

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF FRENCH LICK
ORANGE COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
09/23/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Dennis Jones (Vacant) Karen R. Brosmer	01-01-08 to 08-01-12 08-02-12 to 08-02-12 08-03-12 to 12-31-15
President of the Town Council	Marlene Noble Don Renner	01-01-11 to 12-31-11 01-01-12 to 12-31-13
Superintendent of Wastewater Utility	Chris Mills	01-01-11 to 12-31-13



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

TO: THE OFFICIALS OF THE TOWN OF FRENCH LICK, ORANGE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of French Lick (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 statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town for the period of January 1, 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 August 15, 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 records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

August 15, 2013



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302 WEST WASHINGTON STREET
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Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE TOWN OF FRENCH LICK, ORANGE 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 French Lick (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 August 15, 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.

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

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)

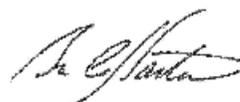
was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of French Lick'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

August 15, 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 FRENCH LICK
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	
General	\$ 126,983	\$ 514,659	\$ 546,640	\$ 95,002	\$ 789,901	\$ 747,251	\$ 137,652
Motor Vehicle Highway	(7,813)	143,948	98,553	37,582	178,946	149,579	66,949
Local Road and Street	4,550	12,883	11,780	5,653	12,493	43,814	(25,668)
Aviation Revolving Gasoline	3	-	-	3	-	-	3
Economic Development Income Tax	92,592	77,648	127,516	42,724	99,427	84,781	57,370
Landfill	5,705	3	5,708	-	-	-	-
Law Enforcement Continuing Education	2,407	280	-	2,687	253	-	2,940
Rainy Day	116,128	-	115,487	641	-	-	641
Levy Excess 2010	1,444	-	-	1,444	-	-	1,444
Construction Retainage Account	-	-	-	-	50,724	-	50,724
West Baden Matching Local Grant 2009	-	17,201	17,201	-	-	-	-
West Baden Matching Local Grant 2010	-	55,931	55,931	-	-	-	-
Undisbursed Loan Fund 2011	-	900,005	646,620	253,385	1,040,363	1,344,462	(50,714)
Springs Valley Park Donations	6,760	-	-	6,760	-	-	6,760
Casino	15,154	3,377,501	3,364,147	28,508	3,460,174	3,335,699	152,983
TIF	978,493	1,556,232	1,432,370	1,102,355	651,645	1,449,138	304,862
Aviation Grant	88,388	1,606,806	1,670,792	24,402	2,105,594	2,087,957	42,039
Tourism Commission	1,258	-	-	1,258	-	-	1,258
Community Center Lease	48,486	57,348	87,211	18,623	58,730	60,593	16,760
French Lick Promenade	1,521	-	1,521	-	-	-	-
Aviation Hanger Rental Depreciation	19,000	2,084	-	21,084	1,377	-	22,461
Airport Capital Improvements	7,955	28,542	26,676	9,821	19,350	25,715	3,456
Levy Excess	1,406	-	-	1,406	-	-	1,406
Municipal Airport Fuel	29,971	202,487	216,346	16,112	158,329	127,821	46,620
Airport Operating Fund	45,902	221,172	181,653	85,421	131,935	192,697	24,659
French Lick Tourism	7,287	13,738	14,421	6,604	28,055	32,734	1,925
French Lick Revolving Loan Recipient	16,043	23,989	31,136	8,896	29,374	29,896	8,374
French Lick Revolving Loan-Loan	234,837	395,888	514,500	116,225	244,683	319,500	41,408
Sewer Cash Drawer	200	-	-	200	-	-	200
French Lick Redevelopment/Other Income	235,677	81,135	30,000	286,812	4,457	195,108	96,161
Park And Recreation	21,004	8,293	15,046	14,251	13,024	18,654	8,621
Cumulative Capital Improvement	2,956	5,574	-	8,530	4,793	-	13,323
Payroll	205	862,109	860,933	1,381	863,478	864,926	(67)
Wastewater Operating	90,912	878,367	915,817	53,462	795,031	732,298	116,195
Wastewater Debt Reserve	329,830	470,165	429,550	370,445	261,289	311,151	320,583
Totals	\$ 2,525,244	\$ 11,513,988	\$ 11,417,555	\$ 2,621,677	\$ 11,003,425	\$ 12,153,774	\$ 1,471,328

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

TOWN OF FRENCH LICK
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, wastewater, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the Town.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, 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.

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,

TOWN OF FRENCH LICK
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

TOWN OF FRENCH LICK
NOTES TO FINANCIAL STATEMENT
(Continued)

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

Note 4. Deposits and Investments

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

TOWN OF FRENCH LICK
NOTES TO FINANCIAL STATEMENT
(Continued)

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

Note 5. Risk Management

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

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

TOWN OF FRENCH LICK
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of expenditures exceeding receipts.

Note 8. Holding Corporation

The Town has entered into a capital lease with the French Lick Town Hall Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the Town. The lessor has been determined to be a related party of the Town. Lease payments during the years 2011 and 2012 totaled \$87,211 and \$60,070, respectively.

