

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF LANESVILLE

HARRISON COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
08/21/2012

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|-------------------------------|----------------------|----------------------|
| Clerk-Treasurer | Linda L. Smith | 01-01-08 to 12-31-15 |
| President of the Town Council | Herbert L. Schneider | 01-01-10 to 12-31-12 |
| Superintendent of Utilities | Russell Sizemore | 01-01-10 to 12-31-12 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF LANESVILLE, HARRISON COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Lanesville (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.

Except as discussed in the fourth paragraph below, 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.

The Town's bank reconciliations as of December 31, 2010 and 2011, contained material reconciling items that could not be verified. The net effect of these reconciling items resulted in the financial records of the Town showing balances that exceeded the net bank balances.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the accuracy of the bank reconciliations, 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 July 31, 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, Schedule of Leases and Debt, and Schedule of Capital Assets 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

July 31, 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 LANESVILLE, HARRISON COUNTY, INDIANA

We have audited the financial statements of the Town of Lanesville (Town), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated July 31, 2012. The opinions to the financial statements were qualified due to the uncertainty of some significant reconciling items on the year end bank reconciliations. 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 opinion 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

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Finding and Questioned Costs as item 2011-1.

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

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

July 31, 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 LANESVILLE
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 | \$ 59,098 | \$ 56,833 | \$ 36,632 | \$ 79,299 |
| Motor Vehicle Highway | 63,231 | 18,563 | 15,304 | 66,490 |
| Local Road And Street | 22,676 | 2,888 | 1,372 | 24,192 |
| DR2-09-14 | - | 629,173 | 629,173 | - |
| Law Enforcement Continuing Education | 243 | 10,477 | 91 | 10,629 |
| Riverboat | 150,586 | 105,778 | 130,931 | 125,433 |
| DR2-09-14 Retainage | - | 41,212 | - | 41,212 |
| Emergency Management | 19,813 | - | - | 19,813 |
| Cumulative Capital Improvement | 16,999 | 1,798 | 24,000 | (5,203) |
| Police Equipment | 12,087 | 1,038 | 13,490 | (365) |
| County Economic Development Income Tax | 48,351 | 7,308 | 85,003 | (29,344) |
| Payroll | (12,020) | 162,125 | 151,068 | (963) |
| Trash | 28,856 | 30,080 | 41,320 | 17,616 |
| Wastewater Utility-Operating | 131,177 | 187,904 | 170,475 | 148,606 |
| Wastewater Utility-Depreciation/Improvement | 72,559 | 3,935 | - | 76,494 |
| Wastewater Utility-Customer Deposit | 18,459 | 4,900 | 2,961 | 20,398 |
| Wastewater Utility-Tap Fees | 84,789 | 6,000 | 2,000 | 88,789 |
| Wastewater Utility-Other | - | 314 | 314 | - |
| Water Utility-Operating | 20,684 | 382,823 | 284,312 | 119,195 |
| Water Utility-Bond And Interest | 12,253 | 80,500 | 73,303 | 19,450 |
| Water Utility-Depreciation/Improvement | 15,322 | 2,671 | - | 17,993 |
| Water Utility-Customer Deposit | 20,546 | 2,840 | 4,842 | 18,544 |
| Water Utility-Tap Fees | 12,585 | - | 12,585 | - |
| Water Utility-Meter Deposit Other | - | 3,000 | 684 | 2,316 |
| Water Utility-Sinking Other | - | 316 | 116 | 200 |
| Totals | <u>\$ 798,294</u> | <u>\$ 1,742,476</u> | <u>\$ 1,679,976</u> | <u>\$ 860,794</u> |

