

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF GOSPORT
OWEN COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED

06/19/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Wyatt Holsapple	01-01-10 to 12-31-15
President of the Town Council	Wes Correll Donald L. Hall	01-01-10 to 12-31-11 01-01-12 to 12-31-12
Superintendent of Utilities	David Atkins	01-01-10 to 12-31-12



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF GOSPORT, OWEN COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Gosport (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 May 23, 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 Leases and 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, 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

May 23, 2012



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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 GOSPORT, OWEN COUNTY, INDIANA

We have audited the financial statements of the Town of Gosport (Town), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated May 23, 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 2011-1 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 finding identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

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

May 23, 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 GOSPORT
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	\$ (10,713)	\$ 156,360	\$ 164,641	\$ (18,994)
Motor Vehicle Highway	12,897	23,035	23,715	12,217
Local Road And Street	3,234	3,258	2,164	4,328
Federal Grants #1	-	1,463,082	1,463,082	-
Riverboat	13,469	4,475	4,339	13,605
Firefighting	1,027	-	-	1,027
Rainy Day	9,370	2,058	2,000	9,428
Economic Development Income Tax	28,315	13,861	7,315	34,861
Cumulative Capital Improvement	6,143	2,095	-	8,238
NSP	45	609,890	609,930	5
Water Main Project Retainage	-	68,647	-	68,647
Payroll	12,055	158,637	167,463	3,229
Wastewater Utility-Operating	35,419	156,969	185,219	7,169
Wastewater Util-Bond And Interest	7,171	40,036	30,040	17,167
Water Utility-Operating	12,086	345,618	352,742	4,962
Water Utility-Bond And Interest	7,700	49,974	48,000	9,674
Water Utility- Depreciation	49,670	13,420	39,620	23,470
Water Utility-Customer Deposit	19,753	3,061	1,197	21,617
Water Utility- Debt Service Reserve	60,147	7,595	-	67,742
Totals	<u>\$ 267,788</u>	<u>\$ 3,122,071</u>	<u>\$ 3,101,467</u>	<u>\$ 288,392</u>

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

TOWN OF GOSPORT
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	\$ (18,994)	\$ 137,991	\$ 174,096	\$ (55,099)
Motor Vehicle Highway	12,217	23,166	25,648	9,735
Local Road And Street	4,328	3,165	2,014	5,479
Riverboat	13,605	4,474	6,545	11,534
Firefighting	1,027	141	-	1,168
Rainy Day	9,428	-	-	9,428
Fire Truck Grant	-	275,600	275,600	-
Cumulative Capital Improvement	8,238	2,053	-	10,291
Water Main Project Retainage	68,647	42,425	77,183	33,889
NSP	5	216,168	211,172	5,001
Federal Grants #1	-	961,019	961,019	-
Economic Development Income Tax	34,861	11,634	17,906	28,589
Payroll	3,229	156,153	154,857	4,525
Wastewater Utility-Operating	7,169	143,160	150,216	113
Wastewater Util-Bond And Interest	17,167	12,016	23,040	6,143
Water Utility-Operating	4,962	238,971	237,017	6,916
Water Utility-Bond And Interest	9,674	31,667	6,525	34,816
Water Utility-Depreciation	23,470	11,889	32,320	3,039
Water Utility-Customer Deposit	21,617	4,258	2,761	23,114
Water Utility-Debt Service Reserve	67,742	1,248	-	68,990
Totals	<u>\$ 288,392</u>	<u>\$ 2,277,198</u>	<u>\$ 2,357,919</u>	<u>\$ 207,671</u>

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

TOWN OF GOSPORT
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, 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 include 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.

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.

TOWN OF GOSPORT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 include 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.

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.

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.

TOWN OF GOSPORT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

TOWN OF GOSPORT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The Town also contributes to a pension plan unique to the Town. Information regarding this plan may be obtained from the Town.

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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 approved by management of the Town. It is presented as intended by the Town.

