

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

TOWN OF MIDDLETOWN

HENRY COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
10/15/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jim Hanson	01-01-08 to 12-31-11
	Drew Cooper	01-01-12 to 12-31-15
President of the Town Council	Roscoe J. Smith	01-01-09 to 12-31-10
	Tim Mundell	01-01-11 to 12-31-11
	Betty Riley	01-01-12 to 12-31-12
Superintendent of Utilities	David Real	01-01-10 to 06-22-10
	Rick Hines	06-23-10 to 12-31-10
	Tracy Harrison	01-01-11 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF MIDDLETOWN, HENRY COUNTY, INDIANA

We were engaged to examine the accompanying financial statements of the Town of Middletown (Town), for the years ended December 31, 2010 and 2011. The financial statements are the responsibility of the Town's management.

The Town did not properly maintain accounting records. Town officials did not adhere to the principles that disbursements from a fund be directly related to the purpose of that fund nor that receipts specified for a particular fund be recorded and maintained in that fund. Because of the lack of adherence and maintaining of their accounting records, we were unable to determine if receipts and disbursements were properly posted to the correct fund.

Since the Town did not properly maintain their accounting records and we were not able to apply other examination procedures to satisfy ourselves as to whether the financial statements are fairly stated, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

Our examination 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, 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 examination procedures applied to 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, and others within the entity 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 11, 2012

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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 MIDDLETOWN
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	\$ 39,515	\$ 487,093	\$ 569,839	\$ (43,231)
MVH	(43,233)	44,900	36,579	(34,912)
Local Road & Street	61,935	43,022	44,258	60,699
Park & Recreation	11,385	178,780	130,872	59,293
FEMA Disaster Relief	27,846	19,312	7,262	39,896
Law Enforcement Cont Ed	3,360	6,936	4,350	5,946
Riverboat	21,027	15,570	-	36,597
Civic Center	65,556	99,104	165,506	(846)
Property Maintenance	6,394	-	-	6,394
Rainy Day Fund	17,950	159,658	150,784	26,824
Police K-9 And Reserves	(941)	1,158	400	(183)
Tax Increment Finance	74,043	17,238	21,696	69,585
Lease Rental Fund 1	(60,922)	143,294	94,000	(11,628)
Sewer Bond 1 Debt Reserve	-	73,500	-	73,500
Sewer Bond 2 Debt Reserve	-	60,000	-	60,000
Debt Reserve	-	99,000	99,000	-
Cum Cap Improvement	45,396	18,701	20,799	43,298
Cum Cap Development	3,882	25,651	18,847	10,686
CCFFE	29,181	7,960	-	37,141
Stormwater Cd	252,244	99,000	351,244	-
Money Market Stormwater	-	305,582	-	305,582
Payroll Clearing	(99,508)	679,841	665,984	(85,651)
Utility Bill Postage	-	397	2,379	(1,982)
Insurance Premiums	-	1,191	8,910	(7,719)
Electric Operation	87,323	1,847,141	1,816,749	117,715
Electric Meter Deposit	31,943	22,205	9,275	44,873
Stormwater Construction	65,216	347,356	361,971	50,601
Sewage Utility Operating	37,801	492,519	445,774	84,546
Sewage Bond & Interest	-	159,726	142,672	17,054
Sewage Meter Deposits	26,225	8,750	5,175	29,800
Water Operating	22,057	319,737	238,639	103,155
Water Meter Deposit	22,011	5,079	2,030	25,060
Totals	<u>\$ 747,686</u>	<u>\$ 5,789,401</u>	<u>\$ 5,414,994</u>	<u>\$ 1,122,093</u>