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

TOWN OF LANESVILLE
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 | \$ 79,299 | \$ 140,642 | \$ 88,888 | \$ 131,053 |
| Motor Vehicle Highway | 66,490 | 21,524 | 65,567 | 22,447 |
| Local Road And Street | 24,192 | 3,505 | 6,750 | 20,947 |
| Law Enforcement Continuing Education | 10,629 | 28 | 8,728 | 1,929 |
| Riverboat | 125,433 | 107,293 | 93,710 | 139,016 |
| Cumulative Capital Improvement | (5,203) | 6,514 | 400 | 911 |
| Police Equipment | (365) | 6,244 | 5,116 | 763 |
| County Economic Development Income Tax | (29,344) | 32,693 | 400 | 2,949 |
| DR2-09-014 | - | 365,801 | 365,801 | - |
| DR2-09-014 Retainage | 41,212 | 20,551 | 61,763 | - |
| Emergency Management | 19,813 | - | - | 19,813 |
| Payroll | (963) | 184,712 | 177,911 | 5,838 |
| Trash | 17,616 | 28,931 | 26,085 | 20,462 |
| Wastewater Utility-Operating | 148,606 | 202,289 | 209,236 | 141,659 |
| Wastewater Utility-Depreciation/Improvement | 76,494 | 4,737 | 4,591 | 76,640 |
| Wastewater Utility-Customer Deposit | 20,398 | 5,737 | 6,678 | 19,457 |
| Wastewater Utility-Tap Fees | 88,789 | 2,000 | - | 90,789 |
| Wastewater Utility-Other | - | 2,531 | - | 2,531 |
| Water Utility-Operating | 119,195 | 331,735 | 452,283 | (1,353) |
| Water Utility-Bond And Interest | 19,450 | 73,500 | 74,816 | 18,134 |
| Water Utility-Depreciation/Improvement | 17,993 | 320 | - | 18,313 |
| Water Utility-Customer Deposit | 18,544 | 2,711 | 6,170 | 15,085 |
| Water Utility-Tap Fees | - | 13,585 | - | 13,585 |
| Water Utility-Debt Reserve (Sinking) | - | 10,400 | - | 10,400 |
| Water Utility-Meter Deposit Other | 2,316 | 1,237 | - | 3,553 |
| Water Utility-Sinking Other | 200 | 386 | - | 586 |
| Totals | <u>\$ 860,794</u> | <u>\$ 1,569,606</u> | <u>\$ 1,654,893</u> | <u>\$ 775,507</u> |

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

TOWN OF LANESVILLE
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, public improvements, planning and zoning, general administrative services, water, wastewater, and trash services and urban redevelopment and housing.

The accompanying financial statements present the financial information for the Town.

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. 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.

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.

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 LANESVILLE
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.

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.

D. 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.

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.

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.

E. 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 LANESVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. 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 LANESVILLE
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.

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

TOWN OF LANESVILLE
 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 | DR2-09-14 | Law Enforcement Continuing Education | Riverboat | DR2-09-14 Retainage |
|--|------------------|-----------------------------|--------------------------------|----------------|---|-------------------|------------------------|
| Cash and investments - beginning | \$ 59,098 | \$ 63,231 | \$ 22,676 | \$ - | \$ 243 | \$ 150,586 | \$ - |
| Receipts: | | | | | | | |
| Taxes | 57,238 | - | - | - | - | - | - |
| Intergovernmental | (25,608) | 18,563 | 2,888 | 629,173 | - | 105,778 | 41,212 |
| Charges for services | 156 | - | - | - | 10,477 | - | - |
| Utility fees | - | - | - | - | - | - | - |
| Other receipts | 25,047 | - | - | - | - | - | - |
| Total receipts | <u>56,833</u> | <u>18,563</u> | <u>2,888</u> | <u>629,173</u> | <u>10,477</u> | <u>105,778</u> | <u>41,212</u> |
| Disbursements: | | | | | | | |
| Personal services | 27,382 | 716 | - | - | - | - | - |
| Supplies | 4,244 | 7,790 | - | - | 91 | - | - |
| Other services and charges | 3,178 | 6,372 | - | - | - | 104,376 | - |
| Debt service - principal and interest | - | - | - | - | - | - | - |
| Capital outlay | 1,828 | 426 | 1,372 | 629,173 | - | 26,555 | - |
| Utility operating expenses | - | - | - | - | - | - | - |
| Other disbursements | - | - | - | - | - | - | - |
| Total disbursements | <u>36,632</u> | <u>15,304</u> | <u>1,372</u> | <u>629,173</u> | <u>91</u> | <u>130,931</u> | <u>-</u> |
| Excess (deficiency) of receipts over disbursements | <u>20,201</u> | <u>3,259</u> | <u>1,516</u> | <u>-</u> | <u>10,386</u> | <u>(25,153)</u> | <u>41,212</u> |
| Cash and investments - ending | <u>\$ 79,299</u> | <u>\$ 66,490</u> | <u>\$ 24,192</u> | <u>\$ -</u> | <u>\$ 10,629</u> | <u>\$ 125,433</u> | <u>\$ 41,212</u> |

