

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

FINANCIAL STATEMENTS AND  
FEDERAL SINGLE AUDIT REPORT  
OF

TOWN OF MONROE CITY  
KNOX COUNTY, INDIANA

January 1, 2010 to December 31, 2011



**FILED**  
09/24/2012



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report .....	3-4
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 .....	5-6
Financial Statements: Statements of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis .....	8-9
Notes to Financial Statements .....	10-13
Supplementary Information: Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis .....	16-19
Schedule of Payables and Receivables .....	20
Schedule of Leases and Debt .....	21
Schedule of Capital Assets.....	22
Audit Result and Comment: Internal Controls Over Financial Transactions and Reporting .....	23
Supplemental Audit of Federal Awards: 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 .....	26-27
Schedule of Expenditures of Federal Awards .....	30
Note to Schedule of Expenditures of Federal Awards.....	31
Schedule of Findings and Questioned Costs .....	32-33
Auditee Prepared Schedules: Summary Schedule of Prior Audit Findings .....	34
Corrective Action Plan.....	35-37
Exit Conference.....	38

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Nancee Scott	01-01-08 to 12-31-15
President of the Town Council	William C. Sampson	01-01-10 to 12-31-12
Superintendent of Water Utility	Don Davis	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](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF MONROE CITY, KNOX COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Monroe City (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 opinion.

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 10, 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.

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

INDEPENDENT AUDITOR'S REPORT  
(Continued)

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, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, 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 10, 2012



**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](http://www.in.gov/sboa)

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 MONROE CITY, KNOX COUNTY, INDIANA

We have audited the financial statements of the Town of Monroe City (Town), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated September 10, 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

This report is intended solely for the information and use of the Town's management, 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 10, 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 MONROE CITY  
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	\$ 36,178	\$ 37,185	\$ 22,744	\$ 50,619
Motor Vehicle Highway	31,709	14,857	12,419	34,147
Local Road And Street	5,354	2,737	565	7,526
Rainy Day	7,331	-	-	7,331
Co Economic Development Income Tax	4,699	2,087	-	6,786
Cumulative Capital Improvement	15,310	1,726	-	17,036
Wastewater Utility-Operating	131,656	160,356	188,973	103,039
Wastewater Utility-Deprec/Improve	8,228	-	-	8,228
Wastewater Utility-Customer Deposit	8,222	1,080	760	8,542
Wastewater Utility-Other #1	29,902	-	-	29,902
Water Operating	17,762	59,291	53,870	23,183
Water Utility-Customer Deposit	15,838	1,216	817	16,237
Totals	<u>\$ 312,189</u>	<u>\$ 280,535</u>	<u>\$ 280,148</u>	<u>\$ 312,576</u>

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

TOWN OF MONROE CITY  
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	\$ 50,619	\$ 38,058	\$ 21,532	\$ 67,145
Motor Vehicle Highway	34,147	14,462	11,244	37,365
Local Road And Street	7,526	2,641	-	10,167
Rainy Day	7,331	-	-	7,331
Co Economic Development Income Tax	6,786	1,542	-	8,328
Cumulative Capital Improvement	17,036	1,624	-	18,660
Wastewater Utility-Operating	103,039	684,786	697,500	90,325
Wastewater Utility-Deprec/Improve	8,228	-	-	8,228
Wastewater Utility-Customer Deposit	8,542	1,200	1,120	8,622
Wastewater Utility-Other #1	29,902	-	-	29,902
Water Operating	23,183	59,460	56,086	26,557
Water Utility-Customer Deposit	16,237	1,240	1,200	16,277
Totals	<u>\$ 312,576</u>	<u>\$ 805,013</u>	<u>\$ 788,682</u>	<u>\$ 328,907</u>

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

TOWN OF MONROE CITY  
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, general administrative services, water, wastewater, and storm water.

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.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling

TOWN OF MONROE CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 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.

