

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF ARCADIA
HAMILTON COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
04/19/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Bette Shields	01-01-08 to 12-31-15
President of the Town Council	William C. Cook Jr.	01-01-10 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF ARCADIA, HAMILTON COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Arcadia (Town), for the years ended December 31, 2010 and 2011. 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, 2010 and 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated March 19, 2012, 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
(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 Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, and Schedule of Long Term Debt are presented for additional analysis and are not required parts of the financial statements. They 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, the Town Council, others within the entity, 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

March 19, 2012



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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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 ARCADIA, HAMILTON COUNTY, INDIANA

We have audited the financial statements of the Town of Arcadia (Town), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated March 19, 2012. 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 item 2011-01 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, the Town Council, others within the entity, 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

March 19, 2012

FINANCIAL STATEMENTS

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

TOWN OF ARCADIA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

Fund	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General	\$ 59,017	\$ 350,625	\$ 336,002	\$ 73,640
Motor Vehicle Highway	50,138	184,612	163,582	71,168
Local Road And Street	134,087	23,988	135,581	22,494
Donations	1,355	2,075	3,117	313
Law Enforcement Continuing Ed	3,333	981	1,082	3,232
Rainy Day	29,076	24,796	17,000	36,872
Levy Excess	959	792	959	792
Police Forfeiture	819	-	-	819
Ham. Co. C-V Bureau	3,000	18,000	21,000	-
Community Development Block Grant	-	420,637	420,637	-
EECBG	-	350,000	350,000	-
Cumulative Capl Imprv Cigarette Tax	-	5,115	5,115	-
Cumulative Capital Development	13,455	7,641	12,218	8,878
Cumulative Sewer	430,154	50,803	92,346	388,611
Payroll	5,355	454,952	454,818	5,489
Wastewater Utility-Operating	109,818	355,473	324,923	140,368
Wastewater Util-Bond And Interest	38,069	128,000	116,291	49,778
Wastewater Utility-Deprec/Improve	113,433	12,000	-	125,433
Wastewater Utility-Customer Deposit	4,390	1,810	1,418	4,782
Wastewater Utility-Debt Reserve	128,680	-	-	128,680
Wastewater Utility-Replacement	310,794	21,000	18,775	313,019
Water Utility-Operating	97,031	203,696	188,682	112,045
Water Utility-Bond And Interest	29,500	29,550	29,500	29,550
Water Utility-Depreciation/Improve	121,574	18,004	-	139,578
Water Utility-Customer Deposit	14,418	3,404	2,007	15,815
Water Utility-Debt Reserve	34,000	-	-	34,000
Totals	<u>\$ 1,732,455</u>	<u>\$ 2,667,954</u>	<u>\$ 2,695,053</u>	<u>\$ 1,705,356</u>

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

TOWN OF ARCADIA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2011

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11
General	\$ 73,640	\$ 405,588	\$ 347,364	\$ 131,864
Motor Vehicle Highway	71,168	120,692	133,352	58,508
Local Road And Street	22,494	23,987	-	46,481
Law Enforcement Continuing Ed	3,232	891	1,137	2,986
Rainy Day	36,872	-	23,500	13,372
Levy Excess	792	-	792	-
Cumulative Capl Imprv Cigarette Tax	-	5,017	-	5,017
Cumulative Capital Development	8,878	7,064	3,200	12,742
Donations	313	1,437	452	1,298
Police Forfeiture	819	-	-	819
Community Development Block Grant	-	45,695	45,160	535
Cumulative Sewer	388,611	79,903	117,902	350,612
Payroll	5,489	459,852	461,167	4,174
Wastewater Utility-Operating	140,368	416,322	345,179	211,511
Wastewater Util-Bond And Interest	49,778	128,000	117,874	59,904
Wastewater Utility-Deprec/Improve	125,433	12,000	-	137,433
Wastewater Utility-Customer Deposit	4,782	1,663	1,091	5,354
Wastewater Utility-Debt Reserve	128,680	-	-	128,680
Wastewater Utility-Replacement	313,019	21,000	-	334,019
Water Utility-Operating	112,045	240,232	171,463	180,814
Water Utility-Bond And Interest	29,550	29,550	29,550	29,550
Water Utility-Depreciation/Improve	139,578	21,070	-	160,648
Water Utility-Customer Deposit	15,815	2,739	1,959	16,595
Water Utility-Debt Reserve	34,000	-	-	34,000
Totals	<u>\$ 1,705,356</u>	<u>\$ 2,022,702</u>	<u>\$ 1,801,142</u>	<u>\$ 1,926,916</u>

