

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

TOWN OF BATTLE GROUND  
TIPPECANOE COUNTY, INDIANA

January 1, 2012 to December 31, 2013



**FILED**  
07/10/2014



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report .....	3-5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance With <i>Government Auditing Standards</i> .....	6-7
Financial Statement and Accompanying Notes:	
Statement of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis .....	11
Notes to Financial Statement .....	12-15
Supplementary Information - Unaudited:	
Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis .....	18-23
Schedule of Debt .....	24
Schedule of Capital Assets .....	25
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance .....	28-30
Schedule of Expenditures of Federal Awards and Accompanying Note:	
Schedule of Expenditures of Federal Awards .....	33
Note to Schedule of Expenditures of Federal Awards .....	34
Schedule of Findings and Questioned Costs .....	35-41
Auditee Prepared Document:	
Corrective Action Plan .....	44-45
Other Report .....	46

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Phyllis Hall	01-01-12 to 12-31-15
President of the Town Council	Steven C. Egly	01-01-12 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF BATTLE GROUND, TIPPECANOE COUNTY, INDIANA

***Report on the Financial Statement***

We have audited the accompanying financial statement of the Town of Battle Ground (Town), which comprises the financial position and results of operations for the period of January 1, 2012 to December 31, 2013, 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, 2012 to December 31, 2013.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the period of January 1, 2012 to December 31, 2013, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 28, 2014, 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 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.

  
Paul D. Joyce, CPA  
State Examiner

May 28, 2014



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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 BATTLE GROUND, TIPPECANOE 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 Battle Ground (Town), which comprises the financial position and results of operations for the period of January 1, 2012 to December 31, 2013, and the related notes to the financial statement, and have issued our report thereon dated May 28, 2014, 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 2013-001 and 2013-002 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***

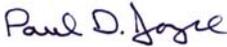
As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Town of Battle Ground'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.

  
Paul D. Joyce, CPA  
State Examiner

May 28, 2014

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## FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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 BATTLE GROUND  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended December 31, 2012 and 2013

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12	Receipts	Disbursements	Cash and Investments 12-31-13
General Fund	\$ 244,526	\$ 297,036	\$ 259,422	\$ 282,140	\$ 265,835	\$ 273,163	\$ 274,812
Motor Vehicle Highway	91,728	98,826	91,827	98,727	143,249	161,831	80,145
Local Road & Street	41,386	13,234	25,000	29,620	12,896	8,018	34,498
Ordinance Violation	1,646	-	-	1,646	50	-	1,696
Local Law Enf Cont Ed	3,348	732	-	4,080	908	-	4,988
Rainy Day Fund	9,155	53	-	9,208	64	-	9,272
CEDIT	26,229	41,696	45,900	22,025	40,601	27,070	35,556
Cum Cap Development	34,638	8,883	15,000	28,521	7,824	-	36,345
Cum Cap Imp- Cig Tax	6,340	3,588	-	9,928	3,650	-	13,578
Riverboat	25,598	8,038	-	33,636	8,160	-	41,796
Walking Tour	844	-	21	823	-	-	823
Donation	5,031	-	-	5,031	-	5,000	31
Payroll	7,742	213,761	205,489	16,014	230,934	222,454	24,494
Sewage Utility Operation	500,699	547,731	688,539	359,891	571,161	791,045	140,007
Dsewage Meter	24,292	4,560	2,123	26,729	5,580	2,662	29,647
Sewage Utl Depreciation	21,171	-	-	21,171	-	-	21,171
Sewage Utl Bond & Int	8,681	-	8,681	-	-	-	-
Sewage Reserve	39,609	-	39,609	-	-	-	-
Battle Ground Bowen Engineering Retainage	-	-	-	-	133,988	-	133,988
SRF Battle Ground Bond and Interest	-	27,000	-	27,000	110,100	5,294	131,806
SRF Battle Ground Debt Service Reserve	-	16,902	-	16,902	33,804	-	50,706
SRF Battle Ground Construction	-	244,500	-	244,500	-	-	244,500
Totals	<u>\$ 1,092,663</u>	<u>\$ 1,526,540</u>	<u>\$ 1,381,611</u>	<u>\$ 1,237,592</u>	<u>\$ 1,568,804</u>	<u>\$ 1,496,537</u>	<u>\$ 1,309,859</u>

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

TOWN OF BATTLE GROUND  
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), highways and streets, public improvements, general administrative services, and wastewater.