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 FRENCH LICK
 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	Aviation Revolving Gasoline	Economic Development Income Tax	Landfill	Law Enforcement Continuing Education	Rainy Day	Levy Excess 2010
Cash and investments - beginning	\$ 126,983	\$ (7,813)	\$ 4,550	\$ 3	\$ 92,592	\$ 5,705	\$ 2,407	\$ 116,128	\$ 1,444
Receipts:									
Taxes	207,205	79,671	-	-	-	-	-	-	-
Intergovernmental	248,710	56,185	-	-	77,648	-	-	-	-
Charges for services	11,231	-	-	-	-	-	-	-	-
Fines and forfeits	968	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	46,545	8,092	12,883	-	-	3	280	-	-
Total receipts	<u>514,659</u>	<u>143,948</u>	<u>12,883</u>	<u>-</u>	<u>77,648</u>	<u>3</u>	<u>280</u>	<u>-</u>	<u>-</u>
Disbursements:									
Personal services	267,453	83,827	-	-	68,244	-	-	108,206	-
Supplies	48,375	9,709	11,780	-	42,558	-	-	7,281	-
Other services and charges	191,678	-	-	-	16,714	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	39,134	5,017	-	-	-	5,708	-	-	-
Total disbursements	<u>546,640</u>	<u>98,553</u>	<u>11,780</u>	<u>-</u>	<u>127,516</u>	<u>5,708</u>	<u>-</u>	<u>115,487</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(31,981)</u>	<u>45,395</u>	<u>1,103</u>	<u>-</u>	<u>(49,868)</u>	<u>(5,705)</u>	<u>280</u>	<u>(115,487)</u>	<u>-</u>
Cash and investments - ending	<u>\$ 95,002</u>	<u>\$ 37,582</u>	<u>\$ 5,653</u>	<u>\$ 3</u>	<u>\$ 42,724</u>	<u>\$ -</u>	<u>\$ 2,687</u>	<u>\$ 641</u>	<u>\$ 1,444</u>

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

	Construction Retainage Account	West Baden Matching Local Grant 2009	West Baden Matching Local Grant 2010	Undisbursed Loan Fund 2011	Springs Valley Park Donations	Casino	TIF	Aviation Grant	Tourism Commission
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ 6,760	\$ 15,154	\$ 978,493	\$ 88,388	\$ 1,258
Receipts:									
Taxes	-	-	-	-	-	-	1,076,484	1,606,682	-
Intergovernmental	-	17,201	55,931	-	-	3,162,159	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	900,005	-	215,342	479,748	124	-
Total receipts	-	17,201	55,931	900,005	-	3,377,501	1,556,232	1,606,806	-
Disbursements:									
Personal services	-	-	-	-	-	103,036	-	-	-
Supplies	-	-	-	-	-	73,224	-	-	-
Other services and charges	-	-	-	-	-	98,360	-	-	-
Debt service - principal and interest	-	-	-	-	-	1,756,842	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	17,201	55,931	646,620	-	1,332,685	1,432,370	1,670,792	-
Total disbursements	-	17,201	55,931	646,620	-	3,364,147	1,432,370	1,670,792	-
Excess (deficiency) of receipts over disbursements	-	-	-	253,385	-	13,354	123,862	(63,986)	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ 253,385	\$ 6,760	\$ 28,508	\$ 1,102,355	\$ 24,402	\$ 1,258

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

	Community Center Lease	French Lick Promenade	Aviation Hanger Rental Depreciation	Airport Capital Improvements	Levy Excess	Municipal Airport Fuel	Airport Operating Fund	French Lick Tourism	French Lick Revolving Loan Recipient
Cash and investments - beginning	\$ 48,486	\$ 1,521	\$ 19,000	\$ 7,955	\$ 1,406	\$ 29,971	\$ 45,902	\$ 7,287	\$ 16,043
Receipts:									
Taxes	53,792	-	-	-	-	-	193,355	-	-
Intergovernmental	3,556	-	-	-	-	-	12,782	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	-	-	2,084	28,542	-	202,487	15,035	13,738	23,989
Total receipts	57,348	-	2,084	28,542	-	202,487	221,172	13,738	23,989
Disbursements:									
Personal services	-	-	-	-	-	-	106,195	-	-
Supplies	-	-	-	-	-	-	15,050	-	-
Other services and charges	-	-	-	-	-	-	46,208	-	-
Debt service - principal and interest	87,211	-	-	26,676	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	14,200	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	1,521	-	-	-	216,346	-	14,421	31,136
Total disbursements	87,211	1,521	-	26,676	-	216,346	181,653	14,421	31,136
Excess (deficiency) of receipts over disbursements	(29,863)	(1,521)	2,084	1,866	-	(13,859)	39,519	(683)	(7,147)
Cash and investments - ending	\$ 18,623	\$ -	\$ 21,084	\$ 9,821	\$ 1,406	\$ 16,112	\$ 85,421	\$ 6,604	\$ 8,896

