

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF SHOALS
MARTIN COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
07/03/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance With Government Auditing Standards	6-7
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	11
Notes to Financial Statement.....	12-15
Supplementary Information - Unaudited:	
Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	18-23
Schedule of Payables and Receivables	25
Schedule of Leases and Debt	26
Schedule of Capital Assets.....	27
Audit Results and Comments:	
Errors on Claims	28
Delinquent Wastewater Accounts.....	28-29
Annual Report.....	29
Operating Funds Used for Town Expenses	29
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance.....	32-33
Schedule of Expenditures of Federal Awards	37
Note to Schedule of Expenditures of Federal Awards.....	38
Schedule of Findings and Questioned Costs	39-40
Auditee Prepared Schedule:	
Corrective Action Plan.....	41
Exit Conference.....	42

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lori Butler	01-01-08 to 12-31-15
President of the Town Council	Cecil Ragsdale Earl Boyd, Jr.	01-01-11 to 12-31-12 01-01-13 to 12-31-13
Superintendent of Utilities	Kevin Crecelius	01-01-11 to 12-31-13



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF SHOALS, MARTIN COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Shoals (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the Town prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in accordance 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, 2011 to December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 13, 2013, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, 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 statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman
State Examiner

May 13, 2013



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 AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF SHOALS, MARTIN COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Town of Shoals (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated May 13, 2013, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Shoals' Response to Findings

The Town's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

May 13, 2013

(This page intentionally left blank.)

FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Town. The financial statement and notes are presented as intended by the Town.

(This page intentionally left blank.)

TOWN OF SHOALS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 221,028	\$ 365,173	\$ 369,104	\$ 217,097	\$ 298,331	\$ 295,418	\$ 220,010
Motor Vehicle Highway	50,631	35,832	36,776	49,687	29,147	28,199	50,635
Local Road And Street	4,698	3,749	2,977	5,470	3,770	3,527	5,713
Law Enforcement Continuing Education	2,875	75	295	2,655	520	-	3,175
Riverboat	10,100	5,050	-	15,150	4,478	-	19,628
Rainy Day	20,765	-	-	20,765	-	-	20,765
Levy Excess	442	-	442	-	-	-	-
County Economic Development Income Tax	50,656	19,549	8,900	61,305	22,960	14,621	69,644
Cumulative Capital Improvement	12,333	2,318	4,180	10,471	2,005	4,203	8,273
LOIT Public Safety	-	-	-	-	32,451	-	32,451
Fire Donation	1	1,200	-	1,201	-	-	1,201
Park Donation	581	4,500	4,660	421	-	-	421
Cemetery Trust	1,500	-	-	1,500	-	-	1,500
Payroll	292	197,459	197,751	-	206,862	206,862	-
Wastewater Utility-Operating	199,587	188,565	184,760	203,392	155,217	212,479	146,130
Wastewater Utility-Bond And Interest	29,805	33,600	40,060	23,345	33,600	29,610	27,335
Wastewater Utility-Debt Reserve	10,059	3,504	-	13,563	3,504	10,000	7,067
Water Utility-Operating	46,979	125,380	118,693	53,666	119,974	131,628	42,012
Water Utility-Depreciation/Improvement	20,741	-	-	20,741	-	-	20,741
Water Utility-Customer Deposit	30,877	6,000	7,441	29,436	5,600	3,732	31,304
Down Town Project	1,500	204,686	206,186	-	-	-	-
Fire Station Project	-	123,943	123,943	-	-	-	-
Water Project	-	289,285	289,285	-	701,715	701,715	-
Totals	<u>\$ 715,450</u>	<u>\$ 1,609,868</u>	<u>\$ 1,595,453</u>	<u>\$ 729,865</u>	<u>\$ 1,620,134</u>	<u>\$ 1,641,994</u>	<u>\$ 708,005</u>

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

TOWN OF SHOALS
NOTES TO FINANCIAL STATEMENT

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 statement presents the financial information for the Town.

