

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF SOUTH WHITLEY
WHITLEY 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	Mitchel J. Winger Robert Gould	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Town Council	John M. Dunn Tony Starkey	01-01-11 to 12-31-11 01-01-12 to 12-31-13



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF SOUTH WHITLEY, WHITLEY COUNTY, INDIANA

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Town of South Whitley (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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Town's accounting records have not been reconciled to depository balances since June 30, 2010. The accounting records contained numerous posting errors, such as transactions not being posted or transactions being posted more than once. In addition, as incorrect transactions were discovered, correcting transactions were recorded as negative receipts and disbursements in an attempt to correct the original transaction posting. Auditing procedures applied did not provide sufficient competent evidential matter. The Town's records do not permit the application of other auditing procedures, recommend audit adjustments, or to ascertain if the financial statement is fairly stated.

Disclaimer of Opinion

Because of the significance of the matter discussed in the "Basis for Disclaimer of Opinion" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on this financial statement.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 6, 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. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" paragraph and because federal grant monies were not accurately and separately identified in the financial ledgers, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards referred to above.

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 and Schedule of Leases and Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures and, accordingly, we express no opinion on them.



Bruce Hartman
State Examiner

June 6, 2013



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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 SOUTH WHITLEY, WHITLEY COUNTY, INDIANA

We were engaged to 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, the financial statement of the Town of South Whitley (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 6, 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. Since the Town did not properly maintain the accounting records and we were not able to apply other auditing procedures to satisfy ourselves as to whether the financial statement is fairly stated, the scope of our work was not sufficient to enable us to express an opinion on the financial statement relative to the regulatory basis of accounting.

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
(Continued)

Compliance and Other Matters

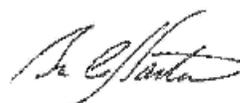
As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 items 2012-1 and 2012-2.

Town of South Whitley'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 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 6, 2013

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 SOUTH WHITLEY
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	\$ 105,865	\$ 501,085	\$ 459,454	\$ 147,496	\$ 492,438	\$ 474,056	\$ 165,878
Motor Vehicle Highway	(458)	57,013	56,374	181	55,401	53,987	1,595
Local Road and Street	12,787	8,596	4,422	16,961	7,046	21,255	2,752
Sanitation	23,688	97,171	93,845	27,014	97,273	112,170	12,117
Law Enforcement Continuing Education	2,683	535	185	3,033	1,435	-	4,468
Riverboat	8,840	11,169	712	19,297	10,380	-	29,677
Park and Recreation	23,102	35,538	44,428	14,212	-	-	14,212
Rainy Day	78,577	29,344	40,728	67,193	-	38,284	28,909
Cumulative Capital Development	21,991	17,321	18,820	20,492	10,220	14,500	16,212
Police Training and Equipment	(86)	10	-	(76)	76	-	-
Economic Development Income Tax	174,491	64,179	129,002	109,668	68,885	-	178,553
Cumulative Capital Improvement	6,534	2,475	6,055	2,954	4,644	3,194	4,404
CSO CDBG Sewer Project 2010	-	226,026	226,026	-	812	812	-
Retainage CSO Sewage Project	27,416	12,694	40,110	-	-	-	-
Perf Withholding	4,471	22,512	16,962	10,021	15,292	19,662	5,651
Federal Withholding	6,867	36,688	43,555	-	61,477	61,477	-
State Withholding	3,837	18,165	20,717	1,285	16,200	17,472	13
Fica Withholding	1,239	12,999	14,238	-	33,183	29,513	3,670
Cagit Withholding	1,189	5,993	6,742	440	6,236	6,674	2
Medicare Withholding	317	4,488	4,805	-	13,385	12,573	812
Net Wages	-	-	-	-	393,486	393,486	-
Child Support	-	-	-	-	2,750	2,492	258
Electric Operating	711,133	1,838,433	1,734,842	814,724	1,744,540	1,926,933	632,331
Electric Depreciation	135,923	45	2,732	133,236	51	-	133,287
Electric Meter Deposit	40,106	8,810	5,688	43,228	11,740	6,551	48,417
Electric Cash Reserve	32,340	-	-	32,340	-	-	32,340
Sewage Capital	(945)	-	-	(945)	4,370	3,425	-
Sewage Operating	421,004	442,282	389,631	473,655	1,320,654	1,409,478	384,831
Sewage Bond and Interest	7,974	156,944	164,918	-	405,500	201,622	203,878
Sewage Debt Service Reserve	85,513	-	-	85,513	-	22,716	62,797
Water Operating	189,611	265,516	386,984	68,143	434,561	291,375	211,329
Water Bond and Interest	33,083	101,735	107,491	27,327	88,688	50,745	65,270
Water Depreciation	50,944	30,186	24,135	56,995	-	-	56,995
Water Debt Service Reserve	81,000	-	-	81,000	-	-	81,000
Sales Tax	(5,258)	97,274	92,016	-	102,256	95,288	6,968
Water Cash Reserve	5,715	-	-	5,715	-	-	5,715
Totals	\$ 2,291,493	\$ 4,105,226	\$ 4,135,617	\$ 2,261,102	\$ 5,402,979	\$ 5,269,740	\$ 2,394,341