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

	French Lick Revolving Loan-Loan	Sewer Cash Drawer	French Lick Redevelopment/Other Income	Park And Recreation	Cumulative Capital Improvement	Payroll	Wastewater Operating	Wastewater Debt Reserve	Totals
Cash and investments - beginning	\$ 234,837	\$ 200	\$ 235,677	\$ 21,004	\$ 2,956	\$ 205	\$ 90,912	\$ 329,830	\$ 2,525,244
Receipts:									
Taxes	-	-	-	7,764	-	-	-	-	3,224,953
Intergovernmental	-	-	-	513	5,574	-	-	-	3,640,259
Charges for services	-	-	-	-	-	-	-	-	11,231
Fines and forfeits	-	-	-	-	-	-	-	-	968
Utility fees	-	-	-	-	-	-	878,367	-	878,367
Other receipts	395,888	-	81,135	16	-	862,109	-	470,165	3,758,210
Total receipts	395,888	-	81,135	8,293	5,574	862,109	878,367	470,165	11,513,988
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	736,961
Supplies	-	-	-	15,046	-	-	-	-	223,023
Other services and charges	-	-	-	-	-	-	-	-	352,960
Debt service - principal and interest	-	-	-	-	-	-	-	249,550	2,120,279
Capital outlay	-	-	-	-	-	-	-	-	14,200
Utility operating expenses	-	-	-	-	-	-	445,817	-	445,817
Other disbursements	514,500	-	30,000	-	-	860,933	470,000	180,000	7,524,315
Total disbursements	514,500	-	30,000	15,046	-	860,933	915,817	429,550	11,417,555
Excess (deficiency) of receipts over disbursements	(118,612)	-	51,135	(6,753)	5,574	1,176	(37,450)	40,615	96,433
Cash and investments - ending	\$ 116,225	\$ 200	\$ 286,812	\$ 14,251	\$ 8,530	\$ 1,381	\$ 53,462	\$ 370,445	\$ 2,621,677

TOWN OF FRENCH LICK
 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	Aviation Revolving Gasoline	Economic Development Income Tax	Landfill	Law Enforcement Continuing Education	Rainy Day	Levy Excess 2010
Cash and investments - beginning	\$ 95,002	\$ 37,582	\$ 5,653	\$ 3	\$ 42,724	\$ -	\$ 2,687	\$ 641	\$ 1,444
Receipts:									
Taxes	277,762	111,319	-	-	-	-	-	-	-
Licenses and permits	36,156	-	-	-	-	-	253	-	-
Intergovernmental	288,788	55,299	9,760	-	99,427	-	-	-	-
Charges for services	106,000	-	-	-	-	-	-	-	-
Fines and forfeits	250	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	80,945	12,328	2,733	-	-	-	-	-	-
Total receipts	789,901	178,946	12,493	-	99,427	-	253	-	-
Disbursements:									
Personal services	259,883	92,429	-	-	41,450	-	-	-	-
Supplies	84,740	36,984	-	-	24,989	-	-	-	-
Other services and charges	269,889	20,166	43,814	-	10,304	-	-	-	-
Debt service - principal and interest	31,261	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	101,478	-	-	-	8,038	-	-	-	-
Total disbursements	747,251	149,579	43,814	-	84,781	-	-	-	-
Excess (deficiency) of receipts over disbursements	42,650	29,367	(31,321)	-	14,646	-	253	-	-
Cash and investments - ending	<u>\$ 137,652</u>	<u>\$ 66,949</u>	<u>\$ (25,668)</u>	<u>\$ 3</u>	<u>\$ 57,370</u>	<u>\$ -</u>	<u>\$ 2,940</u>	<u>\$ 641</u>	<u>\$ 1,444</u>

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

	Construction Retainage Account	West Baden Matching Local Grant 2009	West Baden Matching Local Grant 2010	Undisbursed Loan Fund 2011	Springs Valley Park Donations	Casino	TIF	Aviation Grant	Tourism Commission
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 253,385	\$ 6,760	\$ 28,508	\$ 1,102,355	\$ 24,402	\$ 1,258
Receipts:									
Taxes	-	-	-	-	-	-	650,967	2,010,567	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	3,460,174	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	50,724	-	-	1,040,363	-	-	678	95,027	-
Total receipts	50,724	-	-	1,040,363	-	3,460,174	651,645	2,105,594	-
Disbursements:									
Personal services	-	-	-	-	-	356,746	-	-	-
Supplies	-	-	-	-	-	2,461	6,193	-	-
Other services and charges	-	-	-	-	-	317,860	67,716	-	-
Debt service - principal and interest	-	-	-	-	-	1,750,246	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	1,344,462	-	908,386	1,375,229	2,087,957	-
Total disbursements	-	-	-	1,344,462	-	3,335,699	1,449,138	2,087,957	-
Excess (deficiency) of receipts over disbursements	50,724	-	-	(304,099)	-	124,475	(797,493)	17,637	-
Cash and investments - ending	\$ 50,724	\$ -	\$ -	\$ (50,714)	\$ 6,760	\$ 152,983	\$ 304,862	\$ 42,039	\$ 1,258