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

TOWN OF ARCADIA
NOTES TO FINANCIAL STATEMENTS

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 statements present 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 ARCADIA
NOTES TO FINANCIAL STATEMENTS
(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 ARCADIA
NOTES TO FINANCIAL STATEMENTS
(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 ARCADIA
NOTES TO FINANCIAL STATEMENTS
(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 any replacement items purchased.

Note 6. *Pension Plan*

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

TOWN OF ARCADIA
NOTES TO FINANCIAL STATEMENTS
(Continued)

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's 2010 Annual Report can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the Town's 2011 Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

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

The supplementary information presented was prepared and/or approved by management of the Town. It is presented as intended by the Town.

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

	General	Motor Vehicle Highway	Local Road And Street	Donations	Law Enforcement Continuing Ed	Rainy Day	Levy Excess
Cash and investments - beginning	\$ 59,017	\$ 50,138	\$ 134,087	\$ 1,355	\$ 3,333	\$ 29,076	\$ 959
Receipts:							
Taxes	114,788	117,366	-	-	-	-	-
Licenses and permits	3,141	-	-	-	800	-	-
Intergovernmental	215,328	67,246	23,988	-	-	24,796	-
Charges for services	6,615	-	-	-	50	-	-
Fines and forfeits	1,273	-	-	-	131	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	9,480	-	-	2,075	-	-	792
Total receipts	<u>350,625</u>	<u>184,612</u>	<u>23,988</u>	<u>2,075</u>	<u>981</u>	<u>24,796</u>	<u>792</u>
Disbursements:							
Personal services	275,618	115,630	-	-	-	-	-
Supplies	14,063	20,515	-	-	937	-	-
Other services and charges	45,986	21,727	135,581	1,117	145	17,000	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	5,710	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	335	-	-	2,000	-	-	959
Total disbursements	<u>336,002</u>	<u>163,582</u>	<u>135,581</u>	<u>3,117</u>	<u>1,082</u>	<u>17,000</u>	<u>959</u>
Excess (deficiency) of receipts over disbursements	<u>14,623</u>	<u>21,030</u>	<u>(111,593)</u>	<u>(1,042)</u>	<u>(101)</u>	<u>7,796</u>	<u>(167)</u>
Cash and investments - ending	<u>\$ 73,640</u>	<u>\$ 71,168</u>	<u>\$ 22,494</u>	<u>\$ 313</u>	<u>\$ 3,232</u>	<u>\$ 36,872</u>	<u>\$ 792</u>

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

	Police Forfeiture	Ham. Co. C-V Bureau	Community Development Block Grant	EECBG	Cumulative Capl Imprv Cigarette Tax	Cumulative Capital Development	Cumulative Sewer
Cash and investments - beginning	\$ 819	\$ 3,000	\$ -	\$ -	\$ -	\$ 13,455	\$ 430,154
Receipts:							
Taxes	-	-	-	-	-	6,599	43,878
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	420,637	350,000	5,115	1,042	183
Charges for services	-	-	-	-	-	-	6,742
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	18,000	-	-	-	-	-
Total receipts	<u>-</u>	<u>18,000</u>	<u>420,637</u>	<u>350,000</u>	<u>5,115</u>	<u>7,641</u>	<u>50,803</u>
Disbursements:							
Personal services	-	-	-	-	-	-	58,903
Supplies	-	-	-	-	-	4,196	459
Other services and charges	-	21,000	420,637	-	-	8,022	32,984
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	350,000	5,115	-	-
Total disbursements	<u>-</u>	<u>21,000</u>	<u>420,637</u>	<u>350,000</u>	<u>5,115</u>	<u>12,218</u>	<u>92,346</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>(3,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,577)</u>	<u>(41,543)</u>
Cash and investments - ending	<u>\$ 819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,878</u>	<u>\$ 388,611</u>