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

TOWN OF SOUTH WHITLEY
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, 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.

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.

TOWN OF SOUTH WHITLEY
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

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.

TOWN OF SOUTH WHITLEY
NOTES TO FINANCIAL STATEMENT
(Continued)

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

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

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

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

TOWN OF SOUTH WHITLEY
NOTES TO FINANCIAL STATEMENT
(Continued)

establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial 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.

TOWN OF SOUTH WHITLEY
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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 SOUTH WHITLEY
 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	Sanitation	Law Enforcement Continuing Education	Riverboat	Park and Recreation	Rainy Day	Cumulative Capital Development
Cash and investments - beginning	\$ 105,865	\$ (458)	\$ 12,787	\$ 23,688	\$ 2,683	\$ 8,840	\$ 23,102	\$ 78,577	\$ 21,991
Receipts:									
Taxes	366,098	9,179	-	-	-	-	-	-	14,361
Licenses and permits	-	-	-	-	450	-	-	-	-
Intergovernmental	119,620	47,114	8,101	-	-	11,152	-	-	2,943
Charges for services	4,570	-	495	96,601	85	-	-	-	-
Fines and forfeits	636	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	10,161	720	-	570	-	17	35,538	29,344	17
Total receipts	501,085	57,013	8,596	97,171	535	11,169	35,538	29,344	17,321
Disbursements:									
Personal services	280,501	34,631	-	11,619	-	-	-	350	-
Supplies	5,108	5,363	175	4,439	185	712	-	14,884	230
Other services and charges	146,799	16,380	4,247	77,787	-	-	-	13,494	2,406
Capital outlay	27,046	-	-	-	-	-	44,428	12,000	16,184
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-	-
Total disbursements	459,454	56,374	4,422	93,845	185	712	44,428	40,728	18,820
Excess (deficiency) of receipts over disbursements	41,631	639	4,174	3,326	350	10,457	(8,890)	(11,384)	(1,499)
Cash and investments - ending	\$ 147,496	\$ 181	\$ 16,961	\$ 27,014	\$ 3,033	\$ 19,297	\$ 14,212	\$ 67,193	\$ 20,492

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

	Police Training and Equipment	Economic Development Income Tax	Cumulative Capital Improvement	CSO CDBG Sewer Project 2010	Retainage CSO Sewage Project	Perf Withholding	Federal Withholding	State Withholding	Fica Withholding
Cash and investments - beginning	\$ (86)	\$ 174,491	\$ 6,534	\$ -	\$ 27,416	\$ 4,471	\$ 6,867	\$ 3,837	\$ 1,239
Receipts:									
Taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	64,109	2,475	226,026	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	10	70	-	-	12,694	22,512	36,688	18,165	12,999
Total receipts	10	64,179	2,475	226,026	12,694	22,512	36,688	18,165	12,999
Disbursements:									
Personal services	-	-	-	-	-	16,962	43,555	20,717	14,238
Supplies	-	-	489	-	-	-	-	-	-
Other services and charges	-	7,821	616	23,656	-	-	-	-	-
Capital outlay	-	114,524	4,950	202,370	40,110	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	6,657	-	-	-	-	-	-	-
Total disbursements	-	129,002	6,055	226,026	40,110	16,962	43,555	20,717	14,238
Excess (deficiency) of receipts over disbursements	10	(64,823)	(3,580)	-	(27,416)	5,550	(6,867)	(2,552)	(1,239)
Cash and investments - ending	\$ (76)	\$ 109,668	\$ 2,954	\$ -	\$ -	\$ 10,021	\$ -	\$ 1,285	\$ -