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

	Community Center Lease	French Lick Promenade	Aviation Hanger Rental Depreciation	Airport Capital Improvements	Levy Excess	Municipal Airport Fuel	Airport Operating Fund	French Lick Tourism	French Lick Revolving Loan Recipient
Cash and investments - beginning	\$ 18,623	\$ -	\$ 21,084	\$ 9,821	\$ 1,406	\$ 16,112	\$ 85,421	\$ 6,604	\$ 8,896
Receipts:									
Taxes	55,036	-	-	-	-	-	122,629	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	3,694	-	-	-	-	-	8,232	-	-
Charges for services	-	-	-	15,350	-	-	1,074	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	-	-	1,377	4,000	-	158,329	-	28,055	29,374
Total receipts	58,730	-	1,377	19,350	-	158,329	131,935	28,055	29,374
Disbursements:									
Personal services	-	-	-	-	-	-	96,211	-	-
Supplies	-	-	-	-	-	127,821	18,138	32,734	-
Other services and charges	-	-	-	-	-	-	68,675	-	-
Debt service - principal and interest	60,593	-	-	25,715	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	9,673	-	29,896
Total disbursements	60,593	-	-	25,715	-	127,821	192,697	32,734	29,896
Excess (deficiency) of receipts over disbursements	(1,863)	-	1,377	(6,365)	-	30,508	(60,762)	(4,679)	(522)
Cash and investments - ending	<u>\$ 16,760</u>	<u>\$ -</u>	<u>\$ 22,461</u>	<u>\$ 3,456</u>	<u>\$ 1,406</u>	<u>\$ 46,620</u>	<u>\$ 24,659</u>	<u>\$ 1,925</u>	<u>\$ 8,374</u>

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

	French Lick Revolving Loan-Loan	Sewer Cash Drawer	French Lick Redevelopment/Other Income	Park And Recreation	Cumulative Capital Improvement	Payroll	Wastewater Operating	Wastewater Debt Reserve	Totals
Cash and investments - beginning	\$ 116,225	\$ 200	\$ 286,812	\$ 14,251	\$ 8,530	\$ 1,381	\$ 53,462	\$ 370,445	\$ 2,621,677
Receipts:									
Taxes	-	-	-	12,201	-	-	-	-	3,240,481
Licenses and permits	-	-	-	-	-	-	-	-	36,409
Intergovernmental	-	-	-	819	4,793	-	-	-	3,930,986
Charges for services	-	-	-	-	-	-	-	-	122,424
Fines and forfeits	-	-	-	-	-	-	-	-	250
Utility fees	-	-	-	-	-	-	730,713	-	730,713
Other receipts	244,683	-	4,457	4	-	863,478	64,318	261,289	2,942,162
Total receipts	244,683	-	4,457	13,024	4,793	863,478	795,031	261,289	11,003,425
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	846,719
Supplies	-	-	-	17,197	-	-	-	-	351,257
Other services and charges	-	-	-	1,457	-	-	-	-	799,881
Debt service - principal and interest	-	-	-	-	-	-	-	251,151	2,118,966
Utility operating expenses	-	-	-	-	-	-	471,298	-	471,298
Other disbursements	319,500	-	195,108	-	-	864,926	261,000	60,000	7,565,653
Total disbursements	319,500	-	195,108	18,654	-	864,926	732,298	311,151	12,153,774
Excess (deficiency) of receipts over disbursements	(74,817)	-	(190,651)	(5,630)	4,793	(1,448)	62,733	(49,862)	(1,150,349)
Cash and investments - ending	\$ 41,408	\$ 200	\$ 96,161	\$ 8,621	\$ 13,323	\$ (67)	\$ 116,195	\$ 320,583	\$ 1,471,328

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TOWN OF FRENCH LICK
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	\$ -	\$ -
Wastewater	-	4,016
Totals	\$ -	\$ 4,016

TOWN OF FRENCH LICK
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
French Lick Town Hall Building Corporation	Town Hall Building	\$ 55,000	01-18-01	01-01-41
Old National Bank	Fire Truck	91,452	02-01-08	02-01-18
French Lick Redevelopment Authority	Land and Public Improvements	412,732	06-30-07	06-01-27
French Lick Redevelopment Authority	Land and Public Improvements	825,465	06-30-07	05-30-27
Dickason HRC Investment LLC	Redevelopment	<u>138,208</u>	10-01-12	10-01-30
Total governmental activities		<u>1,522,857</u>		
Total of annual lease payments		<u>\$ 1,522,857</u>		

Description of Debt	Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Wagering and Admission Tax Revenue Bonds of 2009	Economic Development	\$ 460,000	\$ 200,584
Taxable Variable Rate Economic Development Revenue Bonds Series 2008B	Economic Development	83,532	83,532
Tax Exempt Economic Development Revenue Bonds, Series 2007D	Economic Development	65,000	68,193
Notes and Loans Payable	Commercial Loan - General	50,795	41,664
Notes and Loans Payable	Commercial Loan - Airport	<u>62,900</u>	<u>24,468</u>
Total governmental activities		<u>722,227</u>	<u>418,441</u>
Wastewater:			
Revenue bonds	1993 Sewer Upgrade	531,000	41,550
Revenue bonds	1998 Sewer Upgrade	<u>3,155,000</u>	<u>206,975</u>
Total Wastewater		<u>3,686,000</u>	<u>248,525</u>
Totals		<u>\$ 4,408,227</u>	<u>\$ 666,966</u>

TOWN OF FRENCH LICK
 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	\$ 2,478,531
Infrastructure	17,021,341
Buildings	3,270,841
Improvements other than buildings	86,265
Machinery, equipment, and vehicles	706,302
Total governmental activities	23,563,280
Wastewater:	
Infrastructure	9,015,130
Machinery, equipment, and vehicles	179,464
Books and other	275,564
Total Wastewater	9,470,158
Total capital assets	\$ 33,033,438

TOWN OF FRENCH LICK
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the following differences were noted:

Bank reconciliations for the Revolving Loan funds were not provided for the entire audit period.

