

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

TOWN OF WALLACE

FOUNTAIN COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
11/14/2012

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Accountant's Report.....	3
Financial Statements:	
Statements of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	6-7
Notes to Financial Statements	8-10
Supplementary Information:	
Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	12-13
Schedule of Leases and Debt	14
Examination Results and Comments:	
Official Bonds.....	15
Deposits.....	15
Federal and State Agencies – Compliance Requirements	15
Errors on Claims	15-16
Bank Account Reconciliations	16
Condition of Records	16
Exit Conference.....	17

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marilyn K. Sowers	03-01-09 to 12-31-12
President of the Town Council	Tony G. Shuman	01-01-10 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF WALLACE, FOUNTAIN COUNTY, INDIANA

We have examined the accompanying financial statements of the Town of Wallace (Town), for the years ended December 31, 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. The basis 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.

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 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

October 10, 2012

(This page intentionally left blank.)

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 WALLACE
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	\$ (3,022)	\$ 7,810	\$ 4,577	\$ 211
Motor Vehicle Highway	14,444	1,350	4,395	11,399
Local Road And Street	2,303	1,071	261	3,113
Donations	40	-	-	40
Riverboat	-	626	-	626
Cumulative Capital Development	847	-	-	847
Cumulative Capital Improvement	3,411	-	1,500	1,911
Totals	<u>\$ 18,023</u>	<u>\$ 10,857</u>	<u>\$ 10,733</u>	<u>\$ 18,147</u>

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

TOWN OF WALLACE
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	\$ 211	\$ 9,045	\$ 7,549	\$ 1,707
Motor Vehicle Highway	11,399	2,926	9,065	5,260
Local Road And Street	3,113	264	-	3,377
Riverboat	626	626	-	1,252
Cumulative Capital Development	847	-	247	600
Cumulative Capital Improvement	1,911	148	10	2,049
Donations	40	-	-	40
Totals	<u>\$ 18,147</u>	<u>\$ 13,009</u>	<u>\$ 16,871</u>	<u>\$ 14,285</u>

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

TOWN OF WALLACE
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 WALLACE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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).

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.

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

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

TOWN OF WALLACE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

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 WALLACE
 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	Donations	Riverboat	Cumulative Capital Development	Cumulative Capital Improvement	Totals
Cash and investments - beginning	\$ (3,022)	\$ 14,444	\$ 2,303	\$ 40	\$ -	\$ 847	\$ 3,411	\$ 18,023
Receipts:								
Taxes	1,676	-	-	-	-	-	-	1,676
Intergovernmental	1,634	1,350	1,071	-	626	-	-	4,681
Other receipts	4,500	-	-	-	-	-	-	4,500
Total receipts	7,810	1,350	1,071	-	626	-	-	10,857
Disbursements:								
Personal services	2,900	-	-	-	-	-	-	2,900
Supplies	146	-	-	-	-	-	-	146
Other services and charges	1,311	1,395	261	-	-	-	-	2,967
Other disbursements	220	3,000	-	-	-	-	1,500	4,720
Total disbursements	4,577	4,395	261	-	-	-	1,500	10,733
Excess (deficiency) of receipts over disbursements	3,233	(3,045)	810	-	626	-	(1,500)	124
Cash and investments - ending	\$ 211	\$ 11,399	\$ 3,113	\$ 40	\$ 626	\$ 847	\$ 1,911	\$ 18,147

TOWN OF WALLACE
 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	Riverboat	Cumulative Capital Development	Cumulative Capital Improvement	Donations	Totals
Cash and investments - beginning	\$ 211	\$ 11,399	\$ 3,113	\$ 626	\$ 847	\$ 1,911	\$ 40	\$ 18,147
Receipts:								
Taxes	989	-	-	-	-	-	-	989
Intergovernmental	379	2,806	264	626	-	148	-	4,223
Fines and forfeits	430	-	-	-	-	-	-	430
Other receipts	7,247	120	-	-	-	-	-	7,367
Total receipts	9,045	2,926	264	626	-	148	-	13,009
Disbursements:								
Personal services	3,100	-	-	-	-	-	-	3,100
Supplies	243	-	-	-	-	-	-	243
Other services and charges	2,747	2,065	-	-	-	-	-	4,812
Capital outlay	1,459	-	-	-	247	10	-	1,716
Other disbursements	-	7,000	-	-	-	-	-	7,000
Total disbursements	7,549	9,065	-	-	247	10	-	16,871
Excess (deficiency) of receipts over disbursements	1,496	(6,139)	264	626	(247)	138	-	(3,862)
Cash and investments - ending	\$ 1,707	\$ 5,260	\$ 3,377	\$ 1,252	\$ 600	\$ 2,049	\$ 40	\$ 14,285

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

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Notes and Loans Payable	Overpeck- Furnance & Air Payments	\$ 2,607	\$ 960
Totals		<u>\$ 2,607</u>	<u>\$ 960</u>

TOWN OF WALLACE
EXAMINATION RESULTS AND COMMENTS

OFFICIAL BONDS

The following official bonds were not filed in the Office of the County Recorder:

Marilyn Sowers	12-14-09 - 12-14-10
Marilyn Sowers	12-14-11 - 12-14-12

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

DEPOSITS

Eighty-three percent of receipts from the Auditor of State and seventy-eight percent of receipts from the County Auditor were deposited more than seven days after the warrants were issued.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The Town did not comply with directives of the Internal Revenue Service by failing to withhold payroll taxes or issue W-2's to the employees.

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

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the examination period:

1. Claims were not prepared for eighty-eight percent disbursements selected for testing.
2. Claims were not approved by the Town Council or certified by the Clerk-Treasurer.
3. Supporting documentation was not presented for twenty percent of disbursements selected for testing.

TOWN OF WALLACE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not presented for examination.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping, were present during our period of examination:

Eight tax distributions were posted to incorrect funds. The posting errors were immaterial to the financial statements.

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 WALLACE
EXIT CONFERENCE

The contents of this report were discussed on October 10, 2012, with Marilyn K. Sowers, Clerk-Treasurer, and Tony G. Shuman, President of the Town Council. The officials concurred with our findings.