

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF OAKTOWN
KNOX COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
07/08/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Carol Beaman Peggy Blann	03-04-10 to 04-30-11 05-01-11 to 12-31-15
President of the Town Council	Tim Axsom Tim Waldroup	01-01-11 to 12-31-11 01-01-12 to 12-31-13
Superintendent of Utilities	Kyle Clark	01-01-11 to 12-31-13



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF OAKTOWN, KNOX COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Oaktown (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 June 4, 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.

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,

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

June 4, 2013



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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 OAKTOWN, KNOX 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 Oaktown (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 June 4, 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2 to be material weaknesses.

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

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 provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2.

Town of Oaktown's Response to Findings

The Town's response to the findings 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

June 4, 2013

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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.

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

Fund	Cash and Investments			Cash and Investments			Cash and Investments
	01-01-11	Receipts	Disbursements	12-31-11	Receipts	Disbursements	12-31-12
General	\$ 26,355	\$ 72,633	\$ 59,473	\$ 39,515	\$ 73,420	\$ 83,528	\$ 29,407
Motor Vehicle	2,328	23,234	16,716	8,846	17,355	12,795	13,406
Local Road And Street	31,998	2,991	1,712	33,277	3,029	2,259	34,047
Housing Grant Fund	-	171,047	171,047	-	45,480	45,480	-
Special Park Donations	229	-	139	90	750	193	647
Rainy Day	11,761	-	-	11,761	-	-	11,761
Levy Excess	655	-	-	655	-	-	655
Stormwater Grant	-	257,314	257,314	-	527,975	527,975	-
Cumulative Capital Development	5,223	3,454	-	8,677	-	-	8,677
Cedit	15,667	3,064	-	18,731	4,317	8,525	14,523
Riverboat	8,798	3,961	-	12,759	3,602	-	16,361
Cumulative Capital Improvement	7,327	1,818	1,747	7,398	1,613	-	9,011
Building Donations Fund	-	30,000	-	30,000	23,353	30,050	23,303
DONATIONS	-	1,250	1,300	(50)	7,049	6,999	-
Fire	(366)	15,385	12,500	2,519	13,264	12,500	3,283
Payroll	(8,561)	85,204	78,896	(2,253)	73,035	69,831	951
Sewer Operating	(18,140)	208,798	259,382	(68,724)	235,628	214,009	(47,105)
Sewer Bond And Interest	27,092	60,000	59,374	27,718	60,000	59,360	28,358
Sewer Depreciation	(37,057)	73,436	-	36,379	11,282	-	47,661
Sewer Reserve	127,500	5,500	60,000	73,000	3,500	10,000	66,500
Water Utility-Operating	(11,739)	142,383	177,655	(47,011)	190,735	179,299	(35,575)
Water Utility-Bond And Interest	76,653	55,000	65,555	66,098	55,000	65,812	55,286
Depreciation	113,192	9,014	-	122,206	9,541	-	131,747
Meter Deposit	23,050	2,700	3,102	22,648	5,200	1,250	26,598
Reserve	50,566	6,600	-	57,166	6,600	-	63,766
Totals	\$ 452,531	\$ 1,234,786	\$ 1,225,912	\$ 461,405	\$ 1,371,728	\$ 1,329,865	\$ 503,268

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

TOWN OF OAKTOWN
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, general administrative services, water, wastewater, storm water, trash 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, 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 OAKTOWN
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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 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.

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.

TOWN OF OAKTOWN
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

TOWN OF OAKTOWN
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of the operating fund in the water and wastewater utilities not having adequate receipts for disbursement obligations.

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SUPPLEMENTARY INFORMATION – UNAUDITED