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

| | Emergency Management | Cumulative Capital Improvement | Police Equipment | County Economic Development Income Tax | Payroll | Trash | Wastewater Utility Operating |
|---|-------------------------|--------------------------------------|---------------------|--|-------------|-----------|------------------------------------|
| Cash and investments - beginning | \$ 19,813 | \$ 16,999 | \$ 12,087 | \$ 48,351 | \$ (12,020) | \$ 28,856 | \$ 131,177 |
| Receipts: | | | | | | | |
| Taxes | - | - | - | - | - | - | - |
| Intergovernmental | - | 1,798 | - | - | - | - | - |
| Charges for services | - | - | - | - | - | - | - |
| Utility fees | - | - | - | - | - | 30,080 | 165,373 |
| Other receipts | - | - | 1,038 | 7,308 | 162,125 | - | 22,531 |
| Total receipts | - | 1,798 | 1,038 | 7,308 | 162,125 | 30,080 | 187,904 |
| Disbursements: | | | | | | | |
| Personal services | - | - | - | - | - | - | - |
| Supplies | - | - | 13,490 | - | - | - | - |
| Other services and charges | - | - | - | - | - | - | - |
| Debt service - principal and interest | - | - | - | - | - | - | 49,086 |
| Capital outlay | - | 24,000 | - | 85,003 | - | - | - |
| Utility operating expenses | - | - | - | - | - | 36,320 | 121,389 |
| Other disbursements | - | - | - | - | 151,068 | 5,000 | - |
| Total disbursements | - | 24,000 | 13,490 | 85,003 | 151,068 | 41,320 | 170,475 |
| Excess (deficiency) of receipts over disbursements | - | (22,202) | (12,452) | (77,695) | 11,057 | (11,240) | 17,429 |
| Cash and investments - ending | \$ 19,813 | \$ (5,203) | \$ (365) | \$ (29,344) | \$ (963) | \$ 17,616 | \$ 148,606 |

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

| | Wastewater Utility Depreciation/ Improvement | Wastewater Utility Customer Deposit | Wastewater Utility Tap Fees | Wastewater Utility Other | Water Utility Operating | Water Utility Bond And Interest |
|---|---|--|-----------------------------------|--------------------------------|-------------------------------|--|
| Cash and investments - beginning | \$ 72,559 | \$ 18,459 | \$ 84,789 | \$ - | \$ 20,684 | \$ 12,253 |
| Receipts: | | | | | | |
| Taxes | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - |
| Charges for services | - | - | - | - | - | - |
| Utility fees | - | - | - | - | 267,848 | - |
| Other receipts | 3,935 | 4,900 | 6,000 | 314 | 114,975 | 80,500 |
| Total receipts | <u>3,935</u> | <u>4,900</u> | <u>6,000</u> | <u>314</u> | <u>382,823</u> | <u>80,500</u> |
| Disbursements: | | | | | | |
| Personal services | - | - | - | - | - | - |
| Supplies | - | - | - | - | - | - |
| Other services and charges | - | - | - | - | - | - |
| Debt service - principal and interest | - | - | - | - | 63,819 | - |
| Capital outlay | - | - | - | - | - | - |
| Utility operating expenses | - | 2,603 | 2,000 | 314 | 124,150 | - |
| Other disbursements | - | 358 | - | - | 96,343 | 73,303 |
| Total disbursements | <u>-</u> | <u>2,961</u> | <u>2,000</u> | <u>314</u> | <u>284,312</u> | <u>73,303</u> |
| Excess (deficiency) of receipts over disbursements | <u>3,935</u> | <u>1,939</u> | <u>4,000</u> | <u>-</u> | <u>98,511</u> | <u>7,197</u> |
| Cash and investments - ending | <u>\$ 76,494</u> | <u>\$ 20,398</u> | <u>\$ 88,789</u> | <u>\$ -</u> | <u>\$ 119,195</u> | <u>\$ 19,450</u> |