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

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

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

*F. Interfund Transfers*

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

TOWN OF MONROE CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

*G. Fund Accounting*

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

**Note 2. Budgets**

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

**Note 3. Property Taxes**

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

**Note 4. Deposits and Investments**

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

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

**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.

TOWN OF MONROE CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

**Note 6. Pension Plan**

*Public Employees' Retirement Fund*

*Plan Description*

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

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

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy and Annual Pension Cost*

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

(This page intentionally left blank.)

## 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/](http://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 MONROE CITY  
 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	Rainy Day	Co Economic Development Income Tax	Cumulative Capital Improvement	Wastewater Utility-Operating
Cash and investments - beginning	\$ 36,178	\$ 31,709	\$ 5,354	\$ 7,331	\$ 4,699	\$ 15,310	\$ 131,656
Receipts:							
Taxes	20,684	-	-	-	-	-	-
Intergovernmental	13,984	14,313	2,737	-	2,087	1,605	46,750
Charges for services	-	544	-	-	-	-	-
Utility fees	-	-	-	-	-	-	108,083
Other receipts	2,517	-	-	-	-	121	5,523
Total receipts	<u>37,185</u>	<u>14,857</u>	<u>2,737</u>	<u>-</u>	<u>2,087</u>	<u>1,726</u>	<u>160,356</u>
Disbursements:							
Personal services	9,757	4,013	-	-	-	-	-
Supplies	453	946	-	-	-	-	-
Other services and charges	12,534	7,460	565	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	186,562
Other disbursements	-	-	-	-	-	-	2,411
Total disbursements	<u>22,744</u>	<u>12,419</u>	<u>565</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,973</u>
Excess (deficiency) of receipts over disbursements	<u>14,441</u>	<u>2,438</u>	<u>2,172</u>	<u>-</u>	<u>2,087</u>	<u>1,726</u>	<u>(28,617)</u>
Cash and investments - ending	<u>\$ 50,619</u>	<u>\$ 34,147</u>	<u>\$ 7,526</u>	<u>\$ 7,331</u>	<u>\$ 6,786</u>	<u>\$ 17,036</u>	<u>\$ 103,039</u>

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

	Wastewater Utility- Deprec/Improve	Wastewater Utility-Customer Deposit	Wastewater Utility-Other #1	Water Operating	Water Utility-Customer Deposit	Totals
Cash and investments - beginning	\$ 8,228	\$ 8,222	\$ 29,902	\$ 17,762	\$ 15,838	\$ 312,189
Receipts:						
Taxes	-	-	-	-	-	20,684
Intergovernmental	-	-	-	-	-	81,476
Charges for services	-	-	-	-	-	544
Utility fees	-	-	-	109	-	108,192
Other receipts	-	1,080	-	59,182	1,216	69,639
Total receipts	-	1,080	-	59,291	1,216	280,535
Disbursements:						
Personal services	-	-	-	-	-	13,770
Supplies	-	-	-	-	-	1,399
Other services and charges	-	-	-	-	-	20,559
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	47,602	817	234,981
Other disbursements	-	760	-	6,268	-	9,439
Total disbursements	-	760	-	53,870	817	280,148
Excess (deficiency) of receipts over disbursements	-	320	-	5,421	399	387
Cash and investments - ending	<u>\$ 8,228</u>	<u>\$ 8,542</u>	<u>\$ 29,902</u>	<u>\$ 23,183</u>	<u>\$ 16,237</u>	<u>\$ 312,576</u>