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

	General	Motor Vehicle	Local Road And Street	Housing Grant Fund	Special Park Donations	Rainy Day	Levy Excess	Stormwater Grant	Cumulative Capital Development
Cash and investments - beginning	\$ 26,355	\$ 2,328	\$ 31,998	\$ -	\$ 229	\$ 11,761	\$ 655	\$ -	\$ 5,223
Receipts:									
Taxes	29,472	-	-	-	-	-	-	-	2,915
Intergovernmental	14,108	16,693	2,991	-	-	-	-	-	465
Charges for services	28,576	669	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	477	5,872	-	171,047	-	-	-	257,314	74
Total receipts	<u>72,633</u>	<u>23,234</u>	<u>2,991</u>	<u>171,047</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>257,314</u>	<u>3,454</u>
Disbursements:									
Personal services	14,724	9,241	-	-	-	-	-	-	-
Supplies	4,268	3,861	-	-	139	-	-	-	-
Other services and charges	38,290	3,614	-	-	-	-	-	-	-
Capital outlay	-	-	-	171,047	-	-	-	257,314	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	2,191	-	1,712	-	-	-	-	-	-
Total disbursements	<u>59,473</u>	<u>16,716</u>	<u>1,712</u>	<u>171,047</u>	<u>139</u>	<u>-</u>	<u>-</u>	<u>257,314</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>13,160</u>	<u>6,518</u>	<u>1,279</u>	<u>-</u>	<u>(139)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,454</u>
Cash and investments - ending	<u>\$ 39,515</u>	<u>\$ 8,846</u>	<u>\$ 33,277</u>	<u>\$ -</u>	<u>\$ 90</u>	<u>\$ 11,761</u>	<u>\$ 655</u>	<u>\$ -</u>	<u>\$ 8,677</u>

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

	Cedit	Riverboat	Cumulative Capital Improvement	Building Donations Fund	Donations	Fire	Payroll	Sewer Operating	Sewer Bond And Interest
Cash and investments - beginning	\$ 15,667	\$ 8,798	\$ 7,327	\$ -	\$ -	\$ (366)	\$ (8,561)	\$ (18,140)	\$ 27,092
Receipts:									
Taxes	-	-	-	-	-	13,081	-	-	-
Intergovernmental	3,064	3,961	1,818	-	-	2,085	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	208,228	-
Other receipts	-	-	-	30,000	1,250	219	85,204	570	60,000
Total receipts	<u>3,064</u>	<u>3,961</u>	<u>1,818</u>	<u>30,000</u>	<u>1,250</u>	<u>15,385</u>	<u>85,204</u>	<u>208,798</u>	<u>60,000</u>
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	12,500	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	180,446	-
Other disbursements	-	-	1,747	-	1,300	-	78,896	78,936	59,374
Total disbursements	<u>-</u>	<u>-</u>	<u>1,747</u>	<u>-</u>	<u>1,300</u>	<u>12,500</u>	<u>78,896</u>	<u>259,382</u>	<u>59,374</u>
Excess (deficiency) of receipts over disbursements	<u>3,064</u>	<u>3,961</u>	<u>71</u>	<u>30,000</u>	<u>(50)</u>	<u>2,885</u>	<u>6,308</u>	<u>(50,584)</u>	<u>626</u>
Cash and investments - ending	<u>\$ 18,731</u>	<u>\$ 12,759</u>	<u>\$ 7,398</u>	<u>\$ 30,000</u>	<u>\$ (50)</u>	<u>\$ 2,519</u>	<u>\$ (2,253)</u>	<u>\$ (68,724)</u>	<u>\$ 27,718</u>

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

	Sewer Depreciation	Sewer Reserve	Water Utility-Operating	Water Utility-Bond And Interest	Depreciation	Meter Deposit	Reserve	Totals
Cash and investments - beginning	\$ (37,057)	\$ 127,500	\$ (11,739)	\$ 76,653	\$ 113,192	\$ 23,050	\$ 50,566	\$ 452,531
Receipts:								
Taxes	-	-	-	-	-	-	-	45,468
Intergovernmental	-	-	-	-	-	-	-	45,185
Charges for services	-	-	-	-	-	-	-	29,245
Utility fees	-	-	140,086	-	-	2,700	-	351,014
Other receipts	73,436	5,500	2,297	55,000	9,014	-	6,600	763,874
Total receipts	<u>73,436</u>	<u>5,500</u>	<u>142,383</u>	<u>55,000</u>	<u>9,014</u>	<u>2,700</u>	<u>6,600</u>	<u>1,234,786</u>
Disbursements:								
Personal services	-	-	-	-	-	-	-	23,965
Supplies	-	-	-	-	-	-	-	8,268
Other services and charges	-	-	-	-	-	-	-	54,404
Capital outlay	-	-	-	-	-	-	-	428,361
Utility operating expenses	-	-	107,041	-	-	-	-	287,487
Other disbursements	-	60,000	70,614	65,555	-	3,102	-	423,427
Total disbursements	<u>-</u>	<u>60,000</u>	<u>177,655</u>	<u>65,555</u>	<u>-</u>	<u>3,102</u>	<u>-</u>	<u>1,225,912</u>
Excess (deficiency) of receipts over disbursements	<u>73,436</u>	<u>(54,500)</u>	<u>(35,272)</u>	<u>(10,555)</u>	<u>9,014</u>	<u>(402)</u>	<u>6,600</u>	<u>8,874</u>
Cash and investments - ending	<u>\$ 36,379</u>	<u>\$ 73,000</u>	<u>\$ (47,011)</u>	<u>\$ 66,098</u>	<u>\$ 122,206</u>	<u>\$ 22,648</u>	<u>\$ 57,166</u>	<u>\$ 461,405</u>