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

| | Water Utility Depreciation/ Improvement | Water Utility Customer Deposit | Water Utility Tap Fees | Water Utility Meter Deposit Other | Water Utility Sinking Other | Totals |
|--|--|---|------------------------------|---|--------------------------------------|------------|
| Cash and investments - beginning | \$ 15,322 | \$ 20,546 | \$ 12,585 | \$ - | \$ - | \$ 798,294 |
| Receipts: | | | | | | |
| Taxes | - | - | - | - | - | 57,238 |
| Intergovernmental | - | - | - | - | - | 773,804 |
| Charges for services | - | - | - | - | - | 10,633 |
| Utility fees | - | - | - | 3,000 | - | 466,301 |
| Other receipts | 2,671 | 2,840 | - | - | 316 | 434,500 |
| Total receipts | 2,671 | 2,840 | - | 3,000 | 316 | 1,742,476 |
| Disbursements: | | | | | | |
| Personal services | - | - | - | - | - | 28,098 |
| Supplies | - | - | - | - | - | 25,615 |
| Other services and charges | - | - | - | - | - | 113,926 |
| Debt service - principal and interest | - | - | - | - | - | 112,905 |
| Capital outlay | - | - | - | - | - | 768,357 |
| Utility operating expenses | - | 4,842 | 12,585 | - | 116 | 304,319 |
| Other disbursements | - | - | - | 684 | - | 326,756 |
| Total disbursements | - | 4,842 | 12,585 | 684 | 116 | 1,679,976 |
| Excess (deficiency) of receipts over disbursements | 2,671 | (2,002) | (12,585) | 2,316 | 200 | 62,500 |
| Cash and investments - ending | \$ 17,993 | \$ 18,544 | \$ - | \$ 2,316 | \$ 200 | \$ 860,794 |

TOWN OF LANESVILLE
 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 Education | Riverboat | Cumulative Capital Improvement | Police Equipment |
|--|-------------------|-----------------------------|--------------------------------|---|-------------------|--------------------------------------|---------------------|
| Cash and investments - beginning | \$ 79,299 | \$ 66,490 | \$ 24,192 | \$ 10,629 | \$ 125,433 | \$ (5,203) | \$ (365) |
| Receipts: | | | | | | | |
| Taxes | 34,188 | - | - | - | - | - | - |
| Licenses and permits | 35 | - | - | - | - | - | - |
| Intergovernmental | 17,441 | 21,524 | 3,505 | - | 107,293 | 6,514 | - |
| Charges for services | - | - | - | 28 | - | - | - |
| Utility fees | - | - | - | - | - | - | - |
| Other receipts | 88,978 | - | - | - | - | - | 6,244 |
| Total receipts | <u>140,642</u> | <u>21,524</u> | <u>3,505</u> | <u>28</u> | <u>107,293</u> | <u>6,514</u> | <u>6,244</u> |
| Disbursements: | | | | | | | |
| Personal services | 29,535 | 7,525 | - | - | - | - | - |
| Supplies | 2,641 | 9,178 | - | 8,728 | - | - | - |
| Other services and charges | 35,185 | 7,160 | 2,000 | - | 93,710 | 400 | - |
| Debt service - principal and interest | - | - | - | - | - | - | - |
| Capital outlay | 21,527 | - | - | - | - | - | - |
| Utility operating expenses | - | - | - | - | - | - | - |
| Other disbursements | - | 41,704 | 4,750 | - | - | - | 5,116 |
| Total disbursements | <u>88,888</u> | <u>65,567</u> | <u>6,750</u> | <u>8,728</u> | <u>93,710</u> | <u>400</u> | <u>5,116</u> |
| Excess (deficiency) of receipts over disbursements | <u>51,754</u> | <u>(44,043)</u> | <u>(3,245)</u> | <u>(8,700)</u> | <u>13,583</u> | <u>6,114</u> | <u>1,128</u> |
| Cash and investments - ending | <u>\$ 131,053</u> | <u>\$ 22,447</u> | <u>\$ 20,947</u> | <u>\$ 1,929</u> | <u>\$ 139,016</u> | <u>\$ 911</u> | <u>\$ 763</u> |