The other bank accounts were reconciled through June 2012. The former Clerk-Treasurer reconciled all the bank accounts, except the Revolving Loan funds accounts, until he passed away on August 1, 2012. A temporary Clerk-Treasurer was appointed on August 3, 2012, and the appointment was made permanent on August 20. No one in the office was familiar with the computer software and how to properly enter transactions. Numerous posting errors were made after August 1, 2012 and, as of December 31, 2012, the various computerized records do not reconcile.

The Revenue Trial Balance/History Report provides the detail of receipts. It reflects receipts for the year 2012 of \$13,300,056.02 but the Fund Report receipts for the year were \$13,958,471.56. The Budget Trial Balance/History Report provides the detail of disbursements. It reflects disbursements for the year of \$14,414,528.24, but the Fund Report disbursements were \$14,466,013.33. The adjusted bank balance on December 31, 2012, was \$1,475,134.25 and the calculated ledger balance was \$1,471,331.43, a difference of \$3,802.82.

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)

ANNUAL REPORT

The Annual Report for 2012 contained a number of errors and did not properly reflect the financial activity of the Town of French Lick. The activity of the French Lick Revolving Loan funds was not included in the 2012 receipts and disbursements. This also caused the ending balance to be incorrect.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

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:

TOWN OF FRENCH LICK
AUDIT RESULTS AND COMMENTS
(Continued)

1. Lack of Segregation of Duties: The Clerk-Treasurer is responsible for collection of monies, issuing receipts, preparing and making deposits, posting receipt transactions, and preparing the monthly bank reconciliations. The Clerk-Treasurer is also responsible for preparing vendor checks and posting the disbursement transactions to the financial records.

Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.

2. Preparing Financial Statements: The Revenue Trial Balance/History Report, Budget Trial Balance/History Report, Fund Report and Bank Account File Listing should reconcile, but they have not since June 30, 2012.

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: Disbursements were made without approval from the Council.

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 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 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)

INTERNAL CONTROLS OVER 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.

TOWN OF FRENCH LICK
AUDIT RESULTS AND COMMENTS
(Continued)

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)

ORDINANCES AND RESOLUTIONS

The payment required by the Town Hall holding corporation agreement was for a minimum of \$108,000 per audit period. Instead, the Town paid the amount the holding corporation owed USDA and not the higher lease rental amount. The amount due the holding corporation as of January 2, 2013, was \$58,188.75.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

As stated in the prior Report B38827, gross revenues were not being distributed to the various Utility funds in accordance with Revenue Bond Ordinance 97-7. The total amount required to be on hand in the Debt Service Reserve Fund and the Bond and Interest Fund on December 31, 2012, was \$335,017. All amounts are accounted for in the Wastewater Debt Reserve Fund. The balance in the fund at December 31, 2012, was only \$320,583, which resulted in an underfunding of \$14,434.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

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

Fund	2011	2012
General	\$ 23,368	\$ 206,530
Community Center Lease	33,211	5,594
Local Road and Street	-	31,813
Motor Vehicle Highway	-	377
Park And Recreation	-	2,573
Airport Operating Fund	-	6,350
Totals	<u>\$ 56,579</u>	<u>\$ 253,237</u>

TOWN OF FRENCH LICK
 AUDIT RESULTS AND COMMENTS
 (Continued)

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."

OVERDRAWN CASH BALANCES

The cash balances of the following funds were overdrawn in 2011.

Fund	2011	2012
Local Road and Street	\$ -	\$ 25,668
Undisbursed Loan Fund 2011	-	50,714
Payroll	-	67

The cash 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)

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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 FRENCH LICK, ORANGE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of French Lick'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 each of its major federal programs for the period of January 1, 2011 to December 31, 2012. The Town's major federal programs are 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 each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Basis for Qualified Opinion on Economic Adjustment Assistance and Airport Improvement Program

As described in items 2012-5, 2012-6, and 2012-7 in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding program income, reporting, and special tests and provisions that are applicable to the Economic Development Cluster and for cash management that are applicable to its Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to those programs.

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

Qualified Opinion on Economic Adjustment Assistance and Airport Improvement Programs

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, 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 the Economic Development Cluster and the Airport Improvement Program for the period of January 1, 2011 to December 31, 2012.

Other Matters

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 each 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 items 2012-3 and 2012-4 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.