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

	General	Motor Vehicle	Local Road And Street	Housing Grant Fund	Special Park Donations	Rainy Day	Levy Excess	Stormwater Grant	Cumulative Capital Development
Cash and investments - beginning	\$ 39,515	\$ 8,846	\$ 33,277	\$ -	\$ 90	\$ 11,761	\$ 655	\$ -	\$ 8,677
Receipts:									
Taxes	24,674	-	-	-	-	-	-	-	-
Intergovernmental	18,849	15,996	3,029	-	-	-	-	-	-
Charges for services	29,468	1,200	-	-	750	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	429	159	-	45,480	-	-	-	527,975	-
Total receipts	<u>73,420</u>	<u>17,355</u>	<u>3,029</u>	<u>45,480</u>	<u>750</u>	<u>-</u>	<u>-</u>	<u>527,975</u>	<u>-</u>
Disbursements:									
Personal services	8,509	7,511	-	-	-	-	-	-	-
Supplies	3,547	1,757	2,259	-	193	-	-	-	-
Other services and charges	35,855	3,527	-	-	-	-	-	-	-
Capital outlay	-	-	-	45,480	-	-	-	527,975	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	35,617	-	-	-	-	-	-	-	-
Total disbursements	<u>83,528</u>	<u>12,795</u>	<u>2,259</u>	<u>45,480</u>	<u>193</u>	<u>-</u>	<u>-</u>	<u>527,975</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(10,108)</u>	<u>4,560</u>	<u>770</u>	<u>-</u>	<u>557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 29,407</u>	<u>\$ 13,406</u>	<u>\$ 34,047</u>	<u>\$ -</u>	<u>\$ 647</u>	<u>\$ 11,761</u>	<u>\$ 655</u>	<u>\$ -</u>	<u>\$ 8,677</u>

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

	Cedit	Riverboat	Cumulative Capital Improvement	Building Donations Fund	Donations	Fire	Payroll	Sewer Operating	Sewer Bond And Interest
Cash and investments - beginning	\$ 18,731	\$ 12,759	\$ 7,398	\$ 30,000	\$ (50)	\$ 2,519	\$ (2,253)	\$ (68,724)	\$ 27,718
Receipts:									
Taxes	-	-	-	-	-	10,310	-	-	-
Intergovernmental	4,317	3,602	1,613	-	-	2,954	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	225,546	-
Other receipts	-	-	-	23,353	7,049	-	73,035	10,082	60,000
Total receipts	<u>4,317</u>	<u>3,602</u>	<u>1,613</u>	<u>23,353</u>	<u>7,049</u>	<u>13,264</u>	<u>73,035</u>	<u>235,628</u>	<u>60,000</u>
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	-
Supplies	8,525	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	12,500	-	-	-
Capital outlay	-	-	-	30,000	6,999	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	138,213	-
Other disbursements	-	-	-	50	-	-	69,831	75,796	59,360
Total disbursements	<u>8,525</u>	<u>-</u>	<u>-</u>	<u>30,050</u>	<u>6,999</u>	<u>12,500</u>	<u>69,831</u>	<u>214,009</u>	<u>59,360</u>
Excess (deficiency) of receipts over disbursements	<u>(4,208)</u>	<u>3,602</u>	<u>1,613</u>	<u>(6,697)</u>	<u>50</u>	<u>764</u>	<u>3,204</u>	<u>21,619</u>	<u>640</u>
Cash and investments - ending	<u>\$ 14,523</u>	<u>\$ 16,361</u>	<u>\$ 9,011</u>	<u>\$ 23,303</u>	<u>\$ -</u>	<u>\$ 3,283</u>	<u>\$ 951</u>	<u>\$ (47,105)</u>	<u>\$ 28,358</u>