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

| | County Economic Development Income Tax | DR2-09-014 | DR2-09-014 Retainage | Emergency Management | Payroll | Trash | Wastewater Utility Operating |
|--|--|----------------|-------------------------|-------------------------|-----------------|------------------|------------------------------------|
| Cash and investments - beginning | \$ (29,344) | \$ - | \$ 41,212 | \$ 19,813 | \$ (963) | \$ 17,616 | \$ 148,606 |
| Receipts: | | | | | | | |
| Taxes | - | - | - | - | - | - | - |
| Licenses and permits | - | - | - | - | - | - | - |
| Intergovernmental | 32,693 | - | - | - | - | - | - |
| Charges for services | - | - | - | - | - | 28,931 | - |
| Utility fees | - | - | - | - | - | - | 182,801 |
| Other receipts | - | 365,801 | 20,551 | - | 184,712 | - | 19,488 |
| Total receipts | <u>32,693</u> | <u>365,801</u> | <u>20,551</u> | <u>-</u> | <u>184,712</u> | <u>28,931</u> | <u>202,289</u> |
| Disbursements: | | | | | | | |
| Personal services | - | - | - | - | 177,911 | - | - |
| Supplies | - | - | - | - | - | - | - |
| Other services and charges | 400 | 365,801 | - | - | - | 26,085 | - |
| Debt service - principal and interest | - | - | - | - | - | - | 49,085 |
| Capital outlay | - | - | - | - | - | - | - |
| Utility operating expenses | - | - | - | - | - | - | 160,151 |
| Other disbursements | - | - | 61,763 | - | - | - | - |
| Total disbursements | <u>400</u> | <u>365,801</u> | <u>61,763</u> | <u>-</u> | <u>177,911</u> | <u>26,085</u> | <u>209,236</u> |
| Excess (deficiency) of receipts over disbursements | <u>32,293</u> | <u>-</u> | <u>(41,212)</u> | <u>-</u> | <u>6,801</u> | <u>2,846</u> | <u>(6,947)</u> |
| Cash and investments - ending | <u>\$ 2,949</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 19,813</u> | <u>\$ 5,838</u> | <u>\$ 20,462</u> | <u>\$ 141,659</u> |

