

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

FINANCIAL STATEMENTS AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF SWAYZEE
GRANT COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
09/19/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Alma Caldwell Susan J. Piper	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Town Council	Shelby Taylor Brian Hall	01-01-10 to 12-31-11 01-01-12 to 12-31-12
Superintendent of Utilities	Wayne Carmack	01-01-10 to 12-31-12



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

TO: THE OFFICIALS OF THE TOWN OF SWAYZEE, GRANT COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Swayzee (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 an opinion 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 September 5, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards 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, as listed in the Table of Contents, 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

September 5, 2012



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

TO: THE OFFICIALS OF THE TOWN OF SWAYZEE, GRANT COUNTY, INDIANA

We have audited the financial statements of the Town of Swayzee (Town), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated September 5, 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

Management of the Town is responsible for establishing and maintaining effective 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 THE 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

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

September 5, 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 SWAYZEE
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	\$ 52,550	\$ 161,204	\$ 148,803	\$ 64,951
Solid Waste Disposal	1,023	43,161	42,453	1,731
Motor Vehicle Highway	34,702	53,099	55,591	32,210
Local Road and Street	10,419	8,295	11,000	7,714
Park Donation	6,640	-	-	6,640
Law Enforcement Continuing Education	3,644	11,012	8,527	6,129
Riverboat	26,148	6,327	-	32,475
Parks and Recreation	28,305	9,586	11,139	26,752
Rainy Day	3,988	362	-	4,350
CEDIT	-	8,583	-	8,583
Levy Excess	-	381	-	381
Operation Pullover	303	4,300	4,243	360
Cumulative Capital Improvement	13,595	2,960	1,556	14,999
Storm Water Management	10,336	10,726	11,032	10,030
Payroll	88	179,830	179,812	106
Utility Clearing	31,946	418,113	414,101	35,958
Wastewater Utility - Operating	46,814	177,515	174,354	49,975
Wastewater Utility - Bond and Interest	2,075	89,038	88,824	2,289
Wastewater Utility - Debt Service Reserve	96,060	-	-	96,060
Wastewater Utility - Improvement	6,382	6,432	-	12,814
Water Utility - Operating	22,449	182,791	160,130	45,110
Water Utility - Depreciation	51,287	55,000	6,460	99,827
Water Utility - Customer Deposit	7,260	2,400	2,050	7,610
Water Utility - Construction	-	783,826	779,628	4,198
Water Utility - Debt Service Reserve	-	1,504	-	1,504
Water Utility - Bond and Interest	-	10,734	771	9,963
Totals	<u>\$ 456,014</u>	<u>\$ 2,227,179</u>	<u>\$ 2,100,474</u>	<u>\$ 582,719</u>

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

TOWN OF SWAYZEE
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	\$ 64,951	\$ 177,718	\$ 154,008	\$ 88,661
Motor Vehicle Highway	32,210	56,034	46,611	41,633
Local Road and Street	7,714	8,028	5,755	9,987
Law Enforcement Continuing Education	6,129	9,722	12,809	3,042
Riverboat	32,475	6,327	8,000	30,802
Parks and Recreation	26,752	2,100	10,357	18,495
Park Donation	6,640	135	-	6,775
Rainy Day	4,350	-	-	4,350
CEDIT	8,583	7,534	13,000	3,117
Levy Excess	381	-	381	-
Cumulative Capital Improvement	14,999	2,973	9,997	7,975
Storm Water Management	10,030	10,861	7,850	13,041
Solid Waste Disposal	1,731	45,277	44,720	2,288
Operation Pullover	360	2,768	2,858	270
Payroll	106	179,818	179,818	106
Utility Clearing	35,958	444,467	446,603	33,822
Wastewater Utility - Operating	49,975	197,140	211,129	35,986
Wastewater Utility - Bond and Interest	2,289	91,966	91,938	2,317
Wastewater Utility - Debt Service Reserve	96,060	119	-	96,179
Wastewater Utility - Improvement	12,814	5,932	-	18,746
Water Utility - Operating	45,110	219,128	209,789	54,449
Water Utility - Depreciation	99,827	21,000	6,000	114,827
Water Utility - Customer Deposit	7,610	2,525	1,600	8,535
Water Utility - Construction	4,198	168,240	172,438	-
Water Utility - Debt Service Reserve	1,504	2,256	-	3,760
Water Utility - Water Tower Painting	-	6,123	-	6,123
Water Utility - Bond and Interest	9,963	19,320	12,345	16,938
Totals	<u>\$ 582,719</u>	<u>\$ 1,687,511</u>	<u>\$ 1,648,006</u>	<u>\$ 622,224</u>

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

TOWN OF SWAYZEE
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include 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 non-businesses 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,

TOWN OF SWAYZEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

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

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

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

Penalties which include fees received for late payments.