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

	Sewer Depreciation	Sewer Reserve	Water Utility-Operating	Water Utility-Bond And Interest	Depreciation	Meter Deposit	Reserve	Totals
Cash and investments - beginning	\$ 36,379	\$ 73,000	\$ (47,011)	\$ 66,098	\$ 122,206	\$ 22,648	\$ 57,166	\$ 461,405
Receipts:								
Taxes	-	-	-	-	-	-	-	34,984
Intergovernmental	-	-	-	-	-	-	-	50,360
Charges for services	-	-	-	-	-	-	-	31,418
Utility fees	-	-	185,922	-	-	5,200	-	416,668
Other receipts	11,282	3,500	4,813	55,000	9,541	-	6,600	838,298
Total receipts	<u>11,282</u>	<u>3,500</u>	<u>190,735</u>	<u>55,000</u>	<u>9,541</u>	<u>5,200</u>	<u>6,600</u>	<u>1,371,728</u>
Disbursements:								
Personal services	-	-	-	-	-	-	-	16,020
Supplies	-	-	-	-	-	-	-	16,281
Other services and charges	-	-	-	-	-	-	-	51,882
Capital outlay	-	-	-	-	-	-	-	610,454
Utility operating expenses	-	-	107,144	-	-	-	-	245,357
Other disbursements	-	10,000	72,155	65,812	-	1,250	-	389,871
Total disbursements	<u>-</u>	<u>10,000</u>	<u>179,299</u>	<u>65,812</u>	<u>-</u>	<u>1,250</u>	<u>-</u>	<u>1,329,865</u>
Excess (deficiency) of receipts over disbursements	<u>11,282</u>	<u>(6,500)</u>	<u>11,436</u>	<u>(10,812)</u>	<u>9,541</u>	<u>3,950</u>	<u>6,600</u>	<u>41,863</u>
Cash and investments - ending	<u>\$ 47,661</u>	<u>\$ 66,500</u>	<u>\$ (35,575)</u>	<u>\$ 55,286</u>	<u>\$ 131,747</u>	<u>\$ 26,598</u>	<u>\$ 63,766</u>	<u>\$ 503,268</u>

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

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ -	\$ 30,183
Water	-	14,136
Governmental activities	-	3,673
Totals	\$ -	\$ 47,992

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

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
General obligation bonds	SEWER SYSTEM	\$ 880,200	\$ 59,409
Water:			
General obligation bonds	WATER SYSTEM IMPROVEMENTS	21,000	2,050
General obligation bonds	WATER SYSTEM IMPROVEMENTS	206,000	18,300
General obligation bonds	WATER SYSTEM IMPROVEMENTS	790,000	45,550
Total Water		1,017,000	65,900
Totals		\$ 1,897,200	\$ 125,309

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TOWN OF OAKTOWN
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	\$ 3,600
Buildings	477,444
Machinery, equipment, and vehicles	49,043
Total governmental activities	530,087
Wastewater:	
Land	6,883
Infrastructure	966,640
Buildings	273,230
Improvements other than buildings	1,995,283
Machinery, equipment, and vehicles	48,423
Total Wastewater	3,290,459
Water:	
Land	23,000
Buildings	15,296
Improvements other than buildings	2,179,697
Machinery, equipment, and vehicles	50,675
Total Water	2,268,668
Total capital assets	\$ 6,089,214

TOWN OF OAKTOWN
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Fire	2011	<u>\$ 564</u>

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

ERRORS ON CLAIMS

A sample of claims identified the following deficiency with an error rate greater than 10 percent:

Of the claims tested, 43 percent were not accompanied by adequate supporting documentation. The related expenditures totaled \$955,552.

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."

OVERDRAWN CASH BALANCES

The financial statements presented in this report included the following funds with overdrawn cash balances at December 31, 2012:

TOWN OF OAKTOWN
AUDIT RESULTS AND COMMENTS
(Continued)

Fund	Amount Overdrawn
Water Operating	\$ 47,105
Wastewater Operating	35,575

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS

Internal controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Examples of these are: Town Clerk-Treasurer prepared payments for expenditures without further review of the expenditures by another person. The Town Clerk-Treasurer writes the checks, posts them to the ledger and reconciles the bank to the ledger with no oversight.

2. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls which includes the oversight responsibility the Town Council has on expenditures of the Town. Putting complete responsibility of incompatible activities related to financial transactions on the Town Clerk-Treasurer only increases the risk that material misstatements or fraud will not be prevented, detected or corrected on a timely basis. The failure to exercise their oversight responsibility place the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

3. **Material Errors on Schedule of Federal Awards (SEFA):** The Town did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain 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 objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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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 OAKTOWN, KNOX COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Oaktown's (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

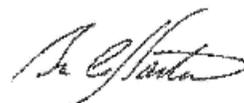
that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in 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.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-3 to be material weaknesses.

The Town's response to the internal control over compliance findings 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 compliance and accordingly, we express no opinion on the response.

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

June 4, 2013

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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.

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

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	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>Department of Agriculture</u>					
RURAL HOUSING PRESERVATION GRANTS OAKTOWN HOMEOWNER REPAIR AND IMPROVEMENT PROJECT	SOUTHERN INDIANA DEVELOPMENT COMMISSION	10.433		\$ 21,450	\$ -
Total - Department of Agriculture				<u>21,450</u>	<u>-</u>
<u>Department of Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII OAKTOWN STORMWATER PROJECT	INDIANA OFFICE OF COMMUNITY AND RURAL AFFAIRS	14.228	BIIDC180001DR02-09-1	<u>257,314</u>	<u>527,975</u>
COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII OAKTOWN HOMEOWNER REPAIR & IMPROVEMENT PROJECT	INDIANA HOUSING & COMMUNITY DEVELOPMENT AUTHORITY	14.228	HD-009-022	<u>149,520</u>	<u>45,480</u>
Total - CDBG - State-Administered CDBG Cluster				<u>406,834</u>	<u>573,455</u>
Total - Department of Housing and Urban Development				<u>406,834</u>	<u>573,455</u>
Total federal awards expended				<u>\$ 428,284</u>	<u>\$ 573,455</u>

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

TOWN OF OAKTOWN
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 Oaktown 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 below 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF OAKTOWN
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?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

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 FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Examples of these are: Town Clerk-Treasurer prepared payments for expenditures without further review of the expenditures by another person. The Town Clerk-Treasurer writes the checks, posts them to the ledger, and she reconciles the bank to the ledger with no oversight.

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

2. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls which includes the oversight responsibility the Town Council has on expenditures of the Town. Putting complete responsibility of incompatible activities related to financial transactions on the Town Clerk-Treasurer only increases the risk that material misstatements or fraud will not be prevented, detected or corrected on a timely basis. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processes 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 transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2012-2 - MATERIAL ERRORS ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Town did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: the Oaktown Homeowner Repair and Improvement project, HD-009-022, first year expenditures were overstated by \$45,480, and the Rural Housing Preservation Grant expenditures of \$21,450 were not included. Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statements.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of 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 transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310 (b) states:

"(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

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

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): BIIDC180001DR02-09-1, HD-009-022

Pass-Through Entity: Indiana Office of Community and Rural Affairs, Indiana Housing and Community Development Authority

Management of the Town has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements; allowable activities, allowable costs, cash management, Davis-Bacon, equipment and real property management, matching, period of availability, procurement, suspension and debarment, reporting and special tests and provisions. The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 (b) states:

"The auditee shall: (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

TOWN OF OAKTOWN
P O BOX 150
OAKTOWN, IN 47561

FINDING NO. 2012-1 INTERNAL CONTROLS OVER FINANCIAL
TRANSACTIONS AND REPORTING

FINDING NO. 2012-2 MATERIAL ERRORS ON SCHEDULE OF FEDERAL
AWARDS (SEFA)

AUDITEE CONTACT PERSON: PEGGY BLANN
TITLE OF CONTACT PERSON: CLERK TREASURER
PHONE NUMBER OF CONTACT PERSON: 812-745-3360

SECTION 1

The Town of Oaktown Town Board and the Clerk Treasurer will work together to implement the Corrective Action Plan.

SECTION II

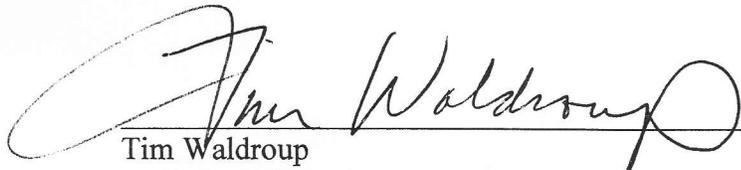
The Corrective Action Plan will include effective July 1, 2013 the following items:

1. A financial statement will be provided to the Board Members at the monthly board meetings showing the beginning balance- receipts- disbursements and approximate ending balance for the previous month.
2. All ledgers which the Clerk Treasurer keeps records in will be accessible to all board members at any time.
3. The Town Board President will initial the bank reconcilements to verify that the reconciliation was completed and accurate.
4. The budget for the oncoming year will be presented to the board members to look over and review before attending the meeting with the DLGF or placing the budget on Gateway.
5. The Annual Report will be presented to the board members to look over and review and approve at the end of the calendar year.
6. The Clerk Treasurer will notify the board members with a list of disbursements that has been paid out for the previous week.