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 Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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

*C. Cash and Investments*

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

*D. Receipts*

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

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, county economic development income tax, boat and trailer excise tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: dog tax licenses, yard sale permits, street cut 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 these types of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distributions received from the state,

TOWN OF BATTLE GROUND  
NOTES TO FINANCIAL STATEMENT  
(Continued)

local road and street distributions 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, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: copies of public records, accident report copies, gun permit applications, ordinance violations, and fines and fees.

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; 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, and repairs and maintenance.

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 and the Wastewater Utility's revenue bonds.

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, and transfers out that are authorized by statute, ordinance, resolution, or court order.

TOWN OF BATTLE GROUND  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*F. Interfund Transfers*

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

**Note 4. Deposits and Investments**

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

TOWN OF BATTLE GROUND  
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 Capitol 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.

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## 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 BATTLE GROUND  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2012

	General Fund	Motor Vehicle Highway	Local Road & Street	Ordinance Violation	Local Law Enf Cont Ed	Rainy Day Fund	CEDIT	Cum Cap Development
Cash and investments - beginning	\$ 244,526	\$ 91,728	\$ 41,386	\$ 1,646	\$ 3,348	\$ 9,155	\$ 26,229	\$ 34,638
Receipts:								
Taxes	207,592	36,925	-	-	-	-	-	7,660
Licenses and permits	25	-	-	-	-	-	-	-
Intergovernmental	85,532	58,441	13,054	-	-	-	41,517	1,054
Charges for services	367	-	-	-	732	-	-	-
Fines and forfeits	1,021	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	2,499	3,460	180	-	-	53	179	169
Total receipts	<u>297,036</u>	<u>98,826</u>	<u>13,234</u>	<u>-</u>	<u>732</u>	<u>53</u>	<u>41,696</u>	<u>8,883</u>
Disbursements:								
Personal services	128,585	57,966	-	-	-	-	-	-
Supplies	10,061	19,092	-	-	-	-	-	-
Other services and charges	120,244	14,769	-	-	-	-	45,900	15,000
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	532	-	25,000	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	<u>259,422</u>	<u>91,827</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,900</u>	<u>15,000</u>
Excess (deficiency) of receipts over disbursements	<u>37,614</u>	<u>6,999</u>	<u>(11,766)</u>	<u>-</u>	<u>732</u>	<u>53</u>	<u>(4,204)</u>	<u>(6,117)</u>
Cash and investments - ending	<u>\$ 282,140</u>	<u>\$ 98,727</u>	<u>\$ 29,620</u>	<u>\$ 1,646</u>	<u>\$ 4,080</u>	<u>\$ 9,208</u>	<u>\$ 22,025</u>	<u>\$ 28,521</u>

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

	Cum Cap Imp- Cig Tax	Riverboat	Walking Tour	Donation	Payroll	Sewage Utility Operation	Dsewage Meter	Sewage Utl Depreciation
Cash and investments - beginning	\$ 6,340	\$ 25,598	\$ 844	\$ 5,031	\$ 7,742	\$ 500,699	\$ 24,292	\$ 21,171
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	3,538	7,903	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	492,455	4,560	-
Other receipts	50	135	-	-	213,761	55,276	-	-
Total receipts	3,588	8,038	-	-	213,761	547,731	4,560	-
Disbursements:								
Personal services	-	-	-	-	52,257	68,437	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	-	21	-	-	57,966	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	388,175	-	-
Utility operating expenses	-	-	-	-	-	173,822	2,123	-
Other disbursements	-	-	-	-	153,232	139	-	-
Total disbursements	-	-	21	-	205,489	688,539	2,123	-
Excess (deficiency) of receipts over disbursements	3,588	8,038	(21)	-	8,272	(140,808)	2,437	-
Cash and investments - ending	\$ 9,928	\$ 33,636	\$ 823	\$ 5,031	\$ 16,014	\$ 359,891	\$ 26,729	\$ 21,171

