

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

TOWN OF NEWPORT

VERMILLION COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
11/28/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary A. Bemis	01-01-07 to 12-31-14
President of the Town Council	Paul M. Lee	01-01-10 to 12-31-11
	James Sutliff	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 NEWPORT, VERMILLION COUNTY, INDIANA

We have examined the accompanying financial statements of the Town of Newport (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, 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 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 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 NEWPORT
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	\$ 9,841	\$ 58,038	\$ 28,502	\$ 39,377
Motor Vehicle Highway	3,764	19,743	17,386	6,121
Local Road And Street	1,717	3,495	2,949	2,263
Tree Fund	106	-	-	106
Cumulative Capl Imprv Cigarette Tax	928	1,692	-	2,620
Cumulative Capital Development	42,440	5,830	-	48,270
Wastewater Project	-	25,000	25,000	-
Water Utility-Operating	31,026	85,503	78,391	38,138
Water Utility-Bond And Interest	27,770	14,400	14,600	27,570
Water Utility-Depreciation/Improve	2,226	6,000	2,250	5,976
Water Utility-Customer Deposit	6,603	1,320	1,058	6,865
Totals	<u>\$ 126,421</u>	<u>\$ 221,021</u>	<u>\$ 170,136</u>	<u>\$ 177,306</u>

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

TOWN OF NEWPORT
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	\$ 39,377	\$ 48,798	\$ 50,540	\$ 37,635
Motor Vehicle Highway	6,121	19,819	15,902	10,038
Local Road And Street	2,263	3,377	2,644	2,996
Cumulative Capl Imprv Cigarette Tax	2,620	1,660	-	4,280
Cumulative Capital Development	48,270	2,457	-	50,727
Tree Fund	106	-	-	106
Water Utility-Operating	38,138	84,111	86,005	36,244
Water Utility-Bond And Interest	27,570	14,400	14,100	27,870
Water Utility-Depreciation/Improve	5,976	6,000	10,476	1,500
Water Utility-Customer Deposit	6,865	1,550	990	7,425
Totals	<u>\$ 177,306</u>	<u>\$ 182,172</u>	<u>\$ 180,657</u>	<u>\$ 178,821</u>

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

TOWN OF NEWPORT
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, public improvements, general administrative services, and 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 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, 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

TOWN OF NEWPORT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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: building department charges, copies of public records, copy machine charges,

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

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.

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.

TOWN OF NEWPORT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

TOWN OF NEWPORT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Wastewater Plant Construction

The Town of Newport has received awards to begin the construction of a wastewater plant in 2013. The project will be funded from several sources. They have been awarded an Office of Community and Rural Affairs grant for \$500,000. They have been approved to receive a \$3,450,000 grant and a \$1,375,000 low interest loan from Rural Development. They also have been approved to receive a \$600,000 forgivable loan from the State Revolving Loan Fund.

Note 7. Loan

In January of 2012, the Town of Newport received a \$200,000 loan from Vermillion County Economic Development. The money is to be used to pay preliminary expenses of the wastewater plant construction project.

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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 NEWPORT
 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	Tree Fund	Cumulative Capl Imprv Cigarette Tax	Cumulative Capital Development
Cash and investments - beginning	\$ 9,841	\$ 3,764	\$ 1,717	\$ 106	\$ 928	\$ 42,440
Receipts:						
Taxes	33,060	-	-	-	-	1,327
Licenses and permits	2,295	-	-	-	-	382
Intergovernmental	16,497	19,704	3,495	-	1,692	80
Utility fees	-	-	-	-	-	-
Other receipts	6,186	39	-	-	-	4,041
Total receipts	58,038	19,743	3,495	-	1,692	5,830
Disbursements:						
Personal services	5,823	13,805	-	-	-	-
Supplies	1,195	1,454	-	-	-	-
Other services and charges	21,224	2,127	2,949	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	260	-	-	-	-	-
Total disbursements	28,502	17,386	2,949	-	-	-
Excess (deficiency) of receipts over disbursements	29,536	2,357	546	-	1,692	5,830
Cash and investments - ending	<u>\$ 39,377</u>	<u>\$ 6,121</u>	<u>\$ 2,263</u>	<u>\$ 106</u>	<u>\$ 2,620</u>	<u>\$ 48,270</u>

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

	Wastewater Project	Water Utility-Operating	Water Utility-Bond And Interest	Water Utility-Depreciation/Improve	Water Utility-Customer Deposit	Totals
Cash and investments - beginning	\$ -	\$ 31,026	\$ 27,770	\$ 2,226	\$ 6,603	\$ 126,421
Receipts:						
Taxes	-	-	-	-	-	34,387
Licenses and permits	-	-	-	-	-	2,677
Intergovernmental	6,250	400	-	-	-	48,118
Utility fees	-	80	-	-	-	80
Other receipts	18,750	85,023	14,400	6,000	1,320	135,759
Total receipts	<u>25,000</u>	<u>85,503</u>	<u>14,400</u>	<u>6,000</u>	<u>1,320</u>	<u>221,021</u>
Disbursements:						
Personal services	-	-	-	-	-	19,628
Supplies	-	-	-	-	-	2,649
Other services and charges	25,000	-	-	-	-	51,300
Utility operating expenses	-	63,348	14,600	2,250	1,058	81,256
Other disbursements	-	15,043	-	-	-	15,303
Total disbursements	<u>25,000</u>	<u>78,391</u>	<u>14,600</u>	<u>2,250</u>	<u>1,058</u>	<u>170,136</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>7,112</u>	<u>(200)</u>	<u>3,750</u>	<u>262</u>	<u>50,885</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 38,138</u>	<u>\$ 27,570</u>	<u>\$ 5,976</u>	<u>\$ 6,865</u>	<u>\$ 177,306</u>