B. Basis of Accounting

The financial statement is 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 statement. 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, county economic development income tax, boat and trailer excise 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, local road and street distribution received from the state, financial institution tax received

TOWN OF SHOALS
NOTES TO FINANCIAL STATEMENT
(Continued)

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 statement. 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.

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 SHOALS
NOTES TO FINANCIAL STATEMENT
(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 SHOALS
NOTES TO FINANCIAL STATEMENT
(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 statement. 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

Funding Policy and Annual Pension Cost

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

(This page intentionally left blank.)

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's 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 statement 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 audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

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

TOWN OF SHOALS
 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	Law Enforcement Continuing Education	Riverboat	Rainy Day	Levy Excess	County Economic Development Income Tax
Cash and investments - beginning	\$ 221,028	\$ 50,631	\$ 4,698	\$ 2,875	\$ 10,100	\$ 20,765	\$ 442	\$ 50,656
Receipts:								
Taxes	139,234	13,874	-	-	-	-	-	-
Licenses and permits	-	-	-	75	-	-	-	-
Intergovernmental	79,977	21,840	3,749	-	5,050	-	-	19,549
Charges for services	25,919	-	-	-	-	-	-	-
Fines and forfeits	1,036	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	119,007	118	-	-	-	-	-	-
Total receipts	<u>365,173</u>	<u>35,832</u>	<u>3,749</u>	<u>75</u>	<u>5,050</u>	<u>-</u>	<u>-</u>	<u>19,549</u>
Disbursements:								
Personal services	121,904	17,055	-	-	-	-	-	-
Supplies	17,226	7,421	2,977	-	-	-	-	-
Other services and charges	105,049	-	-	-	-	-	-	-
Capital outlay	11,641	12,300	-	295	-	-	-	8,900
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	113,284	-	-	-	-	-	442	-
Total disbursements	<u>369,104</u>	<u>36,776</u>	<u>2,977</u>	<u>295</u>	<u>-</u>	<u>-</u>	<u>442</u>	<u>8,900</u>
Excess (deficiency) of receipts over disbursements	<u>(3,931)</u>	<u>(944)</u>	<u>772</u>	<u>(220)</u>	<u>5,050</u>	<u>-</u>	<u>(442)</u>	<u>10,649</u>
Cash and investments - ending	<u>\$ 217,097</u>	<u>\$ 49,687</u>	<u>\$ 5,470</u>	<u>\$ 2,655</u>	<u>\$ 15,150</u>	<u>\$ 20,765</u>	<u>\$ -</u>	<u>\$ 61,305</u>

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

	Cumulative Capital Improvement	Fire Donation	Park Donation	Cemetery Trust	Payroll	Wastewater Utility-Operating	Wastewater Utility-Bond And Interest	Wastewater Utility-Debt Reserve
Cash and investments - beginning	\$ 12,333	\$ 1	\$ 581	\$ 1,500	\$ 292	\$ 199,587	\$ 29,805	\$ 10,059
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	2,318	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	182,106	-	-
Penalties	-	-	-	-	-	249	-	-
Other receipts	-	1,200	4,500	-	197,459	6,210	33,600	3,504
Total receipts	<u>2,318</u>	<u>1,200</u>	<u>4,500</u>	<u>-</u>	<u>197,459</u>	<u>188,565</u>	<u>33,600</u>	<u>3,504</u>
Disbursements:								
Personal services	-	-	-	-	197,751	-	-	-
Supplies	-	-	4,660	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-
Capital outlay	4,180	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	144,111	-	-
Other disbursements	-	-	-	-	-	40,649	40,060	-
Total disbursements	<u>4,180</u>	<u>-</u>	<u>4,660</u>	<u>-</u>	<u>197,751</u>	<u>184,760</u>	<u>40,060</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(1,862)</u>	<u>1,200</u>	<u>(160)</u>	<u>-</u>	<u>(292)</u>	<u>3,805</u>	<u>(6,460)</u>	<u>3,504</u>
Cash and investments - ending	<u>\$ 10,471</u>	<u>\$ 1,201</u>	<u>\$ 421</u>	<u>\$ 1,500</u>	<u>\$ -</u>	<u>\$ 203,392</u>	<u>\$ 23,345</u>	<u>\$ 13,563</u>