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

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

August 15, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

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TOWN OF FRENCH LICK
 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 Commerce</u>					
Economic Development Cluster					
Economic Adjustment Assistance	Direct				
Revolving Loan		11.307	06-019-02187	\$ 984,705	\$ 1,002,350
Total - Economic Development Cluster				<u>984,705</u>	<u>1,002,350</u>
Total - Department of Commerce				<u>984,705</u>	<u>1,002,350</u>
<u>Department of Justice</u>					
Bulletproof Vest Partnership Program	Direct				
Bulletproof Vest Partnership Program		16.607	2009BUBX09047544	1,750	-
Total - Department of Justice				<u>1,750</u>	<u>-</u>
<u>Department of Transportation</u>					
Airport Improvement Program	Direct				
Taxiway Project FY2007		20.106	03-18-0027-06	20,000	3,099
Taxiway Project FY2009		20.106	03-18-0027-09	571,982	69,731
Taxiway Project FY2010		20.106	03-18-0027-10	930,430	447,689
Taxiway Project FY2011		20.106	03-18-0027-11	-	1,442,151
Total - Airport Improvement Program				<u>1,522,412</u>	<u>1,962,670</u>
Total - Department of Transportation				<u>1,522,412</u>	<u>1,962,670</u>
<u>Department of Homeland Security</u>					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Indiana Department of Homeland Security				
FEMA-1997-DR-IN		97.036	DR-1997	22,218	2,002
Interoperable Emergency Communications	Indiana Department of Homeland Security				
Digital Radio's		97.055	EDS#C44P-2-199A	-	4,363
Total - Department of Homeland Security				<u>22,218</u>	<u>6,365</u>
Total federal awards expended				<u>\$ 2,531,085</u>	<u>\$ 2,971,385</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF FRENCH LICK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of French Lick (Town) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. 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.

Note 2. Loans Outstanding

The Town had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2011 and 2012. These loan balances outstanding, along with the cash balances of the administration and loan funds and administrative expenses paid during the year, are included in the federal expenditures presented in the schedule at the original Federal participation rate of 75 percent.

Program Title	Federal CFDA Number	2011	2012
Economic Adjustment Assistance	11.307	<u>\$ 1,161,554</u>	<u>\$ 1,261,621</u>

TOWN OF FRENCH LICK
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; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	
Economic Development Cluster	Qualified
Airport Improvement Program	Qualified
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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Economic Development Cluster Airport Improvement Program

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:

TOWN OF FRENCH LICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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, 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.
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.

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)

FINDING 2012-2 - INTERNAL CONTROLS OVER 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.

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.

TOWN OF FRENCH LICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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)

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO ECONOMIC ADJUSTMENT ASSISTANCE

Federal Agency: Department of Commerce

Federal Program: Economic Adjustment Assistance

CFDA Number: 11.307

Federal Award Number and Year (or Other Identifying Number): 06-019-02187

The Revolving Loan Board 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; activities allowed or unallowed, allowable costs/cost principles, program income, reporting, and special tests and provisions. The failure to establish an effective internal control system places the Revolving Loan 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 states in part:

"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.

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 FRENCH LICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-4 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE AIRPORT IMPROVEMENT PROGRAM

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Number and Year (or Other Identifying Number): 03-18-0027-06, 03-18-0027-09,
03-18-0027-10, 03-18-0027-11

Management of the Town of French Lick has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: cash management, Davis-Bacon, and period of availability. 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 states in part:

"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.

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

FINDING 2012-5 - PROGRAM INCOME AND SPECIAL TEST AND PROVISIONS

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number and Year (or Other Identifying Number): 06-019-02187

TOWN OF FRENCH LICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Revolving Loan Board has established a procedure to put one-half of the program interest earned on loans in the administrative account and one-half in the loan account. All late fees, closing costs and application fees are put in the administration account. This procedure caused the administration account to accumulate a balance of \$18,333.54 on January 1, 2011. The balance had been reduced to \$9,941.14 by December 31, 2012.

The program income was compared to administrative expenses for each six month period ending during the audit. The comparison shows that income earned during the first three reporting periods was less than disbursements, but for the reporting period April 1, 2012 to September 30, 2012, income exceeded disbursements by \$1,450.81.

The excess revenue should have been made available for loan by transferring it into the loan account and increasing the capital base for lending instead of leaving the balance in the administration account.

13 CFR 307.12(a) Revolving Loan Fund Income states:

"General requirements. RLF Income must be placed into the RLF Capital base for the purpose of making loans or paying for eligible and reasonable administrative costs associated with the RLF's operations. RLF Income may fund administrative costs, provided:

- (1) Such RLF Income and the administrative costs are incurred in the same six-month (6) Reporting Period;
- (2) RLF Income that is not used for administrative costs during the six-month (6) Reporting Period is made available for lending activities;
- (3) RLF Income shall not be withdrawn from the RLF Capital base in a subsequent Reporting Period for any purpose other than lending without the prior written consent of EDA; and
- (4) The RLF Recipient completes an RLF Income and Expense Statement (the *'Income and Expense Statement'*) as required under §307.14(c)."

We recommended that the officials follow the requirements for Program Income and Special Test and Provisions.

