

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

TOWN OF RICHLAND

SPENCER COUNTY, INDIANA

January 1, 2009 to December 31, 2011



FILED
10/22/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Melavadene Below	01-01-09 to 12-31-15
President of the Town Council	T. Ellen Sarver Dan Kincaid	01-01-09 to 12-31-11 01-01-12 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF RICHLAND, SPENCER COUNTY, INDIANA

We have examined the accompanying financial statements of the Town of Richland (Town), for the years ended December 31, 2009, 2010, and 2011. The financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on the financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination 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.

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, 2009, 2010, and 2011, on the basis of accounting described in Note 1.

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 and Schedule of Payables and Receivables, 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.

The Town's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine 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, 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 27, 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 RICHLAND
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For The Year Ended December 31, 2009

Fund	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
General	\$ -	\$ 1,877	\$ 1,777	\$ 100

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

TOWN OF RICHLAND
 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	\$ 100	\$ 57,052	\$ 20,815	\$ 36,337
Motor Vehicle Highway Fund	-	32,439	-	32,439
Local Road And Street	-	1,443	-	1,443
Riverboat Wagering Fund	-	2,879	-	2,879
Totals	<u>\$ 100</u>	<u>\$ 93,813</u>	<u>\$ 20,815</u>	<u>\$ 73,098</u>

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

TOWN OF RICHLAND
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	\$ 36,337	\$ 52,184	\$ 29,007	\$ 59,514
Motor Vehicle Highway Fund	32,439	33,676	-	66,115
Local Road And Street	1,443	2,164	450	3,157
Riverboat Wagering Fund	2,879	2,518	2,500	2,897
CEDIT Fund	-	11,670	-	11,670
Totals	<u>\$ 73,098</u>	<u>\$ 102,212</u>	<u>\$ 31,957</u>	<u>\$ 143,353</u>

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

TOWN OF RICHLAND
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.

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

TOWN OF RICHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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.

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.

TOWN OF RICHLAND
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

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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 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 RICHLAND
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2009

	General
Cash and investments - beginning	\$ -
Receipts:	
Other receipts	1,877
Total receipts	1,877
Disbursements:	
Other services and charges	1,777
Total disbursements	1,777
Excess (deficiency) of receipts over disbursements	100
Cash and investments - ending	\$ 100

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

	General	Motor Vehicle Highway Fund	Local Road And Street	Riverboat Wagering Fund	Totals
Cash and investments - beginning	\$ 100	\$ -	\$ -	\$ -	\$ 100
Receipts:					
Taxes	49,141	-	-	-	49,141
Intergovernmental	4,177	32,439	1,443	2,879	40,938
Charges for services	2,400	-	-	-	2,400
Other receipts	1,334	-	-	-	1,334
Total receipts	<u>57,052</u>	<u>32,439</u>	<u>1,443</u>	<u>2,879</u>	<u>93,813</u>
Disbursements:					
Other services and charges	<u>20,815</u>	-	-	-	<u>20,815</u>
Total disbursements	<u>20,815</u>	-	-	-	<u>20,815</u>
Excess (deficiency) of receipts over disbursements	<u>36,237</u>	<u>32,439</u>	<u>1,443</u>	<u>2,879</u>	<u>72,998</u>
Cash and investments - ending	<u>\$ 36,337</u>	<u>\$ 32,439</u>	<u>\$ 1,443</u>	<u>\$ 2,879</u>	<u>\$ 73,098</u>

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

	General	Motor Vehicle Highway Fund	Local Road And Street	Riverboat Wagering Fund	CEDIT Fund	Totals
Cash and investments - beginning	\$ 36,337	\$ 32,439	\$ 1,443	\$ 2,879	\$ -	\$ 73,098
Receipts:						
Taxes	41,387	-	-	-	-	41,387
Intergovernmental	10,588	33,676	2,164	2,518	11,670	60,616
Other receipts	209	-	-	-	-	209
Total receipts	<u>52,184</u>	<u>33,676</u>	<u>2,164</u>	<u>2,518</u>	<u>11,670</u>	<u>102,212</u>
Disbursements:						
Personal services	4,225	-	-	-	-	4,225
Supplies	719	-	-	-	-	719
Other services and charges	24,063	-	450	-	-	24,513
Other disbursements	-	-	-	2,500	-	2,500
Total disbursements	<u>29,007</u>	<u>-</u>	<u>450</u>	<u>2,500</u>	<u>-</u>	<u>31,957</u>
Excess of receipts over disbursements	<u>23,177</u>	<u>33,676</u>	<u>1,714</u>	<u>18</u>	<u>11,670</u>	<u>70,255</u>
Cash and investments - ending	<u>\$ 59,514</u>	<u>\$ 66,115</u>	<u>\$ 3,157</u>	<u>\$ 2,897</u>	<u>\$ 11,670</u>	<u>\$ 143,353</u>

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

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 342</u>	<u>\$ -</u>

TOWN OF RICHLAND
EXAMINATION 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 the reconciling of bank records to the Town ledger, receipting, claims and payroll processing.

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 processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANNUAL REPORT

An annual report for 2009 was not presented for audit. The Town filed their 2010 annual report with the State Board of Accounts on April 26, 2011, which is not within 60 days after the close of the fiscal year as required by law.

Indiana Code 5-11-1-4 states:

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

(b) The department of local government finance may not approve the budget of a political subdivision or a supplemental appropriation for a political subdivision until the political subdivision files an annual report under subsection (a) for the preceding calendar year."

OPTICAL IMAGES OF WARRANTS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . . "

TOWN OF RICHLAND
EXAMINATION RESULTS AND COMMENTS
(Continued)

Furthermore, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

(1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and

(2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

RECEIPT ISSUANCE

In some instances receipts were not issued. No receipts were issued for local tax distributions nor for state distributions.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PRESCRIBED FORMS

The following prescribed or approved forms were not in use during the examination period:

1. Clerk-Treasurer's, City Controller's and City Treasurer's Monthly Financial, Depository Statement and Cash Reconciliation (City and Town Form 206).
2. Ledger of Appropriations, Encumbrances, Disbursements and Balances (City and Town Form 209).

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)

TOWN OF RICHLAND
EXIT CONFERENCE

The contents of this report were discussed on September 27, 2012, with Melavadene Below, Clerk-Treasurer, and Terry Sarver, Town Council member. The Official Response has been made a part of this report and may be found on page 21.

Town Of Richland

PO BOX 100
Richland, IN 47634
(812) 660-0202

September 27, 2012

OFFICIAL RESPONSE

Auditee Contact Person: Melavadene Below
Title of Contact Person: Clerk-Treasurer
Phone Number: (812) 660-0202

Examination Result and Comment

INTERNAL CONTROLS

Lack of Segregation of Duties – The Town Council and the Clerk Treasurer will review office procedures and attempt to institute duties that would involve, as least on a sample basis, reviews of work being performed by the Clerk-Treasurer. However, the Town is a very small governmental unit and management has determined that the cost associated with employing the additional staff necessary to properly segregate duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risk inherent with the current design of the business office.



Terry Sarver, Town Council Member



Melavadene Below, Clerk-Treasurer