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

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include 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 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.

TOWN OF SWAYZEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

F. Interfund Transfers

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

G. Fund Accounting

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

Note 2. Budgets

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

Note 3. Property Taxes

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

TOWN OF SWAYZEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 4. *Deposits and Investments*

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

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

Note 5. *Risk Management*

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

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

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

	General	Solid Waste Disposal	Motor Vehicle Highway	Local Road and Street	Park Donation	Law Enforcement Continuing Education	Riverboat
Cash and investments - beginning	\$ 52,550	\$ 1,023	\$ 34,702	\$ 10,419	\$ 6,640	\$ 3,644	\$ 26,148
Receipts:							
Taxes	102,391	-	22,514	-	-	-	-
Licenses and permits	787	-	-	-	-	-	-
Intergovernmental	51,901	-	30,165	8,295	-	-	6,327
Charges for services	3,551	43,161	420	-	-	942	-
Fines and forfeits	-	-	-	-	-	9,570	-
Utility fees	-	-	-	-	-	-	-
Other receipts	2,574	-	-	-	-	500	-
Total receipts	<u>161,204</u>	<u>43,161</u>	<u>53,099</u>	<u>8,295</u>	<u>-</u>	<u>11,012</u>	<u>6,327</u>
Disbursements:							
Personal services	98,297	-	26,336	-	-	-	-
Supplies	678	-	16,600	-	-	4,194	-
Other services and charges	49,828	42,453	10,655	11,000	-	208	-
Debt service - principal and interest	-	-	-	-	-	4,125	-
Capital outlay	-	-	2,000	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>148,803</u>	<u>42,453</u>	<u>55,591</u>	<u>11,000</u>	<u>-</u>	<u>8,527</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>12,401</u>	<u>708</u>	<u>(2,492)</u>	<u>(2,705)</u>	<u>-</u>	<u>2,485</u>	<u>6,327</u>
Cash and investments - ending	<u>\$ 64,951</u>	<u>\$ 1,731</u>	<u>\$ 32,210</u>	<u>\$ 7,714</u>	<u>\$ 6,640</u>	<u>\$ 6,129</u>	<u>\$ 32,475</u>

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

	Parks and Recreation	Rainy Day	CEDIT	Levy Excess	Operation Pullover	Cumulative Capital Improvement	Storm Water Management
Cash and investments - beginning	\$ 28,305	\$ 3,988	\$ -	\$ -	\$ 303	\$ 13,595	\$ 10,336
Receipts:							
Taxes	8,426	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	1,160	362	8,583	-	-	2,960	-
Charges for services	-	-	-	-	4,300	-	10,726
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	381	-	-	-
Total receipts	<u>9,586</u>	<u>362</u>	<u>8,583</u>	<u>381</u>	<u>4,300</u>	<u>2,960</u>	<u>10,726</u>
Disbursements:							
Personal services	2,272	-	-	-	4,243	-	-
Supplies	400	-	-	-	-	-	-
Other services and charges	2,797	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	5,670	-	-	-	-	1,556	11,032
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>11,139</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,243</u>	<u>1,556</u>	<u>11,032</u>
Excess (deficiency) of receipts over disbursements	<u>(1,553)</u>	<u>362</u>	<u>8,583</u>	<u>381</u>	<u>57</u>	<u>1,404</u>	<u>(306)</u>
Cash and investments - ending	<u>\$ 26,752</u>	<u>\$ 4,350</u>	<u>\$ 8,583</u>	<u>\$ 381</u>	<u>\$ 360</u>	<u>\$ 14,999</u>	<u>\$ 10,030</u>