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

| | Wastewater Utility Depreciation/ Improvement | Wastewater Utility Customer Deposit | Wastewater Utility Tap Fees | Wastewater Utility Other | Water Utility Operating | Water Utility Bond And Interest | Water Utility Depreciation/ Improvement |
|---|---|--|-----------------------------------|--------------------------------|-------------------------------|--|--|
| Cash and investments - beginning | \$ 76,494 | \$ 20,398 | \$ 88,789 | \$ - | \$ 119,195 | \$ 19,450 | \$ 17,993 |
| Receipts: | | | | | | | |
| Taxes | - | - | - | - | 15,358 | - | - |
| Licenses and permits | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - | - |
| Charges for services | - | - | - | - | - | - | - |
| Utility fees | - | 5,700 | - | - | 301,184 | - | - |
| Other receipts | 4,737 | 37 | 2,000 | 2,531 | 15,193 | 73,500 | 320 |
| Total receipts | 4,737 | 5,737 | 2,000 | 2,531 | 331,735 | 73,500 | 320 |
| Disbursements: | | | | | | | |
| Personal services | - | - | - | - | - | - | - |
| Supplies | - | - | - | - | - | - | - |
| Other services and charges | - | - | - | - | - | - | - |
| Debt service - principal and interest | - | - | - | - | 129,651 | 74,816 | - |
| Capital outlay | - | - | - | - | 47,418 | - | - |
| Utility operating expenses | - | - | - | - | 194,058 | - | - |
| Other disbursements | 4,591 | 6,678 | - | - | 81,156 | - | - |
| Total disbursements | 4,591 | 6,678 | - | - | 452,283 | 74,816 | - |
| Excess (deficiency) of receipts over disbursements | 146 | (941) | 2,000 | 2,531 | (120,548) | (1,316) | 320 |
| Cash and investments - ending | \$ 76,640 | \$ 19,457 | \$ 90,789 | \$ 2,531 | \$ (1,353) | \$ 18,134 | \$ 18,313 |

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

| | Water Utility Customer Deposit | Water Utility Tap Fees | Water Utility Debt Reserve (Sinking) | Water Utility Meter Deposit Other | Water Utility Sinking Other | Totals |
|--|---|------------------------------|---|---|--------------------------------------|------------|
| Cash and investments - beginning | \$ 18,544 | \$ - | \$ - | \$ 2,316 | \$ 200 | \$ 860,794 |
| Receipts: | | | | | | |
| Taxes | - | - | - | - | - | 49,546 |
| Licenses and permits | - | - | - | - | - | 35 |
| Intergovernmental | - | - | - | - | - | 188,970 |
| Charges for services | - | - | - | - | - | 28,959 |
| Utility fees | - | - | - | - | - | 489,685 |
| Other receipts | 2,711 | 13,585 | 10,400 | 1,237 | 386 | 812,411 |
| Total receipts | 2,711 | 13,585 | 10,400 | 1,237 | 386 | 1,569,606 |
| Disbursements: | | | | | | |
| Personal services | - | - | - | - | - | 214,971 |
| Supplies | - | - | - | - | - | 20,547 |
| Other services and charges | - | - | - | - | - | 530,741 |
| Debt service - principal and interest | - | - | - | - | - | 253,552 |
| Capital outlay | - | - | - | - | - | 68,945 |
| Utility operating expenses | - | - | - | - | - | 354,209 |
| Other disbursements | 6,170 | - | - | - | - | 211,928 |
| Total disbursements | 6,170 | - | - | - | - | 1,654,893 |
| Excess (deficiency) of receipts over disbursements | (3,459) | 13,585 | 10,400 | 1,237 | 386 | (85,287) |
| Cash and investments - ending | \$ 15,085 | \$ 13,585 | \$ 10,400 | \$ 3,553 | \$ 586 | \$ 775,507 |

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

| Description of Debt | Ending Principal Balance | Principal and Interest Due Within One Year |
|--------------------------------------|--------------------------------|---|
| Water Utility: | | |
| Revenue bonds: | | |
| 2005 Water improvement revenue bonds | \$ 1,297,000 | \$ 18,765 |
| Loan payable | 53,109 | 10,775 |
| Wastewater Utility: | | |
| Loan payable | <u>241,943</u> | <u>49,085</u> |
| Total debt | <u>\$ 1,592,052</u> | <u>\$ 78,625</u> |

TOWN OF LANESVILLE
SCHEDULE OF CAPITAL ASSETS
December 31, 2011

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

| | <u>Ending Balance</u> |
|-----------------------------------|----------------------------|
| Governmental activities: | |
| Infrastructure | \$ 250,971 |
| Buildings | 7,300 |
| Machinery and equipment | <u>62,548</u> |
| Total governmental activities | <u>320,819</u> |
| Water Utility: | |
| Land | 16,500 |
| Improvements other than buildings | 2,336,951 |
| Machinery and equipment | <u>135,378</u> |
| Total Water Utility | <u>2,488,829</u> |
| Wastewater Utility: | |
| Land | 30,000 |
| Buildings | 899,026 |
| Improvements other than buildings | 1,230,938 |
| Machinery and equipment | <u>192,034</u> |
| Total Wastewater Utility | <u>2,351,998</u> |
| Total capital assets | <u><u>\$ 5,161,646</u></u> |