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

	Cagit Withholding	Medicare Withholding	Electric Operating	Electric Depreciation	Electric Meter Deposit	Electric Cash Reserve	Sewage Capital	Sewage Operating	Sewage Bond and Interest
Cash and investments - beginning	\$ 1,189	\$ 317	\$ 711,133	\$ 135,923	\$ 40,106	\$ 32,340	\$ (945)	\$ 421,004	\$ 7,974
Receipts:									
Taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	1,805,734	-	8,810	-	-	418,818	-
Other receipts	5,993	4,488	32,699	45	-	-	-	23,464	156,944
Total receipts	5,993	4,488	1,838,433	45	8,810	-	-	442,282	156,944
Disbursements:									
Personal services	6,742	4,805	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	2,732	-	-	-	7,000	-
Utility operating expenses	-	-	1,724,884	-	5,688	-	-	261,098	-
Other disbursements	-	-	9,958	-	-	-	-	121,533	164,918
Total disbursements	6,742	4,805	1,734,842	2,732	5,688	-	-	389,631	164,918
Excess (deficiency) of receipts over disbursements	(749)	(317)	103,591	(2,687)	3,122	-	-	52,651	(7,974)
Cash and investments - ending	\$ 440	\$ -	\$ 814,724	\$ 133,236	\$ 43,228	\$ 32,340	\$ (945)	\$ 473,655	\$ -

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

	Sewage Debt Service Reserve	Water Operating	Water Bond and Interest	Water Depreciation	Water Debt Service Reserve	Sales Tax	Water Cash Reserve	Totals
Cash and investments - beginning	\$ 85,513	\$ 189,611	\$ 33,083	\$ 50,944	\$ 81,000	\$ (5,258)	\$ 5,715	\$ 2,291,493
Receipts:								
Taxes	-	-	-	-	-	-	-	389,638
Licenses and permits	-	-	-	-	-	-	-	450
Intergovernmental	-	-	-	-	-	-	-	481,540
Charges for services	-	-	-	-	-	-	-	101,751
Fines and forfeits	-	-	-	-	-	-	-	636
Utility fees	-	261,071	-	-	-	97,274	-	2,591,707
Other receipts	-	4,445	101,735	30,186	-	-	-	539,504
Total receipts	-	265,516	101,735	30,186	-	97,274	-	4,105,226
Disbursements:								
Personal services	-	-	-	-	-	-	-	434,120
Supplies	-	-	-	-	-	-	-	31,585
Other services and charges	-	-	-	-	-	-	-	293,206
Capital outlay	-	-	-	24,135	-	-	-	495,479
Utility operating expenses	-	140,163	-	-	-	92,016	-	2,223,849
Other disbursements	-	246,821	107,491	-	-	-	-	657,378
Total disbursements	-	386,984	107,491	24,135	-	92,016	-	4,135,617
Excess (deficiency) of receipts over disbursements	-	(121,468)	(5,756)	6,051	-	5,258	-	(30,391)
Cash and investments - ending	\$ 85,513	\$ 68,143	\$ 27,327	\$ 56,995	\$ 81,000	\$ -	\$ 5,715	\$ 2,261,102

