | (2,657) | 5,381 | 5,381 | (2,657) |
| Totals | <u>\$ 217,395</u> | <u>\$ 101,310</u> | <u>\$ 127,488</u> | <u>\$ 191,217</u> |

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

FALL CREEK TOWNSHIP, HENRY COUNTY
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Township was established under the laws of the State of Indiana. The Township operates under a township trustee/township board form of government and provides some or all of the following services: public safety (fire), health and social services (township assistance), culture and recreation (parks and/or community centers), and general administrative services (weed and dog control).

The accompanying financial statement presents the financial information for the Township (primary government), and does not include financial information for any of the Township'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 Township (primary government).

B. Basis of Accounting

The financial statement is 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 statement. 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 Township.

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.

FALL CREEK TOWNSHIP, HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
(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).

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 statement. 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 Township. It includes all expenditures for the reduction of the principal and interest of the Township's general obligation indebtedness.

FALL CREEK TOWNSHIP, HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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 Township 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 Township. 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 Township. 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 Township 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 Township 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 Township 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.

FALL CREEK TOWNSHIP, HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
(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 Township 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 Township 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 Township to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. 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 Township by recording as a disbursement and replacement items purchased.

SUPPLEMENTARY INFORMATION – UNAUDITED

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

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the Township which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was approved by management of the Township. It is presented as intended by the Township.

FALL CREEK TOWNSHIP, HENRY COUNTY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

| | Township | Township Assistance | Fire Fighting | Cumulative Fire | Levy Excess | Rainy Day | Capital Improvements | COIT Special Distribution | Payroll Deduction | Totals |
|--|-----------|---------------------|---------------|-----------------|-------------|-----------|----------------------|---------------------------|-------------------|------------|
| Cash and investments - beginning | \$ 52,476 | \$ 54,724 | \$ 48,184 | \$ 50,030 | \$ - | \$ - | \$ 14,218 | \$ 420 | \$ (2,657) | \$ 217,395 |
| Receipts: | | | | | | | | | | |
| Taxes | 57,188 | - | 26,028 | 11,029 | 188 | 1,013 | - | - | - | 95,446 |
| Other receipts | 483 | - | - | - | - | - | - | - | 5,381 | 5,864 |
| Total receipts | 57,671 | - | 26,028 | 11,029 | 188 | 1,013 | - | - | 5,381 | 101,310 |
| Disbursements: | | | | | | | | | | |
| Personal services | 22,351 | - | - | - | - | - | - | - | - | 22,351 |
| Supplies | 1,417 | - | - | - | - | - | - | - | - | 1,417 |
| Other services and charges | 31,935 | 319 | 18,500 | - | - | - | - | - | - | 50,754 |
| Capital outlay | - | - | - | 40,000 | - | - | - | - | - | 40,000 |
| Other disbursements | - | 7,585 | - | - | - | - | - | - | 5,381 | 12,966 |
| Total disbursements | 55,703 | 7,904 | 18,500 | 40,000 | - | - | - | - | 5,381 | 127,488 |
| Excess (deficiency) of receipts over disbursements | 1,968 | (7,904) | 7,528 | (28,971) | 188 | 1,013 | - | - | - | (26,178) |
| Cash and investments - ending | \$ 54,444 | \$ 46,820 | \$ 55,712 | \$ 21,059 | \$ 188 | \$ 1,013 | \$ 14,218 | \$ 420 | \$ (2,657) | \$ 191,217 |

FALL CREEK TOWNSHIP, HENRY COUNTY
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN FUND BALANCE

The fund balance of the Payroll Deduction Fund was overdrawn in 2010 by \$2,657.

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 Townships, Chapter 13)

OLD OUTSTANDING CHECKS (WARRANTS)

Our review of the bank reconciliation as of December 31, 2010, revealed checks outstanding in excess of two years. Some checks have been outstanding for a period of seven years. This noncompliance issue was commented on in the prior Report B3662 dated April 30, 2010, with no improvement.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void. . . ."

Indiana Code 5-11-10.5-3 states:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the: (1) board of finance of the political subdivision; or (2) the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

PAYROLL DEDUCTIONS

Payments to Board members were made without payroll deductions for taxes.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court

FALL CREEK TOWNSHIP, HENRY COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

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 Townships, Chapter 13)

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned an optical image of only the front side of the checks.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Furthermore, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

DISBURSEMENT DOCUMENTATION

Six payments, totaling \$2,006, were noted during a review of claims that did not contain any supporting documentation. In addition, travel claims for Don Osborne, Trustee, did not detail the odometer readings and only included the total miles for the trip.

Due to the lack of supporting information, the validity and accountability for these monies disbursed could not be established.

FALL CREEK TOWNSHIP, HENRY COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

CONTRACTS

Records presented for examination show payments were made to Barbara Addison and Jimmy Barcourt for cemetery mowing in 2010 without a contract.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

FALL CREEK TOWNSHIP, HENRY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on November 15, 2011, with Don Osborne, Trustee. The official concurred with our findings.