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

	Sewage Utl Bond & Int	Sewage Reserve	Battle Ground Bowen Engineering Retainage	SRF Battle Ground Bond and Interest	SRF Battle Ground Debt Service Reserve	SRF Battle Ground Construction	Totals
Cash and investments - beginning	\$ 8,681	\$ 39,609	\$ -	\$ -	\$ -	\$ -	\$ 1,092,663
Receipts:							
Taxes	-	-	-	-	-	-	252,177
Licenses and permits	-	-	-	-	-	-	25
Intergovernmental	-	-	-	-	-	-	211,039
Charges for services	-	-	-	-	-	-	1,099
Fines and forfeits	-	-	-	-	-	-	1,021
Utility fees	-	-	-	-	-	-	497,015
Other receipts	-	-	-	27,000	16,902	244,500	564,164
Total receipts	-	-	-	27,000	16,902	244,500	1,526,540
Disbursements:							
Personal services	-	-	-	-	-	-	307,245
Supplies	-	-	-	-	-	-	29,153
Other services and charges	-	-	-	-	-	-	253,900
Debt service - principal and interest	8,681	-	-	-	-	-	8,681
Capital outlay	-	-	-	-	-	-	413,707
Utility operating expenses	-	39,609	-	-	-	-	215,554
Other disbursements	-	-	-	-	-	-	153,371
Total disbursements	8,681	39,609	-	-	-	-	1,381,611
Excess (deficiency) of receipts over disbursements	(8,681)	(39,609)	-	27,000	16,902	244,500	144,929
Cash and investments - ending	\$ -	\$ -	\$ -	\$ 27,000	\$ 16,902	\$ 244,500	\$ 1,237,592

TOWN OF BATTLE GROUND  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013

	General Fund	Motor Vehicle Highway	Local Road & Street	Ordinance Violation	Local Law Enf Cont Ed	Rainy Day Fund	CEDIT	Cum Cap Development
Cash and investments - beginning	\$ 282,140	\$ 98,727	\$ 29,620	\$ 1,646	\$ 4,080	\$ 9,208	\$ 22,025	\$ 28,521
Receipts:								
Taxes	176,756	48,283	-	-	-	-	-	6,850
Licenses and permits	21	-	-	-	-	-	-	-
Intergovernmental	74,506	47,774	12,721	-	-	-	40,406	815
Charges for services	1,125	-	-	-	908	-	-	-
Fines and forfeits	1,104	-	-	50	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	12,323	47,192	175	-	-	64	195	159
Total receipts	<u>265,835</u>	<u>143,249</u>	<u>12,896</u>	<u>50</u>	<u>908</u>	<u>64</u>	<u>40,601</u>	<u>7,824</u>
Disbursements:								
Personal services	123,351	57,026	-	-	-	-	-	-
Supplies	12,390	51,755	-	-	-	-	-	-
Other services and charges	125,251	15,700	-	-	-	-	27,070	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	12,171	37,350	8,018	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	<u>273,163</u>	<u>161,831</u>	<u>8,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,070</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(7,328)</u>	<u>(18,582)</u>	<u>4,878</u>	<u>50</u>	<u>908</u>	<u>64</u>	<u>13,531</u>	<u>7,824</u>
Cash and investments - ending	<u>\$ 274,812</u>	<u>\$ 80,145</u>	<u>\$ 34,498</u>	<u>\$ 1,696</u>	<u>\$ 4,988</u>	<u>\$ 9,272</u>	<u>\$ 35,556</u>	<u>\$ 36,345</u>