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

TOWN OF MIDDLETOWN
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	\$ (43,231)	\$ 641,211	\$ 533,611	\$ 64,369
MVH	(34,912)	66,690	37,434	(5,656)
Local Road & Street	60,699	35,444	54,218	41,925
Law Enforcement Cont Ed	5,946	2,087	3,018	5,015
Riverboat	36,597	15,571	19,026	33,142
Park & Recreation	59,293	113,298	132,311	40,280
Rainy Day Fund	26,824	-	30,271	(3,447)
Police K-9 And Reserves	(183)	446	-	263
Tax Increment Finance	69,585	20,405	26,604	63,386
Cum Cap Improvement	43,298	7,145	-	50,443
Cum Cap Development	10,686	18,325	5,723	23,288
CCFFE	37,141	3,206	-	40,347
FEMA Disaster Relief	39,896	-	-	39,896
Civic Center	(846)	41,402	40,561	(5)
Property Maintenance	6,394	569	-	6,963
Lease Rental Fund 1	(11,628)	120,906	49,000	60,278
Payroll Clearing	(85,651)	652,332	648,283	(81,602)
Utility Bill Postage	(1,982)	-	5,060	(7,042)
Insurance Premiums	(7,719)	4,648	7,600	(10,671)
Valley View Holding Account	-	250	-	250
Electric Operation	117,715	2,041,645	1,999,970	159,390
Electric Meter Deposit	44,873	77,639	14,182	108,330
Money Market Stormwater	305,582	149,088	-	454,670
Stormwater Construction	50,601	-	50,601	-
Sewer Bond 1 Debt Reserve	73,500	-	-	73,500
Sewer Bond 2 Debt Reserve	60,000	-	-	60,000
Sewage Utility Operating	84,546	440,887	418,673	106,760
Sewage Bond & Interest	17,054	129,208	146,262	-
Sewage Meter Deposits	29,800	6,625	5,150	31,275
Water Operating	103,155	448,256	317,051	234,360
Water Meter Deposit	25,060	5,100	2,925	27,235
Totals	<u>\$ 1,122,093</u>	<u>\$ 5,042,383</u>	<u>\$ 4,547,534</u>	<u>\$ 1,616,942</u>

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

TOWN OF MIDDLETOWN
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 include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

TOWN OF MIDDLETOWN
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 include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

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

TOWN OF MIDDLETOWN
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 MIDDLETOWN
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.

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

TOWN OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

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

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 examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

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

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

	General	MVH	Local Road & Street	Park & Recreation	FEMA Disaster Relief	Law Enforcement Cont Ed	Riverboat
Cash and investments - beginning	\$ 39,515	\$ (43,233)	\$ 61,935	\$ 11,385	\$ 27,846	\$ 3,360	\$ 21,027
Receipts:							
Taxes	184,941	-	-	112,404	-	-	-
Licenses and permits	117	-	-	-	-	-	-
Intergovernmental	181,225	44,900	43,022	32,655	19,312	-	15,570
Charges for services	31,500	-	-	23,726	-	1,702	-
Fines and forfeits	-	-	-	-	-	5,234	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	89,310	-	-	9,995	-	-	-
Total receipts	487,093	44,900	43,022	178,780	19,312	6,936	15,570
Disbursements:							
Personal services	309,158	30,419	-	70,075	-	-	-
Supplies	16,494	-	-	30,071	-	-	-
Other services and charges	223,255	-	-	30,726	7,262	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	6,160	44,258	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	20,932	-	-	-	-	4,350	-
Total disbursements	569,839	36,579	44,258	130,872	7,262	4,350	-
Excess (deficiency) of receipts over disbursements	(82,746)	8,321	(1,236)	47,908	12,050	2,586	15,570
Cash and investments - ending	\$ (43,231)	\$ (34,912)	\$ 60,699	\$ 59,293	\$ 39,896	\$ 5,946	\$ 36,597

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

	Civic Center	Property Maintenance	Rainy Day Fund	Police K-9 And Reserves	Tax Increment Finance	Lease Rental Fund 1	Sewer Bond 1 Debt Reserve
Cash and investments - beginning	\$ 65,556	\$ 6,394	\$ 17,950	\$ (941)	\$ 74,043	\$ (60,922)	\$ -
Receipts:							
Taxes	-	-	-	-	17,238	30,780	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	91,834	-	-	828	-	51,582	-
Charges for services	-	-	-	330	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	7,270	-	159,658	-	-	60,932	73,500
Total receipts	99,104	-	159,658	1,158	17,238	143,294	73,500
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	14,722	-	80,796	400	-	-	-
Debt service - principal and interest	-	-	-	-	-	94,000	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	150,784	-	69,988	-	21,696	-	-
Total disbursements	165,506	-	150,784	400	21,696	94,000	-
Excess (deficiency) of receipts over disbursements	(66,402)	-	8,874	758	(4,458)	49,294	73,500
Cash and investments - ending	\$ (846)	\$ 6,394	\$ 26,824	\$ (183)	\$ 69,585	\$ (11,628)	\$ 73,500