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

	Payroll	Wastewater Utility-Operating	Wastewater Util-Bond And Interest	Wastewater Utility-Deprec/ Improve	Wastewater Utility-Customer Deposit	Wastewater Utility-Debt Reserve	Wastewater Utility- Replacement
Cash and investments - beginning	\$ 5,355	\$ 109,818	\$ 38,069	\$ 113,433	\$ 4,390	\$ 128,680	\$ 310,794
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	346,770	-	-	-	-	-
Other receipts	454,952	8,703	128,000	12,000	1,810	-	21,000
Total receipts	<u>454,952</u>	<u>355,473</u>	<u>128,000</u>	<u>12,000</u>	<u>1,810</u>	<u>-</u>	<u>21,000</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	36,291	-	1,418	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	163,923	-	-	-	-	18,775
Other disbursements	454,818	161,000	80,000	-	-	-	-
Total disbursements	<u>454,818</u>	<u>324,923</u>	<u>116,291</u>	<u>-</u>	<u>1,418</u>	<u>-</u>	<u>18,775</u>
Excess (deficiency) of receipts over disbursements	<u>134</u>	<u>30,550</u>	<u>11,709</u>	<u>12,000</u>	<u>392</u>	<u>-</u>	<u>2,225</u>
Cash and investments - ending	<u>\$ 5,489</u>	<u>\$ 140,368</u>	<u>\$ 49,778</u>	<u>\$ 125,433</u>	<u>\$ 4,782</u>	<u>\$ 128,680</u>	<u>\$ 313,019</u>

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

	Water Utility-Operating	Water Utility-Bond And Interest	Water Utility-Depreciation/ Improve	Water Utility-Customer Deposit	Water Utility-Debt Reserve	Totals
Cash and investments - beginning	\$ 97,031	\$ 29,500	\$ 121,574	\$ 14,418	\$ 34,000	\$ 1,732,455
Receipts:						
Taxes	-	-	-	-	-	282,631
Licenses and permits	-	-	-	-	-	3,941
Intergovernmental	-	-	-	-	-	1,108,335
Charges for services	-	-	-	-	-	13,407
Fines and forfeits	-	-	-	-	-	1,404
Utility fees	185,951	-	-	-	-	532,721
Other receipts	17,745	29,550	18,004	3,404	-	725,515
Total receipts	<u>203,696</u>	<u>29,550</u>	<u>18,004</u>	<u>3,404</u>	<u>-</u>	<u>2,667,954</u>
Disbursements:						
Personal services	-	-	-	-	-	450,151
Supplies	-	-	-	-	-	40,170
Other services and charges	-	-	-	-	-	704,199
Debt service - principal and interest	-	10,500	-	2,007	-	50,216
Capital outlay	-	-	-	-	-	5,710
Utility operating expenses	124,043	-	-	-	-	306,741
Other disbursements	64,639	19,000	-	-	-	1,137,866
Total disbursements	<u>188,682</u>	<u>29,500</u>	<u>-</u>	<u>2,007</u>	<u>-</u>	<u>2,695,053</u>
Excess (deficiency) of receipts over disbursements	<u>15,014</u>	<u>50</u>	<u>18,004</u>	<u>1,397</u>	<u>-</u>	<u>(27,099)</u>
Cash and investments - ending	<u>\$ 112,045</u>	<u>\$ 29,550</u>	<u>\$ 139,578</u>	<u>\$ 15,815</u>	<u>\$ 34,000</u>	<u>\$ 1,705,356</u>