TOWN OF GOSPORT
 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	Federal Grants #1	Riverboat	Firefighting	Rainy Day
Cash and investments - beginning	\$ (10,713)	\$ 12,897	\$ 3,234	\$ -	\$ 13,469	\$ 1,027	\$ 9,370
Receipts:							
Taxes	59,239	-	-	-	-	-	2,058
Intergovernmental	32,775	22,986	3,231	1,463,082	4,475	-	-
Charges for services	15,259	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	49,087	49	27	-	-	-	-
Total receipts	<u>156,360</u>	<u>23,035</u>	<u>3,258</u>	<u>1,463,082</u>	<u>4,475</u>	<u>-</u>	<u>2,058</u>
Disbursements:							
Personal services	47,537	6,708	-	-	-	-	-
Other services and charges	117,104	17,007	2,164	-	390	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	1,463,082	3,949	-	2,000
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>164,641</u>	<u>23,715</u>	<u>2,164</u>	<u>1,463,082</u>	<u>4,339</u>	<u>-</u>	<u>2,000</u>
Excess (deficiency) of receipts over disbursements	<u>(8,281)</u>	<u>(680)</u>	<u>1,094</u>	<u>-</u>	<u>136</u>	<u>-</u>	<u>58</u>
Cash and investments - ending	<u>\$ (18,994)</u>	<u>\$ 12,217</u>	<u>\$ 4,328</u>	<u>\$ -</u>	<u>\$ 13,605</u>	<u>\$ 1,027</u>	<u>\$ 9,428</u>

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

	Economic Development Income Tax	Cumulative Capital Improvement	NSP	Water Main Project Retainage	Payroll	Wastewater Utility-Operating	Wastewater Util-Bond And Interest
Cash and investments - beginning	\$ 28,315	\$ 6,143	\$ 45	\$ -	\$ 12,055	\$ 35,419	\$ 7,171
Receipts:							
Taxes	13,861	-	-	-	-	-	-
Intergovernmental	-	2,095	559,891	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	120,864	-
Other receipts	-	-	49,999	68,647	158,637	36,105	40,036
Total receipts	13,861	2,095	609,890	68,647	158,637	156,969	40,036
Disbursements:							
Personal services	-	-	-	-	-	29,032	-
Other services and charges	3,366	-	-	-	-	-	-
Debt service - principal and interest	-	-	49,999	-	-	42,156	-
Capital outlay	3,949	-	559,891	-	-	4,000	-
Utility operating expenses	-	-	-	-	-	70,031	-
Other disbursements	-	-	40	-	167,463	40,000	30,040
Total disbursements	7,315	-	609,930	-	167,463	185,219	30,040
Excess (deficiency) of receipts over disbursements	6,546	2,095	(40)	68,647	(8,826)	(28,250)	9,996
Cash and investments - ending	\$ 34,861	\$ 8,238	\$ 5	\$ 68,647	\$ 3,229	\$ 7,169	\$ 17,167

TOWN OF GOSPORT
 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	Water Utility-Customer Deposit	Water Utility- Debt Service Reserve	Totals
Cash and investments - beginning	\$ 12,086	\$ 7,700	\$ 49,670	\$ 19,753	\$ 60,147	\$ 267,788
Receipts:						
Taxes	-	-	-	-	-	75,158
Intergovernmental	-	-	-	-	-	2,088,535
Charges for services	-	-	-	-	-	15,259
Utility fees	207,792	-	-	-	-	328,656
Other receipts	137,826	49,974	13,420	3,061	7,595	614,463
Total receipts	345,618	49,974	13,420	3,061	7,595	3,122,071
Disbursements:						
Personal services	71,969	-	-	-	-	155,246
Other services and charges	-	-	-	-	-	140,031
Debt service - principal and interest	48,036	-	-	-	-	140,191
Capital outlay	-	-	-	-	-	2,036,871
Utility operating expenses	106,696	-	-	-	-	176,727
Other disbursements	126,041	48,000	39,620	1,197	-	452,401
Total disbursements	352,742	48,000	39,620	1,197	-	3,101,467
Excess (deficiency) of receipts over disbursements	(7,124)	1,974	(26,200)	1,864	7,595	20,604
Cash and investments - ending	\$ 4,962	\$ 9,674	\$ 23,470	\$ 21,617	\$ 67,742	\$ 288,392