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

	Sewer Bond 2 Debt Reserve	Debt Reserve	Cum Cap Improvement	Cum Cap Development	CCFFE	Stormwater Cd	Money Market Stormwater
Cash and investments - beginning	\$ -	\$ -	\$ 45,396	\$ 3,882	\$ 29,181	\$ 252,244	\$ -
Receipts:							
Taxes	-	-	-	6,948	1,215	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	14,083	18,703	6,745	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	60,000	99,000	4,618	-	-	99,000	305,582
Total receipts	60,000	99,000	18,701	25,651	7,960	99,000	305,582
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	3,367	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	99,000	20,799	15,480	-	351,244	-
Total disbursements	-	99,000	20,799	18,847	-	351,244	-
Excess (deficiency) of receipts over disbursements	60,000	-	(2,098)	6,804	7,960	(252,244)	305,582
Cash and investments - ending	\$ 60,000	\$ -	\$ 43,298	\$ 10,686	\$ 37,141	\$ -	\$ 305,582

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

	Payroll Clearing	Utility Bill Postage	Insurance Premiums	Electric Operation	Electric Meter Deposit	Stormwater Construction
Cash and investments - beginning	\$ (99,508)	\$ -	\$ -	\$ 87,323	\$ 31,943	\$ 65,216
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	1,811,363	-	252,243
Penalties	-	-	-	13,028	-	-
Other receipts	679,841	397	1,191	22,750	22,205	95,113
Total receipts	679,841	397	1,191	1,847,141	22,205	347,356
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	5,114	-	-
Utility operating expenses	-	-	-	1,663,543	9,275	-
Other disbursements	665,984	2,379	8,910	148,092	-	361,971
Total disbursements	665,984	2,379	8,910	1,816,749	9,275	361,971
Excess (deficiency) of receipts over disbursements	13,857	(1,982)	(7,719)	30,392	12,930	(14,615)
Cash and investments - ending	\$ (85,651)	\$ (1,982)	\$ (7,719)	\$ 117,715	\$ 44,873	\$ 50,601

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

	Sewage Utility Operating	Sewage Bond & Interest	Sewage Meter Deposits	Water Operating	Water Meter Deposit	Totals
Cash and investments - beginning	\$ 37,801	\$ -	\$ 26,225	\$ 22,057	\$ 22,011	\$ 747,686
Receipts:						
Taxes	-	-	-	-	-	353,526
Licenses and permits	-	-	-	-	-	117
Intergovernmental	-	-	-	-	-	520,459
Charges for services	-	-	-	-	-	57,258
Fines and forfeits	-	-	-	-	-	5,234
Utility fees	463,210	-	-	307,843	-	2,834,659
Penalties	12,564	-	-	2,646	-	28,238
Other receipts	16,745	159,726	8,750	9,248	5,079	1,989,910
Total receipts	492,519	159,726	8,750	319,737	5,079	5,789,401
Disbursements:						
Personal services	-	-	-	-	-	409,652
Supplies	-	-	-	-	-	46,565
Other services and charges	-	-	-	-	-	357,161
Debt service - principal and interest	73,500	142,672	-	-	-	310,172
Capital outlay	4,675	-	-	23,170	-	86,744
Utility operating expenses	162,586	-	5,175	186,279	2,030	2,028,888
Other disbursements	205,013	-	-	29,190	-	2,175,812
Total disbursements	445,774	142,672	5,175	238,639	2,030	5,414,994
Excess (deficiency) of receipts over disbursements	46,745	17,054	3,575	81,098	3,049	374,407
Cash and investments - ending	\$ 84,546	\$ 17,054	\$ 29,800	\$ 103,155	\$ 25,060	\$ 1,122,093

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

	General	MVH	Local Road & Street	Law Enforcement Cont Ed	Riverboat	Park & Recreation	Rainy Day Fund
Cash and investments - beginning	\$ (43,231)	\$ (34,912)	\$ 60,699	\$ 5,946	\$ 36,597	\$ 59,293	\$ 26,824
Receipts:							
Taxes	286,371	-	-	-	-	63,292	-
Licenses and permits	114	-	-	600	-	-	-
Intergovernmental	274,654	65,448	35,444	-	15,571	10,114	-
Charges for services	31,500	-	-	856	-	30,636	-
Fines and forfeits	-	-	-	631	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	48,572	1,242	-	-	-	9,256	-
Total receipts	<u>641,211</u>	<u>66,690</u>	<u>35,444</u>	<u>2,087</u>	<u>15,571</u>	<u>113,298</u>	<u>-</u>
Disbursements:							
Personal services	262,750	30,303	-	-	-	73,171	11,674
Supplies	47,788	-	-	-	-	14,766	-
Other services and charges	111,654	-	-	3,018	19,026	31,981	18,597
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	110,408	7,131	52,977	-	-	12,393	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,011	-	1,241	-	-	-	-
Total disbursements	<u>533,611</u>	<u>37,434</u>	<u>54,218</u>	<u>3,018</u>	<u>19,026</u>	<u>132,311</u>	<u>30,271</u>
Excess (deficiency) of receipts over disbursements	<u>107,600</u>	<u>29,256</u>	<u>(18,774)</u>	<u>(931)</u>	<u>(3,455)</u>	<u>(19,013)</u>	<u>(30,271)</u>
Cash and investments - ending	<u>\$ 64,369</u>	<u>\$ (5,656)</u>	<u>\$ 41,925</u>	<u>\$ 5,015</u>	<u>\$ 33,142</u>	<u>\$ 40,280</u>	<u>\$ (3,447)</u>