TOWN OF ARCADIA
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Ed	Rainy Day	Levy Excess	Cumulative Capl Imprv Cigarette Tax
Cash and investments - beginning	\$ 73,640	\$ 71,168	\$ 22,494	\$ 3,232	\$ 36,872	\$ 792	\$ -
Receipts:							
Taxes	167,169	61,807	-	-	-	-	-
Licenses and permits	21,836	-	-	560	-	-	-
Intergovernmental	185,577	57,408	23,987	-	-	-	5,017
Charges for services	8,127	-	-	35	-	-	-
Fines and forfeits	2,149	-	-	296	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	20,730	1,477	-	-	-	-	-
Total receipts	<u>405,588</u>	<u>120,692</u>	<u>23,987</u>	<u>891</u>	<u>-</u>	<u>-</u>	<u>5,017</u>
Disbursements:							
Personal services	281,803	76,885	-	-	-	-	-
Supplies	21,959	19,940	-	1,037	-	-	-
Other services and charges	42,698	36,427	-	100	17,000	-	-
Capital outlay	-	100	-	-	6,500	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	904	-	-	-	-	792	-
Total disbursements	<u>347,364</u>	<u>133,352</u>	<u>-</u>	<u>1,137</u>	<u>23,500</u>	<u>792</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>58,224</u>	<u>(12,660)</u>	<u>23,987</u>	<u>(246)</u>	<u>(23,500)</u>	<u>(792)</u>	<u>5,017</u>
Cash and investments - ending	<u>\$ 131,864</u>	<u>\$ 58,508</u>	<u>\$ 46,481</u>	<u>\$ 2,986</u>	<u>\$ 13,372</u>	<u>\$ -</u>	<u>\$ 5,017</u>

TOWN OF ARCADIA
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Cumulative Capital Development	Donations	Police Forfeiture	Community Development Block Grant	Cumulative Sewer	Payroll
Cash and investments - beginning	\$ 8,878	\$ 313	\$ 819	\$ -	\$ 388,611	\$ 5,489
Receipts:						
Taxes	6,257	-	-	-	41,723	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	807	-	-	45,308	5,381	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	1,437	-	387	32,799	459,852
Total receipts	7,064	1,437	-	45,695	79,903	459,852
Disbursements:						
Personal services	-	-	-	-	108,085	-
Supplies	-	452	-	-	1,547	-
Other services and charges	3,200	-	-	45,160	8,270	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	461,167
Total disbursements	3,200	452	-	45,160	117,902	461,167
Excess (deficiency) of receipts over disbursements	3,864	985	-	535	(37,999)	(1,315)
Cash and investments - ending	\$ 12,742	\$ 1,298	\$ 819	\$ 535	\$ 350,612	\$ 4,174

TOWN OF ARCADIA
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Wastewater Utility-Operating	Wastewater Util-Bond And Interest	Wastewater Utility-Deprec/ Improve	Wastewater Utility-Customer Deposit	Wastewater Utility-Debt Reserve	Wastewater Utility Replacement
Cash and investments - beginning	\$ 140,368	\$ 49,778	\$ 125,433	\$ 4,782	\$ 128,680	\$ 313,019
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	403,264	-	-	1,663	-	-
Penalties	12,048	-	-	-	-	-
Other receipts	1,010	128,000	12,000	-	-	21,000
Total receipts	<u>416,322</u>	<u>128,000</u>	<u>12,000</u>	<u>1,663</u>	<u>-</u>	<u>21,000</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	184,179	-	-	-	-	-
Other disbursements	161,000	117,874	-	1,091	-	-
Total disbursements	<u>345,179</u>	<u>117,874</u>	<u>-</u>	<u>1,091</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>71,143</u>	<u>10,126</u>	<u>12,000</u>	<u>572</u>	<u>-</u>	<u>21,000</u>
Cash and investments - ending	<u>\$ 211,511</u>	<u>\$ 59,904</u>	<u>\$ 137,433</u>	<u>\$ 5,354</u>	<u>\$ 128,680</u>	<u>\$ 334,019</u>