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

	Payroll	Utility Clearing	Wastewater Utility - Operating	Wastewater Utility - Bond and Interest	Wastewater Utility - Debt Service Reserve	Wastewater Utility - Improvement	Water Utility - Operating
Cash and investments - beginning	\$ 88	\$ 31,946	\$ 46,814	\$ 2,075	\$ 96,060	\$ 6,382	\$ 22,449
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	171,480	-	-	500	175,721
Other receipts	179,830	418,113	6,035	89,038	-	5,932	7,070
Total receipts	<u>179,830</u>	<u>418,113</u>	<u>177,515</u>	<u>89,038</u>	<u>-</u>	<u>6,432</u>	<u>182,791</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	77,870	-	-	-	105,973
Other disbursements	179,812	414,101	96,484	88,824	-	-	54,157
Total disbursements	<u>179,812</u>	<u>414,101</u>	<u>174,354</u>	<u>88,824</u>	<u>-</u>	<u>-</u>	<u>160,130</u>
Excess (deficiency) of receipts over disbursements	<u>18</u>	<u>4,012</u>	<u>3,161</u>	<u>214</u>	<u>-</u>	<u>6,432</u>	<u>22,661</u>
Cash and investments - ending	<u>\$ 106</u>	<u>\$ 35,958</u>	<u>\$ 49,975</u>	<u>\$ 2,289</u>	<u>\$ 96,060</u>	<u>\$ 12,814</u>	<u>\$ 45,110</u>

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

	Water Utility - Depreciation	Water Utility - Customer Deposit	Water Utility - Construction	Water Utility - Debt Service Reserve	Water Utility - Bond and Interest	Totals
Cash and investments - beginning	\$ 51,287	\$ 7,260	\$ -	\$ -	\$ -	\$ 456,014
Receipts:						
Taxes	-	-	-	-	-	133,331
Licenses and permits	-	-	-	-	-	787
Intergovernmental	-	-	-	-	-	109,753
Charges for services	-	-	-	-	-	63,100
Fines and forfeits	-	-	-	-	-	9,570
Utility fees	-	-	-	-	-	347,701
Other receipts	55,000	2,400	783,826	1,504	10,734	1,562,937
Total receipts	<u>55,000</u>	<u>2,400</u>	<u>783,826</u>	<u>1,504</u>	<u>10,734</u>	<u>2,227,179</u>
Disbursements:						
Personal services	-	-	-	-	-	131,148
Supplies	-	-	-	-	-	21,872
Other services and charges	-	-	-	-	-	116,941
Debt service - principal and interest	-	-	-	-	-	4,125
Capital outlay	-	-	745,628	-	771	766,657
Utility operating expenses	-	2,050	-	-	-	185,893
Other disbursements	6,460	-	34,000	-	-	873,838
Total disbursements	<u>6,460</u>	<u>2,050</u>	<u>779,628</u>	<u>-</u>	<u>771</u>	<u>2,100,474</u>
Excess (deficiency) of receipts over disbursements	<u>48,540</u>	<u>350</u>	<u>4,198</u>	<u>1,504</u>	<u>9,963</u>	<u>126,705</u>
Cash and investments - ending	<u>\$ 99,827</u>	<u>\$ 7,610</u>	<u>\$ 4,198</u>	<u>\$ 1,504</u>	<u>\$ 9,963</u>	<u>\$ 582,719</u>

TOWN OF SWAYZEE
 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	Parks and Recreation	Park Donation
Cash and investments - beginning	\$ 64,951	\$ 32,210	\$ 7,714	\$ 6,129	\$ 32,475	\$ 26,752	\$ 6,640
Receipts:							
Taxes	119,411	25,205	-	-	-	1,874	-
Licenses and permits	210	-	-	560	-	-	-
Intergovernmental	48,908	30,802	8,028	-	6,327	226	-
Charges for services	911	-	-	-	-	-	-
Fines and forfeits	-	-	-	9,162	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	8,278	27	-	-	-	-	135
Total receipts	<u>177,718</u>	<u>56,034</u>	<u>8,028</u>	<u>9,722</u>	<u>6,327</u>	<u>2,100</u>	<u>135</u>
Disbursements:							
Personal services	96,685	26,589	-	301	-	3,066	-
Supplies	1,159	2,768	-	4,775	-	-	-
Other services and charges	50,363	10,945	-	7,664	-	7,291	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	6,282	5,755	-	8,000	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	5,801	27	-	69	-	-	-
Total disbursements	<u>154,008</u>	<u>46,611</u>	<u>5,755</u>	<u>12,809</u>	<u>8,000</u>	<u>10,357</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>23,710</u>	<u>9,423</u>	<u>2,273</u>	<u>(3,087)</u>	<u>(1,673)</u>	<u>(8,257)</u>	<u>135</u>
Cash and investments - ending	<u>\$ 88,661</u>	<u>\$ 41,633</u>	<u>\$ 9,987</u>	<u>\$ 3,042</u>	<u>\$ 30,802</u>	<u>\$ 18,495</u>	<u>\$ 6,775</u>

