

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

TOWN OF CROWS NEST

MARION COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
05/15/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lawrence A. O'Connor, Jr.	01-01-08 to 12-31-15
President of the Town Council	Richard Wood William Lawson	01-01-10 to 12-31-10 01-01-11 to 12-31-13



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF CROWS NEST, MARION COUNTY, INDIANA

We have examined the accompanying financial statements of the Town of Crows Nest (Town), for the period of January 1, 2010 to December 31, 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 effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis noted above is a different basis than that used in the prior period.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Town for the period of January 1, 2010 to December 31, 2011.

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 period of January 1, 2010 to December 31, 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 Payables and Receivables, 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.

Bruce Hartman
State Examiner

March 27, 2013

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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 CROWS NEST
 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 Fund	<u>\$ 91,128</u>	<u>\$ 167,773</u>	<u>\$ 144,954</u>	<u>\$ 113,947</u>

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

TOWN OF CROWS NEST
 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 Fund	<u>\$ 113,947</u>	<u>\$ 167,768</u>	<u>\$ 214,044</u>	<u>\$ 67,671</u>

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

TOWN OF CROWS NEST
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 CROWS NEST
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

F. 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.

Note 3. 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.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's Annual Reports for years prior to 2011 can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the Town's Annual Report information for years 2011 and later 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 CROWS NEST
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	<u>General Fund</u>
Cash and investments - beginning	\$ <u>91,128</u>
Receipts:	
Taxes	163,677
Intergovernmental	<u>4,096</u>
Total receipts	<u>167,773</u>
Disbursements:	
Personal services	144,152
Supplies	<u>802</u>
Total disbursements	<u>144,954</u>
Excess of receipts over disbursements	<u>22,819</u>
Cash and investments - ending	<u><u>\$ 113,947</u></u>

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

	<u>General Fund</u>
Cash and investments - beginning	\$ <u>113,947</u>
Receipts:	
Taxes	164,223
Intergovernmental	<u>3,545</u>
Total receipts	<u>167,768</u>
Disbursements:	
Other services and charges	146,543
Capital outlay	<u>67,501</u>
Total disbursements	<u>214,044</u>
Deficiency of receipts over disbursements	<u>(46,276)</u>
Cash and investments - ending	<u><u>\$ 67,671</u></u>

TOWN OF CROWS NEST
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2011

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 18,430</u>	<u>\$ 1,842</u>

TOWN OF CROWS NEST
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.

	<u>Ending Balance</u>
Governmental activities:	
Infrastructure	<u>\$ 67,501</u>
 Total capital assets	 <u><u>\$ 67,501</u></u>

TOWN OF CROWS NEST
EXAMINATION RESULTS AND COMMENTS

CERTIFIED REPORT NOT FILED

The Town did not timely file a Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R or its equivalent) with the State Board of Accounts for the years 2010 and 2011. The 2010 Form 100-R was filed on June 16, 2011 and the 2011 Form 100-R was filed on February 22, 2012. The Form 100-R is due to the office of the State Examiner during the month of January.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

OPTICAL IMAGES OF WARRANTS

The financial institution did not return the Town's actual cancelled checks with the monthly bank statements, but instead provided only an optical image of the front side of the checks. The financial institution should be returning an optical image of the front and the back side of the checks. A similar comment appeared in Report B36982.

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

"(a) . . . '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 . . ."

Further, 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)."

TOWN OF CROWS NEST
EXAMINATION RESULTS AND COMMENTS
(Continued)

PRESCRIBED FORMS

The following prescribed or approved forms were not in use:

- Accounts Payable Voucher
- Clerk-Treasurer's Receipt

A similar comment appeared in the last several examination reports, most recently B36982.

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)

OFFICIAL BOND

The Clerk-Treasurer was not properly bonded during the examination period. The Clerk-Treasurer's bond was for \$15,000 and should have been for no less than \$30,000.

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following city, town, county, or township officers and employees shall file an individual surety bond:

- (1) City judges, controllers, clerks, and clerk-treasurers.
- (2) Town judges and clerk-treasurers. . . .

(b) The fiscal body of a city, town, county, or township may by ordinance authorize the purchase of a blanket bond or a crime insurance policy endorsed to include faithful performance to cover the faithful performance of all employees, commission members, and persons acting on behalf of the local government unit, including those officers described in subsection (a).

(c) Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

- (1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee."

TOWN OF CROWS NEST
EXAMINATION RESULTS AND COMMENTS
(Continued)

COMBINING SCHEDULES

Assessments paid by citizens of the Town were inaccurately classified as property taxes in the gateway annual report and are reported in this manner on the combining schedule included with the financial report.

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 CROWS NEST
EXIT CONFERENCE

The contents of this report were discussed on March 28, 2013, with Lawrence A. O'Connor, Jr., Clerk-Treasurer.