TOWN OF MONROE CITY  
 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	Rainy Day	Co Economic Development Income Tax	Cumulative Capital Improvement	Wastewater Utility-Operating
Cash and investments - beginning	\$ 50,619	\$ 34,147	\$ 7,526	\$ 7,331	\$ 6,786	\$ 17,036	\$ 103,039
Receipts:							
Taxes	17,796	-	-	-	-	-	-
Intergovernmental	14,805	14,462	2,641	-	1,542	1,574	-
Charges for services	4,475	-	-	-	-	-	-
Fines and forfeits	850	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	666,835
Penalties	-	-	-	-	-	-	-
Other receipts	132	-	-	-	-	50	17,951
Total receipts	<u>38,058</u>	<u>14,462</u>	<u>2,641</u>	<u>-</u>	<u>1,542</u>	<u>1,624</u>	<u>684,786</u>
Disbursements:							
Personal services	10,055	4,015	-	-	-	-	-
Supplies	668	-	-	-	-	-	-
Other services and charges	10,809	7,229	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	695,878
Other disbursements	-	-	-	-	-	-	1,622
Total disbursements	<u>21,532</u>	<u>11,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>697,500</u>
Excess (deficiency) of receipts over disbursements	<u>16,526</u>	<u>3,218</u>	<u>2,641</u>	<u>-</u>	<u>1,542</u>	<u>1,624</u>	<u>(12,714)</u>
Cash and investments - ending	<u>\$ 67,145</u>	<u>\$ 37,365</u>	<u>\$ 10,167</u>	<u>\$ 7,331</u>	<u>\$ 8,328</u>	<u>\$ 18,660</u>	<u>\$ 90,325</u>

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

	Wastewater Utility- Deprec/Improve	Wastewater Utility-Customer Deposit	Wastewater Utility-Other #1	Water Operating	Water Utility-Customer Deposit	Totals
Cash and investments - beginning	\$ 8,228	\$ 8,542	\$ 29,902	\$ 23,183	\$ 16,237	\$ 312,576
Receipts:						
Taxes	-	-	-	-	-	17,796
Intergovernmental	-	-	-	-	-	35,024
Charges for services	-	-	-	-	-	4,475
Fines and forfeits	-	-	-	-	-	850
Utility fees	-	-	-	56,513	-	723,348
Penalties	-	-	-	510	-	510
Other receipts	-	1,200	-	2,437	1,240	23,010
Total receipts	-	1,200	-	59,460	1,240	805,013
Disbursements:						
Personal services	-	-	-	-	-	14,070
Supplies	-	-	-	-	-	668
Other services and charges	-	-	-	-	-	18,038
Utility operating expenses	-	-	-	48,575	-	744,453
Other disbursements	-	1,120	-	7,511	1,200	11,453
Total disbursements	-	1,120	-	56,086	1,200	788,682
Excess (deficiency) of receipts over disbursements	-	80	-	3,374	40	16,331
Cash and investments - ending	\$ 8,228	\$ 8,622	\$ 29,902	\$ 26,557	\$ 16,277	\$ 328,907

TOWN OF MONROE CITY  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2011

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 1,132	\$ -
Wastewater	540	13,365
Water	720	5,445
Totals	\$ 2,392	\$ 18,810

TOWN OF MONROE CITY  
SCHEDULE OF LEASES AND DEBT  
December 31, 2011

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
Notes and loans payable	Sewage Line & Equipment Repairs	\$ 13,296	\$ 13,396
Notes and loans payable	Local Match for Storm Water Grant	<u>41,496</u>	<u>14,537</u>
Total Wastewater		<u>54,792</u>	<u>27,933</u>
Water:			
Notes and loans payable	Work on Water Lines & Equipment	<u>11,798</u>	<u>6,288</u>
Totals		<u>\$ 66,590</u>	<u>\$ 34,221</u>

TOWN OF MONROE CITY  
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.

	Ending Balance
Governmental activities:	
Buildings	\$ 5,900
Improvements other than buildings	20,888
Machinery, equipment and vehicles	14,099
Total governmental activities	40,887
Wastewater:	
Land	5,945
Buildings	365,574
Improvements other than buildings	1,301,744
Machinery, equipment and vehicles	79,289
Total Wastewater	1,752,552
Water:	
Land	8,400
Buildings	17,653
Improvements other than buildings	643,573
Machinery, equipment and vehicles	21,939
Total Water	691,565
Total capital assets	\$ 2,485,004

TOWN OF MONROE CITY  
AUDIT RESULT AND COMMENT

***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements 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 Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

(This page intentionally left blank.)