TOWN OF GOSPORT
 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	Riverboat	Firefighting	Rainy Day	Fire Truck Grant
Cash and investments - beginning	\$ (18,994)	\$ 12,217	\$ 4,328	\$ 13,605	\$ 1,027	\$ 9,428	\$ -
Receipts:							
Taxes	56,524	-	-	-	-	-	-
Intergovernmental	31,393	23,166	3,165	4,474	-	-	266,000
Charges for services	14,356	-	-	-	-	-	-
Fines and forfeits	70	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	35,648	-	-	-	141	-	9,600
Total receipts	137,991	23,166	3,165	4,474	141	-	275,600
Disbursements:							
Personal services	55,380	6,782	-	-	-	-	-
Other services and charges	118,716	18,866	2,014	6,545	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	275,600
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	174,096	25,648	2,014	6,545	-	-	275,600
Excess (deficiency) of receipts over disbursements	(36,105)	(2,482)	1,151	(2,071)	141	-	-
Cash and investments - ending	\$ (55,099)	\$ 9,735	\$ 5,479	\$ 11,534	\$ 1,168	\$ 9,428	\$ -

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

	Cumulative Capital Improvement	Water Main Project Retainage	NSP	Federal Grants #1	Economic Development Income Tax	Payroll	Wastewater Utility-Operating
Cash and investments - beginning	\$ 8,238	\$ 68,647	\$ 5	\$ -	\$ 34,861	\$ 3,229	\$ 7,169
Receipts:							
Taxes	-	-	-	-	-	-	-
Intergovernmental	2,053	-	211,168	961,019	11,634	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	120,156
Other receipts	-	42,425	5,000	-	-	156,153	23,004
Total receipts	2,053	42,425	216,168	961,019	11,634	156,153	143,160
Disbursements:							
Personal services	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	23,206
Capital outlay	-	-	211,172	961,019	17,906	-	-
Utility operating expenses	-	-	-	-	-	-	110,010
Other disbursements	-	77,183	-	-	-	154,857	17,000
Total disbursements	-	77,183	211,172	961,019	17,906	154,857	150,216
Excess (deficiency) of receipts over disbursements	2,053	(34,758)	4,996	-	(6,272)	1,296	(7,056)
Cash and investments - ending	\$ 10,291	\$ 33,889	\$ 5,001	\$ -	\$ 28,589	\$ 4,525	\$ 113

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

	Wastewater Util-Bond And Interest	Water Utility-Operating	Water Utility-Bond And Interest	Water Utility-Depreciation	Water Utility-Customer Deposit	Water Utility-Debt Service Reserve	Totals
Cash and investments - beginning	\$ 17,167	\$ 4,962	\$ 9,674	\$ 23,470	\$ 21,617	\$ 67,742	\$ 288,392
Receipts:							
Taxes	-	-	-	-	-	-	56,524
Intergovernmental	-	-	-	-	-	-	1,514,072
Charges for services	-	-	-	-	-	-	14,356
Fines and forfeits	-	-	-	-	-	-	70
Utility fees	-	200,142	-	-	-	-	320,298
Other receipts	12,016	38,829	31,667	11,889	4,258	1,248	371,878
Total receipts	12,016	238,971	31,667	11,889	4,258	1,248	2,277,198
Disbursements:							
Personal services	-	-	-	-	-	-	62,162
Other services and charges	-	-	-	-	-	-	146,141
Debt service - principal and interest	-	6,525	-	-	-	-	29,731
Capital outlay	-	15,191	-	-	-	-	1,480,888
Utility operating expenses	-	171,754	-	-	-	-	281,764
Other disbursements	23,040	43,547	6,525	32,320	2,761	-	357,233
Total disbursements	23,040	237,017	6,525	32,320	2,761	-	2,357,919
Excess (deficiency) of receipts over disbursements	(11,024)	1,954	25,142	(20,431)	1,497	1,248	(80,721)
Cash and investments - ending	\$ 6,143	\$ 6,916	\$ 34,816	\$ 3,039	\$ 23,114	\$ 68,990	\$ 207,671