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

	Rainy Day	CEDIT	Levy Excess	Cumulative Capital Improvement	Storm Water Management	Solid Waste Disposal	Operation Pullover
Cash and investments - beginning	\$ 4,350	\$ 8,583	\$ 381	\$ 14,999	\$ 10,030	\$ 1,731	\$ 360
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	7,534	-	2,903	-	-	-
Charges for services	-	-	-	-	10,861	45,277	-
Fines and forfeits	-	-	-	-	-	-	2,700
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	70	-	-	68
Total receipts	-	7,534	-	2,973	10,861	45,277	2,768
Disbursements:							
Personal services	-	3,000	-	-	-	-	2,858
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	44,720	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	10,000	-	9,928	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	381	69	7,850	-	-
Total disbursements	-	13,000	381	9,997	7,850	44,720	2,858
Excess (deficiency) of receipts over disbursements	-	(5,466)	(381)	(7,024)	3,011	557	(90)
Cash and investments - ending	\$ 4,350	\$ 3,117	\$ -	\$ 7,975	\$ 13,041	\$ 2,288	\$ 270

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

	Payroll	Utility Clearing	Wastewater Utility - Operating	Wastewater Utility - Bond and Interest	Wastewater Utility - Debt Service Reserve	Wastewater Utility - Improvement	Water Utility - Operating
Cash and investments - beginning	\$ 106	\$ 35,958	\$ 49,975	\$ 2,289	\$ 96,060	\$ 12,814	\$ 45,110
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	190,430	-	-	-	206,153
Penalties	-	-	-	-	-	-	1,995
Other receipts	179,818	444,467	6,710	91,966	119	5,932	10,980
Total receipts	<u>179,818</u>	<u>444,467</u>	<u>197,140</u>	<u>91,966</u>	<u>119</u>	<u>5,932</u>	<u>219,128</u>
Disbursements:							
Personal services	142,530	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	1,770	446,603	-	-	-	-	-
Debt service - principal and interest	-	-	82,324	89,649	-	-	-
Capital outlay	-	-	9,513	-	-	-	20,513
Utility operating expenses	-	-	106,080	-	-	-	124,308
Other disbursements	35,518	-	13,212	2,289	-	-	64,968
Total disbursements	<u>179,818</u>	<u>446,603</u>	<u>211,129</u>	<u>91,938</u>	<u>-</u>	<u>-</u>	<u>209,789</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>(2,136)</u>	<u>(13,989)</u>	<u>28</u>	<u>119</u>	<u>5,932</u>	<u>9,339</u>
Cash and investments - ending	<u>\$ 106</u>	<u>\$ 33,822</u>	<u>\$ 35,986</u>	<u>\$ 2,317</u>	<u>\$ 96,179</u>	<u>\$ 18,746</u>	<u>\$ 54,449</u>

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

	Water Utility - Depreciation	Water Utility - Customer Deposit	Water Utility - Construction	Water Utility - Debt Service Reserve	Water Utility - Water Tower Painting	Water Utility - Bond and Interest	Totals
Cash and investments - beginning	\$ 99,827	\$ 7,610	\$ 4,198	\$ 1,504	\$ -	\$ 9,963	\$ 582,719
Receipts:							
Taxes	-	-	-	-	-	-	146,490
Licenses and permits	-	-	-	-	-	-	770
Intergovernmental	-	-	-	-	-	-	104,728
Charges for services	-	-	-	-	-	-	57,049
Fines and forfeits	-	-	-	-	-	-	11,862
Utility fees	-	2,525	-	-	-	-	399,108
Penalties	-	-	-	-	-	-	1,995
Other receipts	<u>21,000</u>	<u>-</u>	<u>168,240</u>	<u>2,256</u>	<u>6,123</u>	<u>19,320</u>	<u>965,509</u>
Total receipts	<u>21,000</u>	<u>2,525</u>	<u>168,240</u>	<u>2,256</u>	<u>6,123</u>	<u>19,320</u>	<u>1,687,511</u>
Disbursements:							
Personal services	-	-	-	-	-	-	275,029
Supplies	-	-	-	-	-	-	8,702
Other services and charges	-	-	-	-	-	-	569,356
Debt service - principal and interest	-	-	-	-	-	-	171,973
Capital outlay	-	-	-	-	-	-	69,991
Utility operating expenses	-	-	132,175	-	-	-	362,563
Other disbursements	<u>6,000</u>	<u>1,600</u>	<u>40,263</u>	<u>-</u>	<u>-</u>	<u>12,345</u>	<u>190,392</u>
Total disbursements	<u>6,000</u>	<u>1,600</u>	<u>172,438</u>	<u>-</u>	<u>-</u>	<u>12,345</u>	<u>1,648,006</u>
Excess (deficiency) of receipts over disbursements	<u>15,000</u>	<u>925</u>	<u>(4,198)</u>	<u>2,256</u>	<u>6,123</u>	<u>6,975</u>	<u>39,505</u>
Cash and investments - ending	<u>\$ 114,827</u>	<u>\$ 8,535</u>	<u>\$ -</u>	<u>\$ 3,760</u>	<u>\$ 6,123</u>	<u>\$ 16,938</u>	<u>\$ 622,224</u>