TOWN OF ARCADIA
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Water Utility-Operating	Water Utility-Bond And Interest	Water Utility-Depreciation/ Improve	Water Utility-Customer Deposit	Water Utility-Debt Reserve	Totals
Cash and investments - beginning	\$ 112,045	\$ 29,550	\$ 139,578	\$ 15,815	\$ 34,000	\$ 1,705,356
Receipts:						
Taxes	-	-	-	-	-	276,956
Licenses and permits	-	-	-	-	-	22,396
Intergovernmental	-	-	-	-	-	323,485
Charges for services	-	-	-	-	-	8,162
Fines and forfeits	-	-	-	-	-	2,445
Utility fees	221,545	-	-	-	-	626,472
Penalties	18,687	-	-	-	-	30,735
Other receipts	-	29,550	21,070	2,739	-	732,051
Total receipts	<u>240,232</u>	<u>29,550</u>	<u>21,070</u>	<u>2,739</u>	<u>-</u>	<u>2,022,702</u>
Disbursements:						
Personal services	-	-	-	-	-	466,773
Supplies	-	-	-	-	-	44,935
Other services and charges	-	-	-	-	-	152,855
Capital outlay	-	-	-	-	-	6,600
Utility operating expenses	102,489	-	-	-	-	286,668
Other disbursements	68,974	29,550	-	1,959	-	843,311
Total disbursements	<u>171,463</u>	<u>29,550</u>	<u>-</u>	<u>1,959</u>	<u>-</u>	<u>1,801,142</u>
Excess (deficiency) of receipts over disbursements	<u>68,769</u>	<u>-</u>	<u>21,070</u>	<u>780</u>	<u>-</u>	<u>221,560</u>
Cash and investments - ending	<u>\$ 180,814</u>	<u>\$ 29,550</u>	<u>\$ 160,648</u>	<u>\$ 16,595</u>	<u>\$ 34,000</u>	<u>\$ 1,926,916</u>

TOWN OF ARCADIA
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2011

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year	Fund/ Department
Bonds payable:			
Revenue bonds:			
Water Plant	\$ 171,000	\$ 29,550	Water B&I
Wastewater-SRF Loans	746,243	46,118	Wastewater B&I
Wastewater Plant	<u>70,000</u>	<u>73,115</u>	Wastewater B&I
Total debt	<u>\$ 987,243</u>	<u>\$ 148,783</u>	

TOWN OF ARCADIA
AUDIT RESULT AND COMMENT

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 objections, 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)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF ARCADIA, HAMILTON COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Arcadia (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, 2010 and 2011. 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 its major federal program for the years ended December 31, 2010 and 2011. The results of our auditing procedures also disclosed other 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 2011-02.

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 THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there is no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-02 to be material weaknesses.

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

This report is intended solely for the information and use of the Town's management, the 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

March 19, 2012

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the Town. The schedule and notes are presented as intended by the Town.

TOWN OF ARCADIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2010 and 2011

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 12-31-10	Total Federal Awards Expended 12-31-11
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Indiana Office of Community and Rural Affairs CDBG - State-Administered CDBG Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.	14.228	CF-08-502	\$ 420,637	\$ 77,959
Total for cluster			<u>420,637</u>	<u>77,959</u>
Total for federal grantor agency			<u>420,637</u>	<u>77,959</u>
<u>U.S. DEPARTMENT OF ENERGY</u>				
Indiana Office of Energy Development ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE-000725	<u>350,000</u>	<u>-</u>
Total for federal grantor agency			<u>350,000</u>	<u>-</u>
Total federal awards expended			<u>\$ 770,637</u>	<u>\$ 77,959</u>

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

TOWN OF ARCADIA
NOTES 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 Arcadia (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 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.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the Town provided federal awards to subrecipients as follows for the years ended December 31, 2010 and 2011:

Program Title	Federal CFDA Number	2010	2011
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	\$ 350,000	\$ 0

TOWN OF ARCADIA
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?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiency 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?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
81.128	CDBG - State-Administered CDBG Cluster ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)

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 2011-01 - 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 remain undetected.

TOWN OF ARCADIA
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 objections, 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)

Section III – Federal Award Findings and Questioned Costs

FINDING 2011-02 - SUBRECIPIENT MONITORING

Federal Agency: U.S. DEPARTMENT OF ENERGY
Federal Program: ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
CFDA Number: 81.128
Federal Award Number and Year (or Other Identifying Number): DE-EE-000725, 2010
Pass-Through Entity: Indiana Office of Energy Development

The Town received a federal award for an energy retrofit project at the local school corporation and subsequently passed through the entire federal award to the school corporation to fund the completion of that project. We found that the town had not planned for the subrecipient responsibilities, of during-the-award monitoring ,that requires the Town to monitor the subrecipient's use of the federal funds through reporting, site visits or regular contacts. As a result, the town completed only limited monitoring activities by reviewing the school corporation's disbursements on the project. The Town did not have controls or procedures in place to monitor the reports compiled by the school corporation nor did they complete any onsite visits or regular meetings with the school corporation officials.