TOWN OF SOUTH WHITLEY
 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	Sanitation	Law Enforcement Continuing Education	Riverboat	Park and Recreation	Rainy Day	Cumulative Capital Development
Cash and investments - beginning	\$ 147,496	\$ 181	\$ 16,961	\$ 27,014	\$ 3,033	\$ 19,297	\$ 14,212	\$ 67,193	\$ 20,492
Receipts:									
Taxes	299,896	6,835	-	-	-	-	-	-	6,866
Licenses and permits	32,446	-	-	-	860	-	-	-	1,967
Intergovernmental	147,864	47,706	7,038	-	-	10,373	-	-	1,230
Charges for services	900	200	-	97,163	495	-	-	-	-
Fines and forfeits	272	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	11,060	660	8	110	80	7	-	-	157
Total receipts	492,438	55,401	7,046	97,273	1,435	10,380	-	-	10,220
Disbursements:									
Personal services	218,651	17,675	1,429	16,049	-	-	-	-	10
Supplies	36,288	12,853	-	1,064	-	-	-	31,709	-
Other services and charges	191,857	23,459	19,826	95,057	-	-	-	6,575	4,758
Debt service - principal and interest	-	-	-	-	-	-	-	-	-
Capital outlay	125	-	-	-	-	-	-	-	9,732
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	27,135	-	-	-	-	-	-	-	-
Total disbursements	474,056	53,987	21,255	112,170	-	-	-	38,284	14,500
Excess (deficiency) of receipts over disbursements	18,382	1,414	(14,209)	(14,897)	1,435	10,380	-	(38,284)	(4,280)
Cash and investments - ending	\$ 165,878	\$ 1,595	\$ 2,752	\$ 12,117	\$ 4,468	\$ 29,677	\$ 14,212	\$ 28,909	\$ 16,212

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

	Police Training and Equipment	Economic Development Income Tax	Cumulative Capital Improvement	CSO CDBG Sewer Project 2010	Perf Withholding	Federal Withholding	State Withholding	Fica Withholding	Cagit Withholding
Cash and investments - beginning	\$ (76)	\$ 109,668	\$ 2,954	\$ -	\$ 10,021	\$ -	\$ 1,285	\$ -	\$ 440
Receipts:									
Taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	68,596	4,644	812	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	76	289	-	-	15,292	61,477	16,200	33,183	6,236
Total receipts	76	68,885	4,644	812	15,292	61,477	16,200	33,183	6,236
Disbursements:									
Personal services	-	-	800	-	-	61,477	17,472	29,513	6,674
Supplies	-	-	-	-	-	-	-	-	-
Other services and charges	-	-	2,394	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	812	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	19,662	-	-	-	-
Total disbursements	-	-	3,194	812	19,662	61,477	17,472	29,513	6,674
Excess (deficiency) of receipts over disbursements	76	68,885	1,450	-	(4,370)	-	(1,272)	3,670	(438)
Cash and investments - ending	\$ -	\$ 178,553	\$ 4,404	\$ -	\$ 5,651	\$ -	\$ 13	\$ 3,670	\$ 2

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

	Medicare Withholding	Net Wages	Child Support	Electric Operating	Electric Depreciation	Electric Meter Deposit	Electric Cash Reserve	Sewage Capital	Sewage Operating
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 814,724	\$ 133,236	\$ 43,228	\$ 32,340	\$ (945)	\$ 473,655
Receipts:									
Taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	11,740	-	-	-
Other receipts	13,385	393,486	2,750	1,744,540	51	-	-	4,370	1,320,654
Total receipts	13,385	393,486	2,750	1,744,540	51	11,740	-	4,370	1,320,654
Disbursements:									
Personal services	12,573	393,486	2,492	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	63,151	-	-	-	3,425	568,118
Utility operating expenses	-	-	-	1,717,304	-	6,551	-	-	424,051
Other disbursements	-	-	-	146,478	-	-	-	-	417,309
Total disbursements	12,573	393,486	2,492	1,926,933	-	6,551	-	3,425	1,409,478
Excess (deficiency) of receipts over disbursements	812	-	258	(182,393)	51	5,189	-	945	(88,824)
Cash and investments - ending	\$ 812	\$ -	\$ 258	\$ 632,331	\$ 133,287	\$ 48,417	\$ 32,340	\$ -	\$ 384,831