FINDING 2012-6 – REPORTING

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number and Year (or Other Identifying Number): 06-019-02187

The Semi-Annual Reports completed and certified by the Director were reviewed and compared to the Desk Worksheet completed each month by the Director. The Desk Worksheet is the official record kept by the Director on the activity of the Revolving Loan funds. The following errors in reporting were found:

TOWN OF FRENCH LICK
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

	Period Ending March 31, 2011	Period Ending September 30, 2011	Period Ending March 31, 2012	Period Ending September 30, 2012
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income Reported	\$ 35,321.43	\$ 21,311.01	\$ 26,282.34	\$ 28,002.02
Income Calculated From the Desk Worksheet	<u>(26,177.87)</u>	<u>(21,989.47)</u>	<u>(26,285.72)</u>	<u>(29,478.62)</u>
Difference	<u>\$ 9,143.56</u>	<u>\$ (678.46)</u>	<u>\$ (3.38)</u>	<u>\$ (1,476.60)</u>
Expenses Reported	\$ 16,757.66	\$ 10,027.88	\$ 16,341.21	\$ 13,627.78
Expenses Calculated From the Desk Worksheet	<u>(16,757.66)</u>	<u>(14,418.07)</u>	<u>(16,456.03)</u>	<u>(13,627.78)</u>
Difference	<u>\$ -</u>	<u>\$ (4,390.19)</u>	<u>\$ (114.82)</u>	<u>\$ -</u>

Reports for the period ending March 31, 2012, and September 30, 2012, indicate the loan losses were zero. The total should have been \$411,726.38.

13 CFR 307.14 Revolving Loan Fund semi-annual report and Income and Expense Statement states:

- (a) *Frequency of reports.* All RLF Recipients, including those receiving Recapitalization Grants for existing RLFs, must complete and submit a semi-annual report in electronic format, unless EDA approves a paper submission.
- (b) *Report contents.* RLF Recipients must certify as part of the semi-annual report to EDA that the RLF is operating in accordance with the applicable RLF Plan. RLF Recipients also must describe (and propose pursuant to §307.9) any modifications to the RLF Plan to ensure effective use of the RLF as a strategic financing tool.
- (c) *RLF Income and Expense Statement.* An RLF Recipient using either fifty (50) percent or more (or more than \$100,000) of RLF Income for administrative costs in a six-month (6) Reporting Period must submit to EDA a completed Income and Expense Statement (Form ED-209I or any successor form) for that Reporting Period in electronic format, unless EDA approves a paper submission."

We recommended that the officials follow the requirements for Reporting.

TOWN OF FRENCH LICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-7 – CASH MANAGEMENT

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): 03-18-0027-06, 03-18-0027-09,
03-18-0027-10, 03-18-0027-11

The Airport Improvement Program grant was a reimbursable grant. The Town was to disburse funds to the vendor before the federal funds were received. However, the Town did not have the funds available to make these disbursements first. Instead, they intended to disburse the funds as soon as the federal reimbursement was received. During the audit period, the Town made forty-one requests for reimbursement. Eleven of those were disbursed within five days of receipt. In one instance \$725,591 was held for thirty-seven days. In another instance \$120,041 was held for twenty-five days.

49 CFR 18.21(b) Payment states:

"Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205."

Failure to minimize the cash on hand may cause future funding to be reduced by the federal agency.

We recommended that the Aviation Board and Town Officials ensure that the time between the receipt and disbursement of federal funds is minimized according to the grant requirements.

Town of French Lick

8587 W. Main Street
French Lick, Indiana 47432-1000

BOARD OF TRUSTEES

Donald Renner (President)
David Harner
John H. Harrison
Marlene Noble
Barry Winingger

CLERK TREASURER

Karen R. Brosmer

Incorporated May 2, 1857

Telephone: (812)936-4737

Fax: (812) 936-7006

www.townoffrenchlick.com

August 16, 2013

RESPONSES TO AUDIT FOR 2011 AND 2012

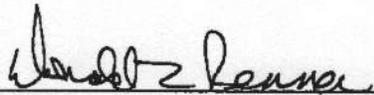
FINDING 2012-1 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

1. Duties have been segregated since last audit. There has been a division of duties among personnel with receipts, disbursements, payroll and cash and investments. This allows for a valid cross check system and not one person is solely responsible for everything.
2. We are aware the balances on the reports did not balance. Due to the sudden death of the Clerk Treasurer, many errors were made and because of the lack of knowledge by the office staff of the computer, it was difficult to correct and sometimes even caused more balance discrepancies. Great measures have been taken to balance accounts and we are also in the process of obtaining a new software program which we can then start on a fresh note with correct balances.
3. This is being corrected as all disbursements are approved by the Town Council.

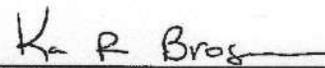
FINDING 2012-2 –INTERNAL CONTROLS OVER SCHEDULE OF EXPENSITURES OF FEDERAL AWARDS

A more controlled system will be put in place in monitoring Federal Grants. The Airport manager/superintendent will be monitoring the grant funds and the Airport Board will obtain in advance the allocated funds so that approval can be made prior to the disbursement and the funds can then be disbursed in a timelier manner. This should be in place in time for the 2013 grant schedule. We will also keep a file with all grant applications, agreements and pertinent information.

Signed this 16th day August, 2013.