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

	Police K-9 And Reserves	Tax Increment Finance	Cum Cap Improvement	Cum Cap Development	CCFFE	FEMA Disaster Relief	Civic Center
Cash and investments - beginning	\$ (183)	\$ 69,585	\$ 43,298	\$ 10,686	\$ 37,141	\$ 39,896	\$ (846)
Receipts:							
Taxes	-	20,405	-	16,189	2,832	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	7,145	2,136	374	-	2,535
Charges for services	-	-	-	-	-	-	6,240
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	446	-	-	-	-	-	32,627
Total receipts	446	20,405	7,145	18,325	3,206	-	41,402
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	3,195	-	-	40,139
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	26,604	-	2,528	-	-	422
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	-	26,604	-	5,723	-	-	40,561
Excess (deficiency) of receipts over disbursements	446	(6,199)	7,145	12,602	3,206	-	841
Cash and investments - ending	\$ 263	\$ 63,386	\$ 50,443	\$ 23,288	\$ 40,347	\$ 39,896	\$ (5)

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

	Property Maintenance	Lease Rental Fund 1	Payroll Clearing	Utility Bill Postage	Insurance Premiums	Valley View Holding Account
Cash and investments - beginning	\$ 6,394	\$ (11,628)	\$ (85,651)	\$ (1,982)	\$ (7,719)	\$ -
Receipts:						
Taxes	-	110,311	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	10,595	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	569	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	652,332	-	4,648	250
Total receipts	569	120,906	652,332	-	4,648	250
Disbursements:						
Personal services	-	-	620,534	-	7,600	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	5,060	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	49,000	27,749	-	-	-
Total disbursements	-	49,000	648,283	5,060	7,600	-
Excess (deficiency) of receipts over disbursements	569	71,906	4,049	(5,060)	(2,952)	250
Cash and investments - ending	<u>\$ 6,963</u>	<u>\$ 60,278</u>	<u>\$ (81,602)</u>	<u>\$ (7,042)</u>	<u>\$ (10,671)</u>	<u>\$ 250</u>

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

	Electric Operation	Electric Meter Deposit	Money Market Stormwater	Stormwater Construction	Sewer Bond 1 Debt Reserve	Sewer Bond 2 Debt Reserve
Cash and investments - beginning	\$ 117,715	\$ 44,873	\$ 305,582	\$ 50,601	\$ 73,500	\$ 60,000
Receipts:						
Taxes	111,382	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	1,851,591	-	98,212	-	-	-
Penalties	15,690	-	-	-	-	-
Other receipts	<u>62,982</u>	<u>77,639</u>	<u>50,876</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total receipts	<u>2,041,645</u>	<u>77,639</u>	<u>149,088</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	12,473	-	-	-	-	-
Utility operating expenses	1,936,929	14,182	-	-	-	-
Other disbursements	<u>50,568</u>	<u>-</u>	<u>-</u>	<u>50,601</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>1,999,970</u>	<u>14,182</u>	<u>-</u>	<u>50,601</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>41,675</u>	<u>63,457</u>	<u>149,088</u>	<u>(50,601)</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 159,390</u>	<u>\$ 108,330</u>	<u>\$ 454,670</u>	<u>\$ -</u>	<u>\$ 73,500</u>	<u>\$ 60,000</u>