Due to the lack of procedures and the lack of monitoring, the Town could not ensure that the federal awards had been used in compliance with laws, regulations and the provisions of the grant agreement. Any misuse of the federal funds by the school corporation would not have been detected by the Town.

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

According to OMB Circular A-133___.300, the auditee shall (b) maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

In addition, OMB Circular A-133___.400(d), states that the pass through entity is responsible to monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements and that performance goals are achieved.

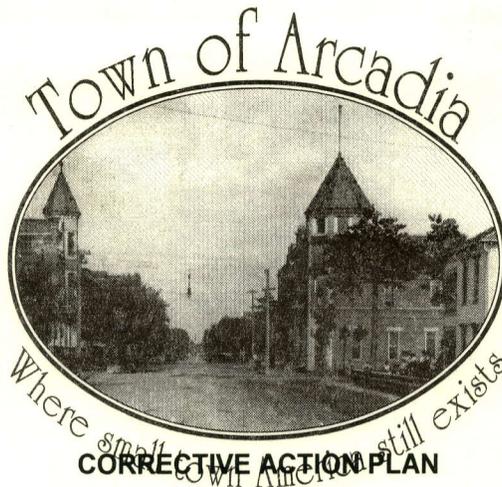
10 CFR 600.240 Monitoring and Reporting Program Performance states:

"Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended that the Town develop procedures to ensure that requirements outlined in ___400(d) of Circular A-133 are being met. We also recommended that the Town complete during-the-award monitoring for any subrecipients.

TOWN OF ARCADIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



SECTION II FINANCIAL STATEMENT FINDINGS

FINDING 2011-01, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Auditee Contact Person: Bette Shields
Contact Person Title: Clerk Treasurer
Contact Phone Number: 317-984-3512

The Town of Arcadia will assess their procedures and attempt to institute processes that would involve, at least on a sample basis, reviews of the duties being performed by the Clerk Treasurer, including, but not limited to preparing the financial statements. In addition, the Town will review office procedures and attempt to assign duties so there will be as much segregation of duties as is practical. The Town will also monitor the system of internal control in the future to determine the effectiveness and efficiency of the systems in place.

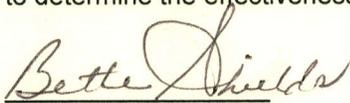
The Town is a very small governmental unit and management has determined that the cost associated with employing additional staff necessary to properly segregate the duties would outweigh the benefits of additional internal control structure. Management acknowledges and assumes the risk inherent with the current design of the Clerk-Treasurer's office.

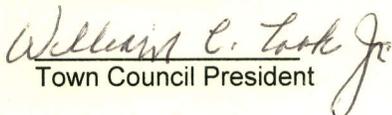
SECTION III FEDERAL AWARD FINDINGS

FINDING 2011-02, SUBRECIPIENT MONITORING

Federal Agency: U.S. DEPARTMENT OF ENERGY
Federal Program: ARRA-Energy Efficiency and Conservation Block Grant
CFDA Number: 81.128
Federal Award Number and Year: DE-EE-00725, 2010
Auditee Contact Person: Bette Shields
Contact Person Title: Clerk Treasurer
Contact Phone Number: 317-984-3512

The Town of Arcadia will institute procedures for monitoring subrecipients of federal funds through reporting, site visits and regular contacts. The Town will also monitor the procedures in the future to determine the effectiveness and efficiency of the systems in place.


Clerk Treasurer


Town Council President

TOWN OF ARCADIA
EXIT CONFERENCE

The contents of this report were discussed on March 29, 2012, with William C Cook Jr., President of the Town Council, and Bette Shields, Clerk Treasurer. The officials concurred with our audit finding.