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

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Town:			
Loan	Police Car	\$ 4,754	\$ 5,008
Wastewater:			
Revenue bonds	Wastewater Improvement	413,288	6,199
Water:			
Revenue bonds	Water Improvements	486,000	22,532
Totals		<u>\$ 904,042</u>	<u>\$ 33,739</u>

TOWN OF SWAYZEE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. Due to the unit size, the Town has one person who is responsible for reconciling the bank records to the Town and Utility ledgers, receipting, paying claims, payroll processing, and utility billing and collections.

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)

CAPITAL ASSET RECORDS

The Town did not maintain a complete inventory of capital assets. Current capital asset ledgers have not been updated since December 31, 2006. Additionally, due to the lack of capital asset records, the Town was unable to properly report capital assets in its annual report in the manner prescribed by the State Examiner. A similar comment appeared in prior Report B37918.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. 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)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Non-compliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

ANNUAL REPORT

The Annual Reports filed by the Town for 2010 and 2011 contained numerous errors. The beginning balances of certain funds were either overstated or understated for both the 2010 and 2011 reports; this was largely attributable to the improper reporting of certificates of deposit in the cash and investment balances. For the 2011 report, the Water Utility - Construction Fund receipts and disbursements included the financial

TOWN OF SWAYZEE
AUDIT RESULTS AND COMMENTS
(Continued)

activity from 2010. Certain other funds contained errors in receipts and disbursements or were omitted. The Park Donation Fund cash balance was included in the cash balance of the Parks and Recreation Fund. The Water Utility - Water Tower Painting Fund was not included in the 2011 Annual Report. The financial statements presented in this report reflect the corrected financial activity of the Town.

For the 2011 report, required supplementary schedules were not presented or were inaccurate. A Schedule of Receivables and Payables was not included in the Annual Report. The Schedule of Capital Assets included in the Town's Annual Report were the amounts recorded as of December 31, 2006. The Schedule of Leases and Debt included in the Annual Report omitted or inaccurately reported balances or amounts due within one year. The Town has corrected the Schedule of Leases and Debt for reporting purposes.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INVESTMENTS

Interest earned on certificates of deposit was automatically added to the principal and not entered in the records. One certificate of deposit purchased on February 7, 2011, has a stated maturity of four years.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Prior to July 1, 2012, Indiana Code 5-13-9-5.6 stated in part:

". . . investments made under this chapter must have a stated final maturity of not more than:

- (1) five (5) years for a conservancy district . . .
- (2) five (5) years for investments made from a host community agreement future fund . . .
or
- (3) two (2) years for a fund or political subdivision not described in subdivision (1) or (2)
. . ."

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties were not recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

TOWN OF SWAYZEE
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
 - (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.
- (c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .
- (e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

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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 ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF SWAYZEE, GRANT COUNTY, INDIANA

Compliance

We have audited the Town of Swayzee's (Town) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2010 and 2011. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2010 and 2011. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-2 and 2011-3.