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

	Sewage Utility Operating	Sewage Bond & Interest	Sewage Meter Deposits	Water Operating	Water Meter Deposit	Totals
Cash and investments - beginning	\$ 84,546	\$ 17,054	\$ 29,800	\$ 103,155	\$ 25,060	\$ 1,122,093
Receipts:						
Taxes	-	-	-	19,529	-	630,311
Licenses and permits	-	-	-	-	-	714
Intergovernmental	-	-	-	-	-	424,016
Charges for services	-	-	-	-	-	69,232
Fines and forfeits	-	-	-	-	-	1,200
Utility fees	425,876	-	-	286,228	-	2,661,907
Penalties	13,638	-	-	3,061	-	32,389
Other receipts	1,373	129,208	6,625	139,438	5,100	1,222,614
Total receipts	440,887	129,208	6,625	448,256	5,100	5,042,383
Disbursements:						
Personal services	-	-	-	-	-	1,006,032
Supplies	-	-	-	-	-	62,554
Other services and charges	-	-	-	-	-	232,670
Debt service - principal and interest	-	146,262	-	-	-	146,262
Capital outlay	6,252	-	-	4,148	-	235,336
Utility operating expenses	283,214	-	-	287,372	-	2,521,697
Other disbursements	129,207	-	5,150	25,531	2,925	342,983
Total disbursements	418,673	146,262	5,150	317,051	2,925	4,547,534
Excess (deficiency) of receipts over disbursements	22,214	(17,054)	1,475	131,205	2,175	494,849
Cash and investments - ending	\$ 106,760	\$ -	\$ 31,275	\$ 234,360	\$ 27,235	\$ 1,616,942

TOWN OF MIDDLETOWN
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2011

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 233,796	\$ -
Electric	-	368,560
Storm Water	-	4,347
Wastewater	-	136,137
Water	-	54,854
Totals	<u>\$ 233,796</u>	<u>\$ 563,898</u>

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

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Town:			
Capital Lease	Municipal Building	\$ 1,109,808	\$ 145,000
Wastewater:			
Revenue bonds	Sewer Expansion	110,000	116,886
Revenue bonds	Separation of Storm/Sewer	<u>560,000</u>	<u>27,498</u>
Total Wastewater		<u>670,000</u>	<u>144,384</u>
Totals		<u>\$ 1,779,808</u>	<u>\$ 289,384</u>

TOWN OF MIDDLETOWN
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS

The State Board of Accounts was unable to provide an unqualified opinion on the Independent Accountant's Report for the financial statements. As noted in the prior Reports B29120, B31537, and B38065, the Town has had numerous problems in the past with posting state and local distributions to the designated funds and properly matching the uses of Town's funds (particularly, the Utility Funds) with the resources available for that purpose.

The results of this examination have shown improvement, with only a few distributions in 2010 being posted to the wrong fund. Also, no large postings of disbursements were noted as being posted to the wrong fund. The ending total cash balance at December 31, 2011, is properly reconciled with the bank account balances.

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

OVERDRAWN CASH BALANCES

As noted in the prior Reports B31537 and B38065, the cash balances of several funds were overdrawn. During this examination the situation has improved; however, in the Year 2010, eight funds were overdrawn for a total of \$186,152, and in the Year 2011, six funds were overdrawn for a total of \$108,423.

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

CAPITAL ASSET RECORDS

No capital asset records were presented for examination for the Town of Middletown or its Utilities.

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

PAYROLL FUND

As noted in the prior Reports B24829, B29120, B31537, and B38065, we were not able to determine the correctness of balances maintained in the Payroll Fund throughout the examination period. No subsidiary record is maintained to allow for reconciliation with the control balances. The Payroll Fund had ending balances of (\$85,651.34) and (\$81,601.86) for the Years 2010 and 2011, respectively.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree.

TOWN OF MIDDLETOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

TOWN DELINQUENCIES FOR SERVICES PROVIDED BY THE TOWN UTILITIES

The Town has several ordinances concerning the payment of utility service provided to the Town by the Town Utility Offices. However, as noted in the prior two Reports B31537 and B38065, the Town did not comply with its ordinances. The Town owes fire hydrant rental payments to the Water Utility of \$28,411, \$39,392, and \$56,909 for the Years 2011, 2010, and 2009 through 2007, respectively, for a total of \$124,712. The Town is also \$109,084 delinquent in its payments to the Electric Utility.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS

As noted in the prior Reports B31537 and B38065, the Town officials and employees are using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MIDDLETOWN
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2012, with Drew Cooper, Clerk-Treasurer; Jim Hanson, former Clerk-Treasurer; Tim Mundell and Roscoe J. Smith, former Presidents of the Town Council, and Betty Riley, President of the Town Council. The officials concurred with our findings.