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

	Sewage Bond and Interest	Sewage Debt Service Reserve	Water Operating	Water Bond and Interest	Water Depreciation	Water Debt Service Reserve	Sales Tax	Water Cash Reserve	Totals
Cash and investments - beginning	\$ -	\$ 85,513	\$ 68,143	\$ 27,327	\$ 56,995	\$ 81,000	\$ -	\$ 5,715	\$ 2,261,102
Receipts:									
Taxes	-	-	-	-	-	-	-	-	313,597
Licenses and permits	-	-	-	-	-	-	-	-	35,273
Intergovernmental	-	-	-	-	-	-	102,256	-	390,519
Charges for services	-	-	-	-	-	-	-	-	98,758
Fines and forfeits	-	-	-	-	-	-	-	-	272
Utility fees	-	-	-	-	-	-	-	-	11,740
Other receipts	405,500	-	434,561	88,688	-	-	-	-	4,552,820
Total receipts	405,500	-	434,561	88,688	-	-	102,256	-	5,402,979
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	778,301
Supplies	-	-	-	-	-	-	-	-	81,914
Other services and charges	-	-	-	-	-	-	-	-	343,926
Debt service - principal and interest	-	-	-	-	-	-	-	-	812
Capital outlay	-	-	32,838	-	-	-	-	-	677,389
Utility operating expenses	-	-	149,036	-	-	-	-	-	2,296,942
Other disbursements	201,622	22,716	109,501	50,745	-	-	95,288	-	1,090,456
Total disbursements	201,622	22,716	291,375	50,745	-	-	95,288	-	5,269,740
Excess (deficiency) of receipts over disbursements	203,878	(22,716)	143,186	37,943	-	-	6,968	-	133,239
Cash and investments - ending	\$ 203,878	\$ 62,797	\$ 211,329	\$ 65,270	\$ 56,995	\$ 81,000	\$ 6,968	\$ 5,715	\$ 2,394,341

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TOWN OF SOUTH WHITLEY
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Wastewater:				
TCF Equipment Finance	2010 Sewage Vactor Truck	<u>\$ 24,988</u>	03-05-10	03-05-13

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
Revenue bonds	2011 Refunding	\$ 460,000	\$ 35,660
State Revolving Fund Loan	2011 Plant Improvements	<u>2,124,463</u>	*
Total Wastewater		<u>2,584,463</u>	<u>35,660</u>
Water:			
Revenue bonds	2004 Plant Improvements	<u>190,000</u>	<u>96,968</u>
Totals		<u>\$ 2,774,463</u>	<u>\$ 132,628</u>

*Project not completed, amortization schedule not available.

TOWN OF SOUTH WHITLEY
OTHER REPORT

The report presented herein was prepared in addition to an official report prepared for the Clerk-Treasurer.

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 SOUTH WHITLEY, WHITLEY COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of South Whitley'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 each of the Town's major federal programs 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-4. Our opinion on the major federal program is not modified with respect to these matters.

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

The Town's response to the noncompliance 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.

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 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.

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 6, 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 SOUTH WHITLEY
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 Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs	14.228	DR2-09-024 CF-11-118	\$ 253,442 -	\$ - 418,606
Total - CDBG - State-Administered CDBG Cluster				<u>253,442</u>	<u>418,606</u>
Total - Department of Housing and Urban Development				<u>253,442</u>	<u>418,606</u>
<u>Environmental Protection Agency</u>					
Capitalization Grants for Clean Water State Revolving Funds	Indiana Finance Authority	66.458	WW11169201	<u>120,508</u>	<u>686,150</u>
Total - Environmental Protection Agency				<u>120,508</u>	<u>686,150</u>
Total federal awards expended				<u>\$ 373,950</u>	<u>\$ 1,104,756</u>

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

TOWN OF SOUTH WHITLEY
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 South Whitley 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 SOUTH WHITLEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Disclaimer
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 Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

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.

TOWN OF SOUTH WHITLEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. **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. 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.
4. **Bank Reconciliations:** The Town's fiscal officer did not regularly reconcile the Town's fund balances to the bank balances as shown on monthly bank statements, as required by Indiana Code guidelines. Failure to perform these reconciliations could enable errors and irregularities to occur and not be detected.
5. **Condition of Records:** The Town's fiscal officer did not properly maintain the records required by Indiana statutes and compliance guidelines. There were numerous transactions that were not posted, posted correctly, or posted more than once. When incorrect transactions or duplicate postings were identified, the fiscal officer used negative transactions to correct, or attempt to correct, the original transactions. As a result of the failure to properly maintain accounting records, the Town received a disclaimer of opinion on its financial statement. The failure to maintain records represents material noncompliance at the financial statement level.

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

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

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 SOUTH WHITLEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-2 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Town did not have a proper system of internal controls 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 controls in place that operate effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: (1) two separate federal awards were omitted from the schedule at December 31, 2011, (2) one federal award was omitted from the schedule at December 31, 2012, and (3) the federal award amount that was included at December 31, 2012, was incorrect. Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

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)

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.