TOWN OF BATTLE GROUND  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Cum Cap Imp- Cig Tax	Riverboat	Walking Tour	Donation	Payroll	Sewage Utility Operation	Dsewage Meter	Sewage Utl Depreciation
Cash and investments - beginning	\$ 9,928	\$ 33,636	\$ 823	\$ 5,031	\$ 16,014	\$ 359,891	\$ 26,729	\$ 21,171
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	3,581	7,903	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	555,335	5,580	-
Other receipts	69	257	-	-	230,934	15,826	-	-
Total receipts	3,650	8,160	-	-	230,934	571,161	5,580	-
Disbursements:								
Personal services	-	-	-	-	52,948	68,262	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	5,000	-	56,602	-	-
Debt service - principal and interest	-	-	-	-	-	110,100	-	-
Capital outlay	-	-	-	-	-	199,913	-	-
Utility operating expenses	-	-	-	-	-	335,014	-	-
Other disbursements	-	-	-	-	169,506	21,154	2,662	-
Total disbursements	-	-	-	5,000	222,454	791,045	2,662	-
Excess (deficiency) of receipts over disbursements	3,650	8,160	-	(5,000)	8,480	(219,884)	2,918	-
Cash and investments - ending	\$ 13,578	\$ 41,796	\$ 823	\$ 31	\$ 24,494	\$ 140,007	\$ 29,647	\$ 21,171

TOWN OF BATTLE GROUND  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Sewage Utl Bond & Int	Sewage Reserve	Battle Ground Bowen Engineering Retainage	SRF Battle Ground Bond and Interest	SRF Battle Ground Debt Service Reserve	SRF Battle Ground Construction	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 27,000	\$ 16,902	\$ 244,500	\$ 1,237,592
Receipts:							
Taxes	-	-	-	-	-	-	231,889
Licenses and permits	-	-	-	-	-	-	21
Intergovernmental	-	-	-	-	-	-	187,706
Charges for services	-	-	-	-	-	-	2,033
Fines and forfeits	-	-	-	-	-	-	1,154
Utility fees	-	-	-	-	-	-	560,915
Other receipts	-	-	133,988	110,100	33,804	-	585,086
Total receipts	-	-	133,988	110,100	33,804	-	1,568,804
Disbursements:							
Personal services	-	-	-	-	-	-	301,587
Supplies	-	-	-	-	-	-	64,145
Other services and charges	-	-	-	-	-	-	229,623
Debt service - principal and interest	-	-	-	-	-	-	110,100
Capital outlay	-	-	-	-	-	-	257,452
Utility operating expenses	-	-	-	-	-	-	335,014
Other disbursements	-	-	-	5,294	-	-	198,616
Total disbursements	-	-	-	5,294	-	-	1,496,537
Excess (deficiency) of receipts over disbursements	-	-	133,988	104,806	33,804	-	72,267
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,988</u>	<u>\$ 131,806</u>	<u>\$ 50,706</u>	<u>\$ 244,500</u>	<u>\$ 1,309,859</u>

TOWN OF BATTLE GROUND  
 SCHEDULE OF DEBT  
 December 31, 2013

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Wastewater Utility: Revenue bonds	Expansion of the Wastewater Plant	<u>\$ 2,585,098</u>	<u>\$ 168,600</u>

TOWN OF BATTLE GROUND  
 SCHEDULE OF CAPITAL ASSETS  
 December 31, 2013

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	\$ 332,261
Buildings	86,000
Infrastructure	5,550
Machinery, equipment, and vehicles	189,455
Total Governmental activities	613,266
Wastewater:	
Land	807,812
Infrastructure	143,330
Construction Work in Progress	2,788,083
Buildings	101,963
Machinery, equipment, and vehicles	78,749
Total Wastewater	3,919,937
Total capital assets	\$ 4,533,203

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE TOWN OF BATTLE GROUND, TIPPECANOE COUNTY, INDIANA

***Report on Compliance for the Major Federal Program***

We have audited the Town of Battle Ground'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, 2012 to December 31, 2013. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

***Basis for Qualified Opinion on Capitalization Grants for Clean Water State Revolving Funds***

As described in item 2013-004 in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding Special Tests and Provisions that are applicable to its Capitalization Grants for Clean Water State Revolving Funds. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

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

***Qualified Opinion on Capitalization Grants for Clean Water State Revolving Funds***

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 its Capitalization Grants for Clean Water State Revolving Funds for the period of January 1, 2012 to December 31, 2013.