TOWN OF SHOALS
 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 - Depreciation/ Improvement	Water Utility-Customer Deposit	Down Town Project	Fire Station Project	Water Project	Totals
Cash and investments - beginning	\$ 46,979	\$ 20,741	\$ 30,877	\$ 1,500	\$ -	\$ -	\$ 715,450
Receipts:							
Taxes	-	-	-	-	-	-	153,108
Licenses and permits	-	-	-	-	-	-	75
Intergovernmental	-	-	-	-	-	-	132,483
Charges for services	-	-	-	-	-	-	25,919
Fines and forfeits	-	-	-	-	-	-	1,036
Utility fees	121,181	-	6,000	-	-	-	309,287
Penalties	386	-	-	-	-	-	635
Other receipts	3,813	-	-	204,686	123,943	289,285	987,325
Total receipts	<u>125,380</u>	<u>-</u>	<u>6,000</u>	<u>204,686</u>	<u>123,943</u>	<u>289,285</u>	<u>1,609,868</u>
Disbursements:							
Personal services	-	-	-	-	-	-	336,710
Supplies	-	-	-	-	-	-	32,284
Other services and charges	-	-	-	-	-	-	105,049
Capital outlay	-	-	-	-	-	-	37,316
Utility operating expenses	102,912	-	7,441	-	-	-	254,464
Other disbursements	15,781	-	-	206,186	123,943	289,285	829,630
Total disbursements	<u>118,693</u>	<u>-</u>	<u>7,441</u>	<u>206,186</u>	<u>123,943</u>	<u>289,285</u>	<u>1,595,453</u>
Excess (deficiency) of receipts over disbursements	<u>6,687</u>	<u>-</u>	<u>(1,441)</u>	<u>(1,500)</u>	<u>-</u>	<u>-</u>	<u>14,415</u>
Cash and investments - ending	<u>\$ 53,666</u>	<u>\$ 20,741</u>	<u>\$ 29,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 729,865</u>

TOWN OF SHOALS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Education	Riverboat	Rainy Day	County Economic Development Income Tax
Cash and investments - beginning	\$ 217,097	\$ 49,687	\$ 5,470	\$ 2,655	\$ 15,150	\$ 20,765	\$ 61,305
Receipts:							
Taxes	140,340	8,919	323	-	-	-	-
Licenses and permits	-	-	-	520	-	-	-
Intergovernmental	104,661	20,228	3,447	-	4,478	-	22,960
Charges for services	37,377	-	-	-	-	-	-
Fines and forfeits	310	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	15,643	-	-	-	-	-	-
Total receipts	<u>298,331</u>	<u>29,147</u>	<u>3,770</u>	<u>520</u>	<u>4,478</u>	<u>-</u>	<u>22,960</u>
Disbursements:							
Personal services	135,256	17,350	-	-	-	-	-
Supplies	17,111	6,646	3,527	-	-	-	-
Other services and charges	112,833	-	-	-	-	-	-
Capital outlay	18,703	4,203	-	-	-	-	14,621
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	11,515	-	-	-	-	-	-
Total disbursements	<u>295,418</u>	<u>28,199</u>	<u>3,527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,621</u>
Excess (deficiency) of receipts over disbursements	<u>2,913</u>	<u>948</u>	<u>243</u>	<u>520</u>	<u>4,478</u>	<u>-</u>	<u>8,339</u>
Cash and investments - ending	<u>\$ 220,010</u>	<u>\$ 50,635</u>	<u>\$ 5,713</u>	<u>\$ 3,175</u>	<u>\$ 19,628</u>	<u>\$ 20,765</u>	<u>\$ 69,644</u>