TOWN OF LANESVILLE
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping that were cited in the prior examination report, were again present during the current audit period:

Bank Reconciliations

Reconciliations of the Town's Fund Ledger to the bank accounts were not performed in a timely manner. This was mostly due to the financial transactions of the Town not being posted to the computer system timely. The bank reconcilements presented for audit for the years ending December 31, 2010 and 2011, contained reconciling items that could not be verified. The net effect of the reconciling items results in the record balances exceeding the net bank balances by \$23,959.45 at December 31, 2010, and \$23,528.10 at December 31, 2011.

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 employees 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)

Timely Recordkeeping

Transactions were not being posted to the ledger timely. The Town hired a bookkeeper in 2011 to help identify and correct \$26,191.40 in revenue postings and \$52,233.80 in disbursement postings for 2010. Transaction postings to the 2011 financial records were not completed until May of 2012. Failure to timely identify and record receipts deposited in the records and post checks written to the ledger, could result in materially inaccurate financial statements and could allow fraud to occur and go undetected.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

Annual Financial Reports

The electronic Annual Financial Reports prepared and filed by the Town for 2010 and 2011 were not properly reviewed and compared to the Town's ledgers prior to being filed to ensure they accurately and correctly reflected the transactions and balances of the Town's financial records. As a result, the Town's Annual Financial Reports were incorrect and not reflective of the Town's financial records. In addition, the reports for both 2010 and 2011 were not submitted by the filing deadline.

TOWN OF LANESVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-1-4 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 less than (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."

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

INTERNAL CONTROL 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 the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, including utility billings and collections, and cash and investment balances. One individual is responsible for the collecting and depositing of funds, posting of receipts to the financial records, and preparing monthly bank reconciliements. The failure to establish these controls could enable material misstatements or irregularities to go 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 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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

TOWN OF LANESVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

FINANCIAL REPORT OPINION MODIFICATION

Accurate financial records and bank reconciliations for the years 2010 and 2011 were not presented for audit. The uncertainty of some of the reconciling items made it impossible to determine if the financial statements materially represent the financial activity of the Town for the years 2010 and 2011. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SERVICE RECORDS

Some employee service records were not maintained and presented for audit.

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)

CUSTOMER DEPOSIT REGISTER

Customer Deposit Registers have not been reconciled with the ledgers during the period audited.

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)

OVERDRAWN FUND BALANCES

The Cumulative Capital Improvement Fund, Police Equipment Fund, County Economic Development Income Tax Fund, and Payroll Fund were overdrawn in 2010 in the amounts of \$5,203, \$365, \$29,344, and \$963, respectively.

The Water Utility - Operating Fund was overdrawn in 2011 in the amount of \$1,353.

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)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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 LANESVILLE, HARRISON COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Lanesville (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

July 31, 2012

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

TOWN OF LANESVILLE
 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 | | | | |
| ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii - (Recovery Act Funded) (State-Administered Small Cities Program) | 14.255 | DR2-09-014 | \$ <u>629,173</u> | \$ <u>365,801</u> |

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

TOWN OF LANESVILLE
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 Lanesville 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 LANESVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

| | |
|---|---------------|
| Type of auditor's report issued: | Qualified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | yes |
| Significant deficiency identified? | none reported |
| Noncompliance material to financial statements noted? | yes |

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 Programs:

_____ 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 Findings

FINDING 2011-1 - INTERNAL CONTROLS AND NONCOMPLIANCE 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 the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, including utility billings and collections, and cash and investment balances. One individual is responsible for the collecting and depositing of funds, posting of receipts to the financial records, and preparing monthly bank reconciliements. The failure to establish these controls could enable material misstatements or irregularities to go undetected.