***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 the 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 types 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 items 2013-003 and 2013-004 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.

  
Paul D. Joyce, CPA  
State Examiner

May 28, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

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 BATTLE GROUND  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Years Ended December 31, 2012 and 2013

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 12-31-12	Total Federal Awards Expended 12-31-13
<u>U.S. Department of Transportation</u>					
Highway Planning and Construction Cluster Highway Planning and Construction Signage Project	Indiana Department of Transportation	20.205	Des# 1006	\$ -	\$ 7,033
<u>U.S. Environmental Protection Agency</u>					
Capitalization Grants for Clean Water State Revolving Funds WWTP Rehabilitation Project	Indiana Finance Authority	66.458	WW10087901	28,547	1,264,002
Total federal awards expended				<u>\$ 28,547</u>	<u>\$ 1,271,035</u>

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

TOWN OF BATTLE GROUND  
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 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 BATTLE GROUND  
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 program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major 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 Program:

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
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**Section II - Financial Statement Findings**

**FINDING 2013-001 - 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, payroll, and cash and investment balances.

TOWN OF BATTLE GROUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Receipts: The Deputy Clerk-Treasurer is responsible for receiving money, issuing receipts, recording receipts to wastewater utility customer accounts, preparing deposits, and taking the deposits to the bank. The Deputy Clerk-Treasurer also has the ability to make adjustments within the wastewater utility billing/accounts receivable system.

Utility Billings: The Town has not established effective internal controls to ensure compliance with its Wastewater Utility (Utility) rate ordinances. Town officials performed no review to ensure that the Utility rate ordinances as adopted by the Town Council were properly implemented.

Payroll: There is no supervisor review or approval of the time sheets before they are submitted for payment. Payroll generated in the computerized payroll system must be manually entered into the computerized accounting system. Both of these functions are performed by the Clerk-Treasurer, and there is no documented review process to ensure the accuracy of the recording of payroll to the accounting system.

Cash and Investment Balances: The Clerk-Treasurer performs monthly bank reconciliements of the depository balances to the record balances without oversight, review, or approval.

2. Preparing Financial Statement: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statement and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement. The Clerk-Treasurer independently prepares the financial statement for inclusion in the financial report without oversight, review, or approval.
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 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.

The failure to establish proper internal controls could enable material misstatements or irregularities to 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.

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 BATTLE GROUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2013-002 - 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 Clerk-Treasurer independently prepares the SEFA for inclusion in the financial report without oversight, review, or approval. 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.

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 2013-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A  
DIRECT AND MATERIAL EFFECT TO CAPITALIZATION GRANTS FOR CLEAN WATER STATE  
REVOLVING FUNDS***

Federal Agency: U.S. Environmental Protection Agency  
Federal Program: Capitalization Grants for Clean Water State Revolving Funds  
CFDA Number: 66.458  
Federal Award Number and Year (or Other Identifying Number): WW10087901  
Pass-Through Entity: Indiana Finance Authority

Management of the Town of Battle Ground 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: Davis-Bacon Act and Suspension and Debarment.

*Davis-Bacon Act*

The Indiana Finance Authority hired Mendenhall & Associates, LLC, to oversee compliance with the Davis-Bacon Act requirements for their recipients of State Revolving Funds. The Town, however, has not designed or implemented procedures to verify that Mendenhall & Associates, LLC, properly performs required reviews of project payrolls.