TOWN OF SHOALS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Cumulative Capital Improvement	LOIT Public Safety	Fire Donation	Park Donation	Cemetery Trust	Payroll	Wastewater Utility-Operating
Cash and investments - beginning	\$ 10,471	\$ -	\$ 1,201	\$ 421	\$ 1,500	\$ -	\$ 203,392
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	2,005	32,451	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	149,534
Penalties	-	-	-	-	-	-	47
Other receipts	-	-	-	-	-	206,862	5,636
Total receipts	<u>2,005</u>	<u>32,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,862</u>	<u>155,217</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	4,203	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	49,922
Utility operating expenses	-	-	-	-	-	-	161,444
Other disbursements	-	-	-	-	-	206,862	1,113
Total disbursements	<u>4,203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,862</u>	<u>212,479</u>
Excess (deficiency) of receipts over disbursements	<u>(2,198)</u>	<u>32,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,262)</u>
Cash and investments - ending	<u>\$ 8,273</u>	<u>\$ 32,451</u>	<u>\$ 1,201</u>	<u>\$ 421</u>	<u>\$ 1,500</u>	<u>\$ -</u>	<u>\$ 146,130</u>

TOWN OF SHOALS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Wastewater Utility-Bond And Interest	Wastewater Utility-Debt Reserve	Water Utility-Operating	Water Utility - Depreciation/ Improvement	Water Utility-Customer Deposit	Water Project	Totals
Cash and investments - beginning	\$ 23,345	\$ 13,563	\$ 53,666	\$ 20,741	\$ 29,436	\$ -	\$ 729,865
Receipts:							
Taxes	-	-	-	-	-	-	149,582
Licenses and permits	-	-	-	-	-	-	520
Intergovernmental	-	-	-	-	-	-	190,230
Charges for services	-	-	-	-	-	-	37,377
Fines and forfeits	-	-	-	-	-	-	310
Utility fees	-	-	119,478	-	5,600	-	274,612
Penalties	-	-	395	-	-	-	442
Other receipts	33,600	3,504	101	-	-	701,715	967,061
Total receipts	<u>33,600</u>	<u>3,504</u>	<u>119,974</u>	<u>-</u>	<u>5,600</u>	<u>701,715</u>	<u>1,620,134</u>
Disbursements:							
Personal services	-	-	-	-	-	-	152,606
Supplies	-	-	-	-	-	-	27,284
Other services and charges	-	-	-	-	-	-	117,036
Capital outlay	-	-	19,116	-	-	-	106,565
Utility operating expenses	-	-	106,849	-	3,732	-	272,025
Other disbursements	29,610	10,000	5,663	-	-	701,715	966,478
Total disbursements	<u>29,610</u>	<u>10,000</u>	<u>131,628</u>	<u>-</u>	<u>3,732</u>	<u>701,715</u>	<u>1,641,994</u>
Excess (deficiency) of receipts over disbursements	<u>3,990</u>	<u>(6,496)</u>	<u>(11,654)</u>	<u>-</u>	<u>1,868</u>	<u>-</u>	<u>(21,860)</u>
Cash and investments - ending	<u>\$ 27,335</u>	<u>\$ 7,067</u>	<u>\$ 42,012</u>	<u>\$ 20,741</u>	<u>\$ 31,304</u>	<u>\$ -</u>	<u>\$ 708,005</u>

(This page intentionally left blank.)

TOWN OF SHOALS
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 2,219	\$ -
Wastewater	714	5,427
Water	2,462	732
Totals	\$ 5,395	\$ 6,159

TOWN OF SHOALS
 SCHEDULE OF LEASES AND DEBT
 December 31, 2012

<u>Debt Class</u>	<u>Purpose</u>	<u>Ending Principal Balance Current Year</u>	<u>Principal and Interest Due the Following Year</u>
Wastewater Revenue Bonds	2003 Wastewater Improvements	<u>\$ 653,000</u>	<u>\$ 40,138</u>

TOWN OF SHOALS
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

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	\$ 96,800
Infrastructure	413,500
Buildings	1,079,768
Improvements other than buildings	199,295
Machinery, equipment, and vehicles	259,995
Total governmental activities	2,049,358
Wastewater:	
Land	119,800
Infrastructure	-
Buildings	16,256
Improvements other than buildings	96,921
Machinery, equipment, and vehicles	8,500
Total Wastewater	241,477
Water:	
Land	15,000
Infrastructure	797,875
Buildings	410,670
Improvements other than buildings	16,480
Machinery, equipment, and vehicles	8,995
Total Water	1,249,020
Total capital assets	\$ 3,539,855

TOWN OF SHOALS
AUDIT RESULTS AND COMMENTS

ERRORS ON CLAIMS

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

Numerous claims were not certified by the Clerk-Treasurer.