TOWN OF NEWPORT
 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	Cumulative Capl Imprv Cigarette Tax	Cumulative Capital Development	Tree Fund
Cash and investments - beginning	\$ 39,377	\$ 6,121	\$ 2,263	\$ 2,620	\$ 48,270	\$ 106
Receipts:						
Taxes	25,863	-	-	-	966	-
Licenses and permits	10	-	-	-	-	-
Intergovernmental	7,393	15,377	3,377	1,660	235	-
Charges for services	5,000	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	10,532	4,442	-	-	1,256	-
Total receipts	<u>48,798</u>	<u>19,819</u>	<u>3,377</u>	<u>1,660</u>	<u>2,457</u>	<u>-</u>
Disbursements:						
Personal services	6,097	10,003	-	-	-	-
Supplies	1,544	4,798	-	-	-	-
Other services and charges	39,570	1,101	2,644	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	1,875	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	1,454	-	-	-	-	-
Total disbursements	<u>50,540</u>	<u>15,902</u>	<u>2,644</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(1,742)</u>	<u>3,917</u>	<u>733</u>	<u>1,660</u>	<u>2,457</u>	<u>-</u>
Cash and investments - ending	<u>\$ 37,635</u>	<u>\$ 10,038</u>	<u>\$ 2,996</u>	<u>\$ 4,280</u>	<u>\$ 50,727</u>	<u>\$ 106</u>

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

	Water Utility-Operating	Water Utility-Bond And Interest	Water Utility-Depreciation/Improve	Water Utility-Customer Deposit	Totals
Cash and investments - beginning	\$ 38,138	\$ 27,570	\$ 5,976	\$ 6,865	\$ 177,306
Receipts:					
Taxes	-	-	-	-	26,829
Licenses and permits	-	-	-	-	10
Intergovernmental	-	-	-	-	28,042
Charges for services	-	-	-	-	5,000
Utility fees	83,625	-	-	-	83,625
Other receipts	486	14,400	6,000	1,550	38,666
Total receipts	<u>84,111</u>	<u>14,400</u>	<u>6,000</u>	<u>1,550</u>	<u>182,172</u>
Disbursements:					
Personal services	-	-	-	-	16,100
Supplies	-	-	-	-	6,342
Other services and charges	-	-	-	-	43,315
Debt service - principal and interest	-	14,100	-	-	14,100
Capital outlay	-	-	-	-	1,875
Utility operating expenses	58,232	-	10,476	-	68,708
Other disbursements	27,773	-	-	990	30,217
Total disbursements	<u>86,005</u>	<u>14,100</u>	<u>10,476</u>	<u>990</u>	<u>180,657</u>
Excess (deficiency) of receipts over disbursements	<u>(1,894)</u>	<u>300</u>	<u>(4,476)</u>	<u>560</u>	<u>1,515</u>
Cash and investments - ending	<u>\$ 36,244</u>	<u>\$ 27,870</u>	<u>\$ 1,500</u>	<u>\$ 7,425</u>	<u>\$ 178,821</u>

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

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Newport Water Works: Notes and loans payable	LOAN	\$ 72,000	\$ 14,600
Totals		<u>\$ 72,000</u>	<u>\$ 14,600</u>

TOWN OF NEWPORT
 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:	
Land	\$ 26,200
Buildings	26,800
Machinery, equipment and vehicles	177,089
Total Governmental Activities	\$ 230,089
 Newport Water Works:	
Land	1,100
Buildings	24,100
Improvements other than buildings	440,047
Machinery, equipment and vehicles	24,758
Total Newport Water Works	490,005
 Total capital assets	\$ 720,094

TOWN OF NEWPORT
EXAMINATION RESULTS AND COMMENTS

ANNUAL REPORT

The Clerk-Treasurer made duplicate entry errors when she was preparing the Annual Report for 2011. This resulted in the beginning balances for all Town and Water Utility funds being doubled from the previous year. These duplicate entries were corrected when the Annual Report was resubmitted.

Indiana Code 5-11-1-4 states in part:

"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."

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the Town fund balances to the bank account balances were incorrect. The Clerk-Treasurer reconciles to the All Funds ledger sheet; however, the Clerk-Treasurer does not properly cross foot her ledger. The individual funds added together did not equal the All Funds balance for each month in 2011.

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)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The Town Council members receive \$350 compensation annually and the Water Board members receive \$100 annually; however, neither the Council nor the Board had social security and Medicare taxes withheld from their wages.

Internal Revenue Code section 3401(c) indicates that an "officer, employee, or elected official" of government is an employee for income tax withholding purposes. If this is the case, generally these workers will also be employees for social security and Medicare tax purposes. . . . (Internal Revenue Service Publication, Government Workers: Employees or Independent Contractors)

TOWN OF NEWPORT
EXIT CONFERENCE

The contents of this report were discussed on October 11, 2012, with James Sutliff, Town Council President, and Mary A. Bemis, Clerk-Treasurer. The officials concurred with our findings.