TOWN OF LANESVILLE
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 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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

In addition, we noted the following deficiencies relating to the recordkeeping:

1. Reconciliations of the Town's Fund Ledger to the bank accounts were not performed in a timely manner. This was mostly due to the financial transactions of the Town not being posted to the computer system timely. The bank reconcilments presented for audit for the years ending December 31, 2010 and 2011 contained reconciling items that could not be verified. The net effect of the reconciling items results in the record balances exceeding the net bank balances by \$23,959.45 at December 31, 2010 and \$23,528.10 at December 31, 2011.
2. Transactions were not being posted to the ledger timely. The Town hired a bookkeeper in 2011 to help identify and correct \$26,191.40 in revenue postings and 52,233.80 in disbursement postings for 2010. Transaction postings to the 2011 financial records were not completed until May of 2012. Failure to timely identify and record receipts deposited in the records and post checks written to the ledger, could result in materially inaccurate financial statements and could allow fraud to occur and go undetected.

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."

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

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 employees 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).

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that the Town design and properly monitor procedures that would ensure that the internal control deficiencies and noncompliance noted are adequately corrected.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF LANESVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CORRECTIVE ACTION PLAN

Per Finding 2011-1 from the State Board of Accounts field representative's audit, this memo describes a corrective action plan created by the Lanesville Town Council and Lanesville Clerk-Treasurer. This corrective action plan will be placed in a position that is accessible to those with a need to review the contents.

Regarding the internal control system of the Town:

1. **Lack of Segregation of Duties:** The Utility Clerk is responsible for collecting, depositing, and receipting of utility payments; the Utility Clerk also creates the receipts for other payments received by the Town.
The Clerk-Treasurer is responsible for creating the vouchers and checks for payments on accounts for the Town of Lanesville. These vouchers and checks are reviewed and approved by the Town Council before being signed and mailed to the vendor.
Unless it becomes necessary to separate these duties to a further extent, these duties will continue as described.
Currently, the Clerk-Treasurer performs the monthly bank reconciliation without review. The proposed change to this procedure would be having the Clerk-Treasurer and the Utility Clerk alternate monthly preparation of the bank reconciliation, with review by the other individual, and a member of the Town Council.
2. **Preparing Financial Statements:** Monthly financial statements showing all expenditures, receipts, and fund balances for the Town and Utilities will be prepared by the individual performing the bank reconciliation for review by the Town Council. These financial statements will be presented to the Town Council before the monthly Town meeting. This information will show all receipts and vendor payments.
3. **Monitoring of Controls:** Members of the Lanesville Town Council, on a rotating basis, will be responsible for review of the monthly bank reconciliations, and all members of the Town Council will review the monthly financial statements with any comments to the preparer.

These guidelines for internal control will be reviewed and approved by the Lanesville Town Council and will be followed by the current and all subsequent Town Council members, Clerk-Treasurer, and employees.

Regarding the additional deficiencies:

1. All reconciliations of the Town fund ledgers with the bank statements will be done on a monthly basis; all entries for receipts and disbursements will be input to the

computer in a timely manner as they are received or expended. These actions will be shown on all financial reports prepared for Town Council review.

2. All transactions are currently input into the computer in a timely manner in order that knowledge of the accurate balances of accounts is readily available at any time.

All Town fund accounts currently balance with the Town bank statements through the monthly reconciliation. This information is available to the Lanesville Town Council for review at any time to allow for informed management decisions.

The proposed guidelines and changes to procedure listed above will become a permanent record of the Town of Lanesville and will ensure compliance with the Public Records Law. (IC 5-15-1-1).



Herb Schneider, Council President



Betsy Blocker, Council Member



Bill Lafayette, Council Member



Attested by: Linda L. Smith,
Clerk-Treasurer

July 30, 2012
Date

TOWN OF LANESVILLE
EXIT CONFERENCE

The contents of this report were discussed on July 31, 2012, with Linda L. Smith, Clerk-Treasurer, and Herbert L. Schneider, President of the Town Council.