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."

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.

TOWN OF SHOALS
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

- (c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . .

- (e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May."

ANNUAL REPORT

The Town did not include information regarding local governmental funds disbursed to non-governmental entities within their Annual Financial Report for either 2011 or 2012.

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)

OPERATING FUNDS USED FOR TOWN EXPENSES

The Water Operating Fund paid \$1,000 to Martin County Alliance for Economic Growth in January 2011.

The Wastewater Operating Fund paid \$1,000 to Martin County Alliance for Economic Growth in February 2012.

The Utilities used operating funds to pay for expenses related to the Town.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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 AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE TOWN OF SHOALS, MARTIN COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Shoals' (Town) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2011 to December 31, 2012. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period of January 1, 2011 to December 31, 2012.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the type of requirements

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

May 13, 2013

(This page intentionally left blank.)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the Town. The schedule and note are presented as intended by the Town.

(This page intentionally left blank.)

TOWN OF SHOALS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2011 and 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs CDBG - State-Administered CDBG Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228			
		DR2-09-044	\$ 206,186	\$ -
		DR2-09-049	123,943	-
		DR2-09-170	<u>289,285</u>	<u>701,715</u>
Total - federal agency			<u>619,414</u>	<u>701,715</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-Through Indiana Department of Homeland Security Disaster Grants-Public Assistance (Presidentially Declared Disasters) FY 2012	97.036			
			-	<u>13,483</u>
Total - federal agency			<u>-</u>	<u>13,483</u>
Total federal awards expended			<u>\$ 619,414</u>	<u>\$ 715,198</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards

TOWN OF SHOALS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Shoals and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF SHOALS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unqualified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	no

Identification of Major Programs:

_____ Name of Federal Program or Cluster _____

CDBG – State-Administered CDBG Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-1 - INTERNAL CONTROLS OVER DISBURSEMENTS

We noted a deficiency in the internal control system of the Town related to disbursements. We believe the following deficiency regarding disbursements constitutes a material weakness.

TOWN OF SHOALS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Control activities should be selected and developed at the various levels of the Town to reduce the risk to the achievement of financial reporting objectives. While the claims are approved by the Town Council, as evidenced by their signatures on the Voucher Register, no evidence was provided to indicate that each claim on the Voucher Register, with the supporting documentation attached, was being reviewed. This could result in claims not being mathematically correct, not adequately itemized, and/or charged to the incorrect fund/account.

The issues with disbursements could lead to incorrect payment of claims for personal services, supplies, other services and charges, capital outlays, and incorrect decision making. The failure to establish these controls could enable material misstatements or irregularities to go undetected.

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 objections, and compliance with laws and regulations. Among other things, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transaction, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns State of Indiana, Chapter 7)

We recommended that internal controls be properly designed and implemented to ensure proper accounting of disbursements and financial reporting.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF SHOALS

P.O. Box 1078
Shoals, Indiana 47581
(812) 247-2110 (Phone)
(812) 247-3690 (Fax)

Earl Boyd, Jr.
President

Roger Abel, Jr.
Member

Cecil Ragsdale
Member

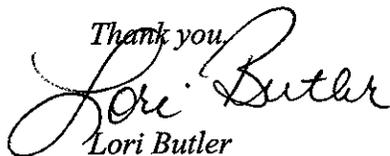
LORI BUTLER
Clerk-Treasurer

May 9, 2013

Finding 2012-1, Internal Controls Over Disbursements

At the end of 2012 I had surgery and the last few months of claims did not get signed. They were reviewed just not signed.

In the future I will be sure to sign them at the time of reviewing them.

Thank you,

Lori Butler

TOWN OF SHOALS
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2013, with Earl Boyd, Jr., President of the Town Council; and Lori Butler, Clerk-Treasurer. The officials concurred with our audit findings.