TOWN OF GOSPORT
SCHEDULE OF LEASES AND DEBT
December 31, 2011

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Notes and loans payable	purchase firehouse	\$ 34,661	\$ 3,662
Wastewater:			
Revenue bonds	wastewater improvements	546,000	42,455
Notes and loans payable	for sewageage bond payment	<u>18,363</u>	<u>10,434</u>
Total Wastewater		<u>564,363</u>	<u>52,889</u>
Water:			
Revenue bonds	water improvements	<u>450,000</u>	<u>48,050</u>
Totals		<u>\$ 1,049,024</u>	<u>\$ 104,601</u>

TOWN OF GOSPORT
AUDIT RESULTS AND COMMENTS

***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS
AND REPORTING (Applies to Town and Utilities)***

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, disbursements, payroll and related liabilities, and cash and investment balances. The Clerk-Treasurer is responsible for collecting cash, issuing receipts, and making deposits. He is also responsible for preparing all payroll documentation, writing checks, posting all transactions to the records, and performing monthly bank reconciliations. The failure to establish these controls could enable material misstatements or irregularities to remain 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, including the Schedule of Expenditures of Federal Awards, 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)

Circular A133 Subpart C section .300(b) states the auditee shall:

"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."

TOWN OF GOSPORT
AUDIT RESULTS AND COMMENTS
(Continued)

PRESCRIBED FORMS (Applies to Town and Utilities)

As previously reported, most recently in Report B38062, the following prescribed or approved forms were not always in use:

Form Number	Form Name
208	Ledger of Receipts, Disbursements, and Balances
209	Ledger of Appropriations, Encumbrances, Disbursements, and Balances
211	General Fixed Assets Account Group
319	Simplified Cash Journal - Water Utility - Class C
323	Simplified Cash Journal - Wastewater Utility - Class C
319	Guarantee Deposit Register
99	Payroll Schedule and Voucher
99A	Employee Service Record
39	Accounts Payable Voucher
217	Clerk-Treasurer's Receipt

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)

BANK ACCOUNT RECONCILIATIONS (Applies to Town and Utilities)

As previously reported, most recently in Report B38062, depository reconciliations of the fund balances to the bank account balances were not prepared by unit personnel for any month during the audit period.

Indiana Code 5-13-6-1(e) states: "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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANNUAL REPORTS (Applies to Town and Utilities)

The Town of Gosport's 2010 Annual Report was filed on June 23, 2011. The Annual Report should have been filed by March 1, 2011. The Annual Reports submitted for the years 2010 and 2011 did not accurately reflect the financial transactions of the Town. Several funds' receipts and disbursements were not included in the 2010 report. In addition, the ending balances for each year did not agree with the reconciled bank balances.

Indiana Code 5-3-1-3(a) states, in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

TOWN OF GOSPORT
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be filed electronically, in a manner prescribed by the state examiner that is compatible with the technology employed by the political subdivision."

OVERDRAWN FUND BALANCES (Applies to Town)

The General Fund was overdrawn in 2010 and 2011.

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

PENALTIES, INTEREST, AND OTHER CHARGES (Applies to Town and Utilities)

Penalties and interest assessed on Federal withholding taxes totaling \$2,904 were paid to the Internal Revenue Service for tax periods from December 2005 through December 2009. Penalties and interest totaling \$199, \$651, and \$316 were paid to the Indiana Department of Revenue for State withholding taxes, utility sales taxes, and Indiana Utility Receipts taxes, respectively, for tax periods from November 2008 through December 2009.

A late fee of \$750 was paid on October 24, 2010, to the U.S. Department of Agriculture for late payment of the August 1, 2010 Sewage Works bond payment. Late fees totaling \$46 were paid in 2011 to Owen County State Bank for late payments made on the fire house loan.