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 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 ON
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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2011-2 and 2011-3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

September 5, 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 SWAYZEE
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 AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760	15-027-6735	\$ 408,802	\$ 77,198
Total for federal grantor agency			<u>408,802</u>	<u>77,198</u>
<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	DR2-09-032	370,825	84,944
Total for federal grantor agency			<u>370,825</u>	<u>84,944</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Grant County				
Highway Safety Cluster State and Community Highway Safety	20.600			
		PT-10-04-04-18	1,125	-
		PT-11-04-04-18	350	1,030
		PT-12-11-04-16	-	375
Total for program			<u>1,475</u>	<u>1,405</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601			
		K8-2010-03-03-09	1,200	-
		K8-2010-08-01-06	1,200	-
		K8-2011-03-03-08	275	595
		CA-2011-08-01-06	150	450
		K8-2012-03-03-09	-	250
Total for program			<u>2,825</u>	<u>1,295</u>
Total for cluster			<u>4,300</u>	<u>2,700</u>
Total for federal grantor agency			<u>4,300</u>	<u>2,700</u>
Total federal awards expended			<u>\$ 783,927</u>	<u>\$ 164,842</u>

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

TOWN OF SWAYZEE
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 Swayzee 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 SWAYZEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	no
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities 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 OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting, as follows:

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, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

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

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)

Section III – Federal Award Findings and Questioned Costs

FINDING 2011-2 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760
Federal Award Number and Year (or Other Identifying Number): 15-027-6735
Direct Grant

The Town has not established a system of internal control that would ensure compliance with the requirement to maintain records for equipment and other property acquired with Federal monies. As a result, records containing capital asset additions, disposals, and balances, which separately identify items acquired with federal funds, have not been maintained as required. Without adequate accounting records, periodic physical inventories cannot be compared to property records. Additionally, the Town cannot adequately implement safeguards to prevent loss, damage, or theft of the property without these controls and records.

OMB Circular A-133, 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."

7 CFR 3016.32(d) states:

"Management requirements: Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

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

- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

Failure to maintain detailed and accurate equipment and property records and to reconcile physical inventory could result in assets being lost, stolen, misappropriated, or disposed of improperly.

We recommended that the Town establish procedures to ensure detailed capital asset records are maintained and that inventories of property and equipment are conducted as least once every two years and reconciled to the detailed capital asset ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also any assets acquired with federal funds must be designated as such so that they are not disposed of improperly.

FINDING 2011-3 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U. S. Department of Housing and Urban Development
Federal Program: Community Development Block Grant/State's Program and
Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): DR2-09-032
Pass-Through Entity: Indiana Office of Community and Rural Affairs

The Town has not established a system of internal control that would ensure compliance with the requirement to maintain records for equipment and other property acquired with Federal monies. As a result, records containing capital asset additions, disposals, and balances, which separately identify items acquired with federal funds, have not been maintained as required. Without adequate accounting records, periodic physical inventories cannot be compared to property records. Additionally, the Town cannot adequately implement safeguards to prevent loss, damage, or theft of the property without these controls and records.

OMB Circular A-133, 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."

24 CFR 85.32(d) states:

"Management requirements: Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

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

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
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TOWN OF SWAYZEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

Town of Swayzee
P.O. Box 85
Swayzee, IN 46986

Corrective Action Plans

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

Auditee Contact Person: Susan J. Piper
Title of Contact Person: Clerk-Treasurer
Phone Number: 765-992-7953
Expected Completion Date: November 1, 2012

Corrective Action:

As it regards internal controls over financial transactions and reporting of the Town of Swayzee, we plan to increase Town Council oversight of our day-to-day operations.

FEDERAL FINDING 2011-2 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. DEPARTMENT OF AGRICULTURE
Federal Program: Water and Wastewater Disposal Systems for Rural Communities
CFDA Number: 10.760
Federal Award Number and Year (or Other Identifying Number): 15-027-6735
Direct Grant

Auditee Contact Person: Susan J. Piper
Title of Contact Person: Clerk-Treasurer
Phone Number: 765-992-7953
Expected Completion Date: January 1, 2013

Corrective Action:

The Town of Swayzee plans to update its capitalization policy and to take necessary measures to ensure the proper inventorying of the Town's capital assets. It is further expected the Town will design and implement a system to accurately capture capital asset additions, disposals and balances on a timely basis; including properly accounting for capital assets acquired with federal funds.

FEDERAL FINDING 2011-3 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Federal Program: Community Development Block Grant/State's Program and Non-entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): DR2-09-032

Pass-Through Entity: Indiana Office of Community and Rural Affairs

Auditee Contact Person: Susan J. Piper
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Corrective Action:

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Susan J. Piper,
Clerk-Treasurer

TOWN OF SWAYZEE
EXIT CONFERENCE

The contents of this report were discussed on September 5, 2012, with Susan J. Piper, Clerk-Treasurer, and Kenneth D. Rudy, Vice President of the Town Council.