TOWN OF SOUTH WHITLEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (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."

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-3 - INTERNAL CONTROLS FOR CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Pass-Through Entity: Indiana Finance Authority
Federal Award Number and Year: WW11169201, FY 2011 and 2012

Management of the Town has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements that have a direct and material effect to the program. The following compliance requirements have a direct and material effect to Capitalization Grants for Clean Water State Revolving Funds: Allowable Activities; Allowable Costs; Equipment and Real Property Management; Period of Availability; and Procurement, Suspension and Debarment. The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the applicable compliance requirements.

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 proper oversight, reviews, and approvals take place and to have separation of functions over certain activities over compliance requirements. 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. Noncompliance 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.

TOWN OF SOUTH WHITLEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended 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.

FINDING 2012-4 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Pass-Through Entity: Indiana Finance Authority
Federal Award Number and Year: WW11169201, FY 2011 and 2012

The Town does not maintain capital asset records or records for construction in progress and equipment purchased with federal funds. Without adequate records, periodic physical inventories cannot be compared to property records. During 2011 and 2012, \$772,486 of Capitalization Grants for Clean Water State Revolving Funds was used to pay for construction and construction related costs, which should have been accounted for in the Town's capital asset records. Failure to maintain proper records could allow capital assets funded by federal monies to be disposed of and any disposition proceeds to be allocated in violation of federal requirements.

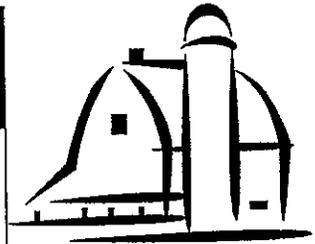
40 CFR 31.32(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

We recommended that the Town design and implement procedures that would ensure accurate detailed capital asset records are maintained and that inventories of property and equipment and construction in progress are conducted at least every two years and reconciled to the detailed capital assets ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also, any assets acquired with federal funds must be designated as such so that they are not disposed of improperly.

TOWN OF SOUTH WHITLEY
INDIANAS FAVORITE HOME TOWN

Town of South Whitley, 118 East Front Street, South Whitley IN 46787
Phone (260)723-5312 Fax (260)723-5311



FINDING 2012-1- INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

1. The Town of South Whitley is implementing a new plan of segregation of duties in the clerk's office. This plan includes aspects of, deposits, writing checks (APV's), bank reconciliations, record keeping, and giving the Town Council financial reports of the town.
2. Condition of Records has improved in 2012, and is still improving.

FINDING 2012-2 – INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.

1. The town is working on controls for Federal grants.

FINDING 2012-3- INTERNAL CONTROLS OVER ALL APPLICABLE COMPLIANCE REQUIREMENTS FOR CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

Federal Agency: Environmental Protection Agency

Federal Program: Capitalization Grants for Clean Water State revolving Funds

CFDA Number: 66.458

Pass- Through Entity: Indiana Finance Authority

Federal award Number and Year: WW11169201 FY 2011 and 2012

The town is working on controls for State Revolving Funds, working off OMB Circular A-133 Subpart C, section .300

FINDING 2012-4- EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Environmental Protection Agency

Federal Program: Capitalization Grants for Clean Water State revolving Funds

CFDA Number: 66.458

Pass- Through Entity: Indiana Finance Authority

Federal award Number and Year: WW11169201 FY 2011 and 2012.

The clerk has started working on the capital assets record:

- 1) Contacting other towns and cities on content of report
- 2) Looking at setting a Dollar amount for items purchased for the town
- 3) Federal Vs local dollars used for purchase

Robert Gould

A handwritten signature in black ink that reads "Robert Gould". The signature is written in a cursive style with a large, stylized initial "R".

Clerk-Treasurer

Town of South Whitley

TOWN OF SOUTH WHITLEY
EXIT CONFERENCE

The contents of this report were discussed on June 5, 2013, with Mitchel J. Winger, former Clerk-Treasurer.

The contents of this report were discussed on June 6, 2013, with Robert Gould, Clerk-Treasurer, and Tony Starkey, President of the Town Council.