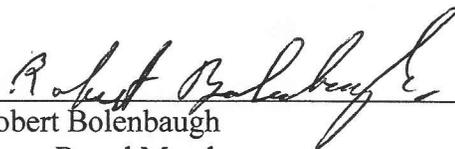
7. The Town Board President will be shown the W2's, the 941's that get called in monthly and the State and County taxes called in monthly for the year to review and initial for approval.
8. The Clerk Treasurer will inform the board members when the town has received a tax disbursement and inform them of the break down of the amount received at a monthly town board meeting.
9. The Clerk Treasurer will inform the board members of any past due bills (over 90 days) and any bad checks the town has received at the monthly town board meetings.

SECTION III

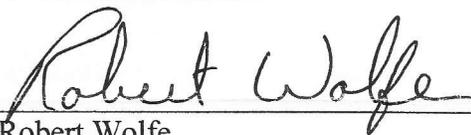
The Board of Trustees of the Town of Oaktown, Indiana does hereby declare that this Plan shall be in full force effective July 1, 2013. Passed by unanimous vote of the Trustees of the Town of Oaktown, this 5th day of June 2013.



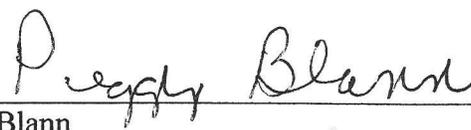
Tim Waldroup
Town Board President



Robert Bolenbaugh
Town Board Member



Robert Wolfe
Town Board Member



Peggy Blann
Clerk Treasurer

TOWN OF OAKTOWN
P O BOX 150
OAKTOWN, IN 47561

FINDING NO. 2012-3 INTERNAL CONTROLS OVER COMPLIANCE
REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO
COMMUNITY DEVELOPMENT BLOCK GRANTS/STATES PROGRAM

AUDITEE CONTACT PERSON: PEGGY BLANN
TITLE OF CONTACT PERSON: CLERK TREASURER
PHONE NUMBER OF CONTACT PERSON: 812-745-3360

SECTION I

The Town of Oaktown Town Board and the Clerk Treasurer will work together to implement the Corrective Action Plan.

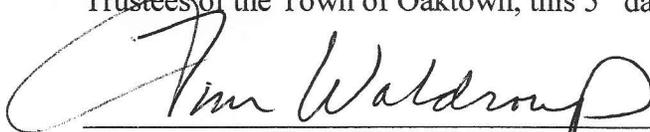
SECTION II

The Corrective Action Plan will include effective July 1, 2013 the following item:

The Clerk Treasurer and the Town Board will work together to oversee the implementation of current and future Community Development Grants. This includes monitoring timelines for submitting reports and that funds are being spent properly and within the allocated time frame. The Clerk Treasurer will also forward the Town Board President monthly reports so that the Town Board President may monitor the expenditures and balances in the Community Development Grant.

SECTION III

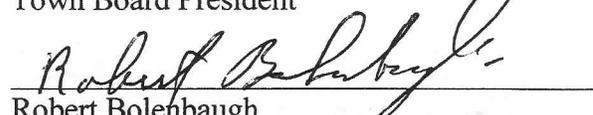
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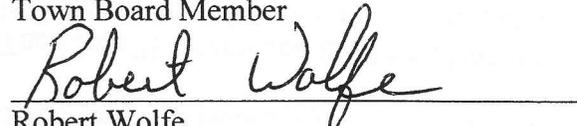
Tim Waldroup
Town Board President



Peggy Blann
Clerk Treasurer



Robert Bolenbaugh
Town Board Member



Robert Wolfe
Town Board Member

TOWN OF OAKTOWN
EXIT CONFERENCE

The contents of this report were discussed on June 4, 2013, with Peggy Blann, Clerk-Treasurer, and Tim Waldroup, President of the Town Council.