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)

PAYROLL FUND (Applies to Town and Utilities)

As previously reported, most recently in Report B38062, the Town has established a Payroll Fund to account for all payroll, payroll withholdings, employer taxes and employee benefits. Transfers to the Payroll Fund from the various funds of the Town and the Utilities are made without the completion of a Payroll Schedule and Voucher (General Form 99). This resulted in amounts being transferred from funds for payroll that did not agree with the required amounts due from each fund based on the salary ordinances.

TOWN OF GOSPORT
AUDIT RESULTS AND COMMENTS
(Continued)

The balance of the Payroll Fund is not reconciled to the amounts due to taxing authorities and other vendors. Subsidiary ledger accounts are not maintained for each type of payroll withholding, employer tax and employee benefit or net payroll.

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)

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS (Applies to Town)

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

Fund	Years	Excess Amount Expended
General	2010	\$ 59,552
Motor Vehicle Highway	2010	4,814
General	2011	24,675
Motor Vehicle Highway	2011	10,248

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

TRANSACTION RECORDING (Applies to Town and Wastewater Utility)

Loan proceeds taken out to finance a Wastewater Utility debt payment and the purchase of property for a grant program were not entered in the records of the Wastewater Utility and the Town General Fund, respectively. The proceeds were paid by cashier's checks directly to the vendors to pay the amounts due them.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPENSATION AND BENEFITS (Applies to Town and Utilities)

Several employees were paid wages different than the amounts authorized in the approved salary ordinances for the audit period. The Town Council approved hourly raises for some employees during public meetings but they did not amend the salary ordinances.

TOWN OF GOSPORT
AUDIT RESULTS AND COMMENTS
(Continued)

Compensation of all town officers and employees shall be fixed by an ordinance of the town council, and for other than elected town officials, this compensation may be changed by another ordinance of the town council at any time. There is no limitation upon the amount fixed, only to the extent of available appropriations where tax funds are involved. [IC 36-5-3-2] At the time such compensation is fixed, it may be prorated between the general fund or any other applicable funds of the town, as well as any available utility funds. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The compensation of an elected town officer may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The approval of a claim for increased compensation does not authorize the town Clerk-Treasurer to pay such increase unless it is specifically provided for by ordinance of the town council. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS (Applies to Wastewater Utility)

As previously stated, most recently in Report B38062, gross revenues were not being distributed to the various utility funds in accordance with Revenue Bond Ordinance No. 7-6-93. There is no money set aside in a Debt Service Reserve Account, which, according to the bond ordinance, should have been fully funded within ten years in the amount of \$43,050. Also, there is no money set aside in an Operation and Maintenance Fund, which, according to the bond ordinance, should have a balance sufficient to pay the expenses of operation, repair and maintenance for the next succeeding two calendar months.

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)

OFFICIAL BOND (Applies to Town and Utilities)

The official bonds for the Clerk-Treasurer for the year 2011, and for his current elected term (2012 to 2015), were not filed in the Office of the County Recorder.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

ERRORS ON CLAIMS (Applies to Town and Utilities)

Invoices were not available for audit for 22 out of 103 tested vendor disbursements.

TOWN OF GOSPORT
AUDIT RESULTS AND COMMENTS
(Continued)

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.

(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."

CUSTOMER DEPOSIT FUND (Applies to Water Utility)

As previously reported, most recently in Report B38062, the following improper withdrawals totaling \$7,949 were never reimbursed to the Customer Deposit Fund:

On February 22, 2006, \$2,075 was withdrawn from the Water Meter Savings Account and remitted to the United States Treasury for the payment of a tax liability.

On October 25, 2005, \$5,874 was withdrawn for the same purpose.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

HYDRANT RENTAL (Applies to Town and Water Utility)

The Town of Gosport owes the Water Utility hydrant rental of \$9,306 per year for each of the years 2010 and 2011, pursuant to Rate Ordinance 2005-3 passed by the Council on March 7, 2005. As previously reported, most recently in Report B38062, the same amounts for each of the years 2006 through 2009 remain unpaid.