*Suspension and Debarment*

The Town has not designed or implemented procedures to ensure that contracts are not awarded to parties that are suspended or debarred from participation in federal programs.

TOWN OF BATTLE GROUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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, or 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. A lack of segregation of duties within an internal control system could also allow the misuse and mismanagement of federal funds. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on 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 on the program.

***FINDING 2013-004 - INTERNAL CONTROLS OVER AND COMPLIANCE WITH CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS - SPECIAL TESTS AND PROVISIONS***

Federal Agency: U.S. Environmental Protection Agency  
Federal Program: Capitalization Grants for Clean Water State Revolving Funds  
CFDA Number: 66.458  
Federal Award Number and Year (or Other Identifying Number): WW10087901  
Pass-Through Entity: Indiana Finance Authority

The Town has not established effective internal controls to ensure compliance with the grant agreement (Financial Assistance Agreement), a Special Tests and Provisions compliance requirement regarding loan repayments. Town officials performed no review to ensure that the Sewage Works (Wastewater Utility) rate ordinances as adopted by the Town Council were properly implemented.

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, or 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.

TOWN OF BATTLE GROUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The officials of the Town (Participant) executed a Financial Assistance Agreement on June 21, 2012, with the Indiana Finance Authority (Finance Authority) for the funding of the wastewater treatment plant rehabilitation project and main lift station replacement project through the State of Indiana's Wastewater Revolving Fund Loan Program. Sewage Works Revenue Bonds, Series 2012, dated June 21, 2012, for \$2,825,000 were issued pursuant to the IFA Program Bond Authorizing Instrument.

The Town Council had adopted Ordinance No. 12-495 (Bond Ordinance) on May 14, 2012, authorizing the execution of the Financial Assistance Agreement with the Indiana Finance Authority for the bonds and project. The Ordinance also authorized the acquisition, construction, installation, and equipping by the Town of certain improvements and extensions to the Town's Sewage Works; the issuance and sale of revenue bonds to provide funds for the payment of the costs thereof; and the collection, segregation, and distribution of the revenues of the Sewage Works.

For the purpose of negotiating the sale of the bonds, the Town engaged the services of a certified public accounting firm to project debt service coverage and issue a report for presentation to the Indiana State Revolving Fund. The report issued May 29, 2012, projected operating receipts, operation and maintenance disbursements, nonoperating receipts, and debt service coverage based upon Ordinance No. 2009-471 passed by the Town Council on October 13, 2009. That Ordinance approved the modification of the schedule of rates and charges to be collected by the Sewage Works of the Town and the implementation of a 19.5 percent rate increase effective July 1, 2011. However, the Town Council delayed the increase until July 1, 2012. The projections were further based upon a planned 10 percent rate increase to become effective on July 1, 2013.

Ordinance No. 2009-471, an ordinance amending the schedule of rates and charges, was adopted by the Town Council on October 13, 2009. That Ordinance called for a Phase III increase in rates and charges of 19.5 percent to be effective July 1, 2011. However, on March 29, 2011, the Town Council approved the deferral of the rate increase until further notice. On May 14, 2012, the Town Council approved the Phase III rate increase set forth in Ordinance No. 2009-471 to become effective as of June 1, 2012. The Town implemented the rate increase as of July 1, 2012, one month later than as approved by the Town Council.

Ordinance No. 12-498, an ordinance amending the schedule of rates and charges, was adopted by the Town Council on June 4, 2012. The revised schedule of rates and charges called for an increase of 10 percent to become effective July 1, 2013. This increase had not been implemented as May 28, 2014.

The execution of the Financial Assistance Agreement by the Indiana Finance Authority was predicated upon the Sewage Works of the Town generating sufficient revenue to repay the bonds. The Town did not implement rates and charges in compliance with its Ordinances and has jeopardized its ability to repay the loan and the bonds evidencing it. As a result, the Town has failed to comply with its own Bond Ordinance, Ordinance No. 12-495, and with the Financial Assistance Agreement.