Don Renner, President



Karen R. Brosmer, Clerk Treasurer

French Lick Revolving Loan

Town of French Lick
8587 West Main Street
French Lick, IN 47432-1000

Jim Springer
Executive Director

Telephone (812) 936-4885
Fax: (812) 936-7006

08/15/13

Response to Findings from State Board of Acct. 2013 Audit

FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO ECONOMIC ADJUSTMENT ASSISTANCE

Federal Agency: U. S. Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307

1 2012-3 Re. Internal Controls

RLF and Town of French Lick will be installing a new system where all Claims and Deposit Statements will be presented with each occurrence.

Claims to the town Clerk Treasurer to write checks for payments and salaries
And record Deposits and produce the reconcilements.

FINDING 2012-5 – PROGRAM INCOME and SPECIAL TEST AND PROVISIONS

Federal Agency: U. S. Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307

#2 2012-5 Program Income. Beginning with the next semi-annual reporting period, 100% of the interest income will and closing cost /fees will be deposited in the adm. Acct. where at a period of time decided on by the board all excess funds in the loan acct.

FINDING 2012-6 – REPORTING

Federal Agency: U. S. Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307

#3 2012 -6 Reporting-- RLF will be creating a spread sheet to to record all the monthly loan transactions /payments principal and interest income as to have more accurate reporting for the EDA on our Semi-annual reports.



Jim Springer,
Executive Director
French Lick Revolving Loan

Office: 812.936.2222
Fax: 812.936.3134



Emergency Pager: 888.237.6574
manager@frenchlickairport.com

9764 West County Road 375 South • French Lick, IN 47432
www.FrenchLickAirport.com

August 14, 2013

FINDING 2012-4 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO AIRPORT IMPROVEMENT PROGRAM

Federal Agency: U. S. Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Number and Year 03-18-0027-06, 03-18-0027-09, 03-18-0027-10, 03-18-0027-11

In January 2013, the French Lick Board of Aviation Commissioners (BOAC) adopted an AIP Grant Oversight controls document which outlines the roles and responsibilities of the Town of French Lick Clerk - Treasurer's Office, Airport Manager, BOAC, and NGC Corp. This document was reviewed and updated on January 16, 2013. Since that time, a new Airport Manager has been hired, as well as the addition of two (2) BOAC members. Therefore, the BOAC will update and review this document at their next regularly scheduled meeting on August 21, 2013.

FINDING 2012-7 – CASH MANAGEMENT

Federal Agency: DEPARTMENT OF TRANSPORTATION
Federal Program: AIRPORT IMPROVEMENT PROGRAM
CFDA Number: 20.106
Federal Award Number and Year (or Other Identifying Number): 03-18-0027-06, 03-18-0027-09, 03-18-0027-10, 03-18-0027-11

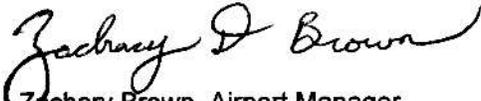
The Town will continue to work with the French Lick Board of Aviation Commissioners (BOAC) and NGC Corp to implement a protocol to monitor the grant fund balances, invoices, and pay requests. In speaking with NGC, they will notify the Clerk-Treasurer's Office of FAA monies which are deposited in the grant fund account. In addition, to minimize confusion in regards to when money has been deposited for each pay request, NGC will send a copy of pay requests, including detailed invoices, to be correlated and paid with a receipt associated with the FAA deposit. This will also ensure that pay requests are received directly by the Clerk-Treasurer Office, as well as create a direct and immediate correlation from the FAA deposit to a pay request, and ultimately contractor invoices. The notification of FAA reimbursement, as well as increased NGC guidance will result in a typical payment timeframe of less than 5 business days from when grant monies are received.

Effective immediately, the steps we will take when receiving and disbursing the Grant money are as follows:

1. NGC prepares pay request, and submits to BOAC.
2. BOAC authorizes payment of Claim Voucher. Otherwise authorized upon receipt of grant funds.
3. After approving and signing, pay requests are sent to FAA and INDOT by NGC.

4. Receive notification of grant money in our bank from the agency disbursing the funds via Delphi Workflow - Delphi e-Invoicing; timeframe: immediate.
5. Receipt the funds into our Airport Grant Fund; timeframe: 2 business days.
6. Once notification is received, NGC will e-mail and mail the pay request, and associated invoices correlated to the grant money received directly to the Clerk-Treasurer's Office; timeframe: immediate.
7. Process and pay invoices; timeframe: 2 days.

Respectfully,



Zachary Brown, Airport Manager
French Lick Municipal Airport

cc: Lori Curless, NGC Corp.
Mindy Pendley, Town of French Lick Clerk - Treasurer's Office

TOWN OF FRENCH LICK
EXIT CONFERENCE

The contents of this report were discussed on August 15, 2013, with Peggy A. Leehe, President of the Revolving Loan Board; James L. Springer, Revolving Loan Fund Executive Director; Evan Cox, Vice President of the Board of Aviation Commissioners; and Zachary D. Brown, Airport Manager.

The contents of this report were discussed on August 15, 2013, with Karen R. Brosmer, Clerk-Treasurer; Melina D. Pendley, Deputy Clerk-Treasurer; and Don Renner, President of the Town Council. The officials indicated that they would be responding to the report, but an Official Response has not been received.