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](http://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 MONROE CITY, KNOX COUNTY, INDIANA

Compliance

We have audited Town of Monroe City'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 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 each of 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 could have a direct and material effect on 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 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.

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 10, 2012

(This page intentionally left blank.)

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-10	Total Federal Awards Expended 12-31-11
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grant - State's Program				
and Non-Entitlement Grants in Hawaii				
	14.228	CF-09-214	<u>\$ 46,750</u>	<u>\$ 553,250</u>

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

TOWN OF MONROE CITY  
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 Monroe City 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 MONROE CITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
------------------------	---

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. 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, utility billings and collections, 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 MONROE CITY  
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 Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***Section III – Federal Award Findings and Questioned Costs***

No matters are reportable.

TOWN OF MONROE CITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

**TOWN OF MONROE CITY  
P.O. BOX 163  
MONROE CITY, IN 47557**

**FINDING NO. 2011-1 - Internal Controls over Financial Transactions and Reporting**

**Auditee Contact Person: Nancee Scott  
Title of Contact Person: Clerk Treasurer  
Phone Number of Contact Person: 812-743-2976**

SECTION I

The Town of Monroe City Town Board and the Clerk Tresurer will work together to implement the Corrective Action Plan.

SECTION II

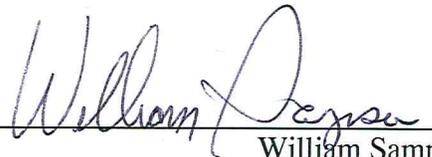
The Corrective Action Plan will include effective October 1, 2012 the following items:

1. A Financial Statement will be provided to the Board Members at the Monthly Board Meetings showing the beginning balance - receipts - disbursements and approximate ending balance for the previous month.
2. All ledgers which the Clerk Treasurer keeps records in will be accesible to all board members at any time.
3. The Town Board President will initial the Bank Reconcilements to verify  
that the reconciliation was completed and accurate

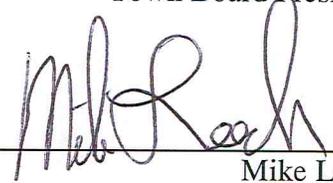
4. The Budget for the oncoming year will be presented to the Board Members to look over and review before attending the meeting with the DLGF or placing the Budget on Gateway
5. The Annual Report will be presented to the Board Members to look over and review and approve at the end of the Calendar year.
6. The Clerk Treasurer will e-mail the Board Members each week with a list of the Disbursements which has been paid out for the previous week.
7. The Town Board President will be shown the W2's and 1099's and the 941's for all 4 quarters and the State and County Tax Forms for the year to review and initial for approval.
8. The Clerk Tresurer will inform the Board Members when the Town has received a Tax Disbursement and inform them of the break down of the amount received at a Monthly Town Board Meeting.
9. The Clerk Treasurer will inform the Board Members of any Past Due Bills (over 90 days) and any bad checks the Town has received at the monthly Town Board Meetings.

### SECTION III

The Board of Trustees of the Town of Monroe City, Indiana does hereby declare that this Plan shall be in full force effective October 1, 2012.. PASSED by unanimous vote of the Trustees of the Town of Monroe City, this 5th day of September, 2012.



William Sampson  
Town Board President



Mike Leech  
Town Board Member



C.B. Vories  
Town Board Member



Nancee Scott  
Clerk Treasurer

TOWN OF MONROE CITY  
EXIT CONFERENCE

The contents of this report were discussed on September 10, 2012, with Nancee Scott, Clerk-Treasurer, and William C. Sampson, President of the Town Council.