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 GOSPORT
AUDIT RESULTS AND COMMENTS
(Continued)

***SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES - INDIVIDUAL
RETIREMENT ACCOUNT PLAN (Applies to Town and Utilities)***

As previously reported, most recently in Report B38062, the Town has a Savings Incentive Match Plan for Employees (SIMPLE) Individual Retirement Account (IRA) Plan for employees. The Town provides matching contributions to this plan up to 3 percent of gross wages. In 2011, the Town contributed matching funds of \$1,888 to this plan.

Per Indiana Code, the following pension plans are available to employees of a city or town:

Public Employees' Retirement Fund 5-10.3
Municipal Utility Employees' Pension Fund 8-1.5-3-7
Deferred Compensation 5-10-1.1

Pursuant to Indiana Code 5-10.2-2-1, a city or town does not have authority to establish a pension plan by ordinance, resolution, or contract after January 1, 1995, without specific statutory authority. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS (Applies to Town and Utilities)

As previously reported, most recently in Report B38062, the Town does not maintain an inventory of capital assets. The Town Council has not established a capitalization policy.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each city or town should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which equipment items will be recorded. (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

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

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 GOSPORT, OWEN COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Gosport (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 its major federal program for the years ended December 31, 2010 and 2011. The Town's major federal program is 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 its major federal program 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.

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)

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

May 23, 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 note are presented as intended by the Town.

TOWN OF GOSPORT
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>				
Pass-Through 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			
Downtown Streetscape		CF-09-207	\$ 397,742	\$ 102,258
Disaster Assistance Program - Storm Sewer Project		DR2-09-012	973,689	26,190
Disaster Assistance Program - Water Main Project		DR2-09-152	-	817,785
Pass-Through Indiana Housing and Community Development Authority				
Neighborhood Stabilization Program		NSP-1-009-002	559,891	211,168
Homeowner Repair and Improvements		HD-008-030	91,651	14,785
Total for federal grantor agency			<u>2,022,973</u>	<u>1,172,186</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Direct Grant				
Assistance to Firefighters Grant	97.044		-	266,000
			<u>\$ 2,022,973</u>	<u>\$ 1,438,186</u>

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

TOWN OF GOSPORT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

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

TOWN OF GOSPORT
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 deficiency identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
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?	no

Identification of Major Program:

_____ Name of Federal Program or Cluster _____
CDBG - State Administered CDBG Cluster

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 Finding

FINDING 2011-1 - 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, disbursements, payroll and related liabilities, and cash and investment balances. The Clerk-Treasurer is responsible for collecting cash, issuing receipts, and making deposits. He is also responsible for preparing all payroll documentation, writing checks, posting all transactions to the records, and performing monthly bank reconciliations. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

TOWN OF GOSPORT
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, including the Schedule of Expenditures of Federal Awards, 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 place 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 implement procedures and controls to ensure that financial information is properly recorded and accurately reported, and to properly segregate accounting activities.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF GOSPORT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF GOSPORT

“ ON THE TEN ‘ O CLOCK LINE “

P.O. BOX 146
13 South 3rd street

GOSPORT, INDIANA 47433
Telephone (812) 879-4334
Fax (812) 879-9533

May 23, 2012

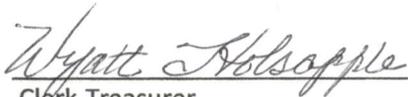
SECTION II FINANCIAL STATEMENT FINDING

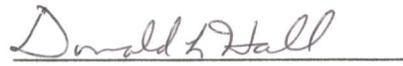
FINDING 2011-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Auditee Contact Person: Wyatt Holsapple
Contact Person Title: Clerk Treasurer
Contact Phone Number: 812-879-4334

The management of the Town of Gosport 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.


Clerk-Treasurer


Town Council

TOWN OF GOSPORT
EXIT CONFERENCE

The contents of this report were discussed on May 23, 2012, with Wyatt Holsapple, Clerk-Treasurer, and Donald L. Hall, President of the Town Council.