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 Town Council adopted the Bond Ordinance on May 14, 2012. The Ordinance in Section 16 Rates and Charges states in part:

TOWN OF BATTLE GROUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

"The Town covenants and agrees that it shall, by ordinance of the Town Council and to the fullest extent permitted by law, establish and maintain just and equitable rates or charges for the use of and the services rendered by said works, to be paid by the owner of each and every lot, parcel of real estate or building that is connected with and uses said sewage works by or through any part of the sewage works system of the Town, or that in any way uses or is served by such works, at a level adequate to produce and maintain sufficient revenue (including user and other charges, fees, income or revenues available to the Town) to provide for the proper Operation and Maintenance (as defined in the Financial Assistance Agreement) of the works, to comply with and satisfy all covenants contained in this Ordinance and the Financial Assistance Agreement, and for the payment of the sums required to be paid into the Sewage Works Sinking Fund by the Act and this Ordinance.

Such rates or charges shall, if necessary, be changed and readjusted from time to time so that the revenues therefrom shall always be sufficient to meet the expenses of Operation and Maintenance of the Sewage Works and the requirements of the Sewage Works Sinking Fund."

The Ordinance in Section 26 Rates and Charges further states:

"The estimate of rates and charges which will be needed and charged to the general classes of users of property to be served by the Sewage Works in order to provide sufficient moneys to make payments of principal of and interest on the Bonds, along with the other payments identified in this Ordinance, is set forth in the Town Council's Ordinance No. 2009-471, adopted by the Town Council on September 14, 2009, as the same may be amended prior to the issuance of the Bonds."

The Financial Assistance Agreement, Article II Purpose of Borrowing and Loan Terms, Section 2.03 Disbursement Conditions, states in part:

"Each of the following shall be a condition precedent to the disbursement of the Loan or any portion thereof (including from the Construction Fund): . . .

(g) In the event the Bonds are payable from rates and charges of the Treatment Works and if requested by the Finance Authority, the Participant shall provide evidence satisfactory to the Finance Authority demonstrating that such rates and charges are at a level adequate to produce and maintain sufficient net revenue after providing for the proper Operation and Maintenance of the Treatment Works, on a proforma basis consistent with SRF Policy Guidelines, to provide 1.25x coverage on all obligations of the Treatment Works (including the Bonds)."

Further, the Financial Assistance Agreement, Article III Representations, Warranties and Covenants of the Participant, Section 3.02 General Covenants, states in part:

"The Participant hereby covenants and agrees with the Finance Authority that the Participant will:  
. . .

(h) (1) Establish and maintain just and equitable rates and charges for the use of and the service rendered by the Treatment Works, to be paid by the owner of each and every lot, parcel of real estate or building that is connected with and uses the Treatment Works, (2) establish, adjust and maintain rates and charges at a level adequate to produce and maintain sufficient revenue (including user and other charges, fees, income or revenues available to the Participant) to

TOWN OF BATTLE GROUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

provide for the proper Operation and Maintenance of the Treatment Works, to comply with and satisfy all covenants contained herein and to pay all obligations of the Treatment Works and of the Participant with respect thereto, and . . ."

The failure to establish internal controls could enable material noncompliance to go undetected. A lack of segregation of duties within an internal control system could also allow the misuse and mismanagement of federal funds. Noncompliance with 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.

Failure to comply with ordinances establishing rates and charges of the Sewage Works may result in funds insufficient to operate and maintain said Sewage Works and to pay into the Sewage Works Sinking Fund as required by the Bond Ordinance and the Financial Assistance Agreement as well as the Sewage Works Revenue Bonds, Series 2012.

We recommended that the Town establish controls, including segregation of duties, related to the grant agreement and the compliance requirement noted above that has a direct and material effect on the program.

We recommended that the Town comply with its ordinances establishing the rates and charges for its Sewage Works to comply with its Bond Ordinance and the Financial Assistance Agreement.

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AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the Town. The document is presented as intended by the Town.

# Town of Battle Ground

Box 303

Battle Ground, Indiana 47920

Phone (765) 567-2603

## Corrective Action Plan

**Contact Person: Phyllis Hall**

**Contact Information: Phone: 765-567-2603; Email: [treasurer@battleground.in.gov](mailto:treasurer@battleground.in.gov)**

### Section II-Financial Statement Findings

#### **FINDING 2013-001- INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

Battle Ground has implemented the following internal controls in compliance to requirements:

1. Lack of Segregation of Duties:

Receipts: The Deputy Clerk-Treasurer will be responsible for receiving money, issuing and recording receipts to customer accounts, prepare deposits and the Clerk-Treasurer will take deposit to the bank. The Clerk-Treasurer will continue to approve any adjustments to customer accounts and the Deputy Clerk-Treasurer will review and then enter the corrections into the account. The clerk will then check the corrections in the accounts. The council believes it would be cost prohibited to hire additional office staff to achieve further segregation of these duties.

Utility Billings: In the future the council will be reviewing an ordinance for rate increases again prior to implementing an increase to insure the time frame and amount is correct.

Payroll: The council will be looking into purchasing a program for payroll that will work with the current budget program that will lower the chance of mistakes up to 50%. The Street Supervisor will sign off on the laborer's time cards. Total hours will be figured by the Clerk-Treasurer and reviewed by her Deputy Clerk-Treasurer. Once hours are entered into the payroll program by the Clerk- Treasurer the Deputy Clerk-Treasurer will review for accuracy.

Bank Reconcilements: The clerk is going to have the Farmers State Bank send a monthly statement to the council president so it can be compared to the figures that the Clerk-Treasurer is using. The Clerk-Treasurer will continue to perform the bank reconcilements and will have the Deputy Clerk-Treasurer review the records to confirm they are accurate.

2. Preparing Financial Statement: The Clerk-Treasurer prepares the reports to be submitted to Gateway and in the future the clerk will have a council member review what is entered to help prevent or find any errors.
3. Monitoring of Controls: The Clerk-Treasurer in the future intends to print the Gateway report for the council to review before it is submitted. The council intends to have one of the councilmembers

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review bank statements, payroll entry, utility entries, revenue entries and other financial reports available monthly or semi-annual bases.

## **FINDING 2013-002-INTERNAL CONTROLS OVER SCHEDULED OF EXPENDITURES OF FEDERAL AWARDS**

The Clerk-Treasurer intends to print the Gateway report of the expenditures for the council to review before it is submitted. The council intends to have one of the councilmembers review the expenditures.

### Section III- Federal Award Findings and Questioned Costs

## **FINDING 2013-003 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLING FUNDS**

### Davis Bacon Act

The Clerk-Treasurer nor the council have the training to “verify” that the Federal Davis-Bacon wages are being paid properly. Therefore this is the reason a qualifying firm should be hired. Even though a professional is hired the council will start reviewing the records to look for error and to confirm that the firm that was hired is doing their job at checking into issues.

### Suspension and Debarment

In the future the Town of Battle Ground plans to investigate all parties to insure they are not suspended or debarred before awarded a contract that includes federal funds. The council will in the future insert a paragraph that will ask the construction company to assure they are not suspension or disbarred.

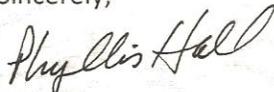
## **FINDING 2013-004- CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLING FUNDS- SPECIAL TESTS AND PROVISIONS**

The council will in the future review requirements that are needed before making motions to change an ordinance and enlist advice from their attorney.

The Council President intends to implement the 10% rate increase from Ordinance No 12-498 no later than the August 1, 2014 billing based on the approval at the Battle Ground Town Council’s meeting on June 9, 2014.

The Clerk-Treasurer and Town Council intends to implement the above mentioned internal controls immediately.

Sincerely,



Phyllis Hall

Clerk-Treasurer, Town of Battle Ground

May 28, 2014

#### OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the Town. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.