

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

AUDIT REPORT

OF

TOWN OF FARMERSBURG

SULLIVAN COUNTY, INDIANA

January 1, 2009 to December 31, 2010



FILED
05/12/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cindy Davis	01-01-08 to 12-31-11
President of the Town Council	Woodrow Power III	01-01-09 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TOWN OF FARMERSBURG, SULLIVAN COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Farmersburg (Town), as of and for the years ended December 31, 2009 and 2010, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2009 and 2010, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 24, 2011, 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 and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Town has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America have determined are necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

March 24, 2011



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF FARMERSBURG, SULLIVAN COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Farmersburg (Town), as of and for the years ended December 31, 2009 and 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 24, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in item 2010-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2010-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are 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.

The Town's response to the finding identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 24, 2011

TOWN OF FARMERSBURG
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2009

Functions/Programs	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Totals
Primary government:						
Governmental activities:						
General government	\$ 80,857	\$ 613	\$ -	\$ (80,244)	\$ -	\$ (80,244)
Public safety	148	1,472	-	1,324	-	1,324
Highways and streets	41,942	-	39,622	(2,320)	-	(2,320)
Culture and recreation	76,721	85	-	(76,636)	-	(76,636)
Total governmental activities	199,668	2,170	39,622	(157,876)	-	(157,876)
Business-type activities:						
Wastewater	1,139,344	385,244	821,854	-	67,754	67,754
Total primary government	\$ 1,339,012	\$ 387,414	\$ 861,476	(157,876)	67,754	(90,122)
General receipts:						
Property taxes				62,812	-	62,812
Intergovernmental				86,710	-	86,710
Other local sources				9,920	-	9,920
Investment earnings				321	-	321
Total general receipts				159,763	-	159,763
Change in net assets				1,887	67,754	69,641
Net assets - beginning				176,846	210,225	387,071
Net assets - ending				\$ 178,733	\$ 277,979	\$ 456,712
<u>Assets</u>						
Cash and investments				\$ 82,120	\$ 15,611	\$ 97,731
Restricted assets:						
Cash and investments				96,613	262,368	358,981
Total assets				\$ 178,733	\$ 277,979	\$ 456,712
<u>Net Assets</u>						
Restricted for:						
General government				\$ 24,134	\$ -	\$ 24,134
Highways and streets				33,067	-	33,067
Public safety				819	-	819
Capital outlay				38,593	-	38,593
Debt service				-	259,866	259,866
Other puposes				-	2,502	2,502
Unrestricted				82,120	15,611	97,731
Total net assets				\$ 178,733	\$ 277,979	\$ 456,712

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

TOWN OF FARMERSBURG
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2010

Functions/Programs	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:						
Governmental activities:						
General government	\$ 173,564	\$ 672	\$ 36,164	\$ (136,728)	\$ -	\$ (136,728)
Public safety	-	1,410	-	1,410	-	1,410
Highways and streets	44,075	-	-	(44,075)	-	(44,075)
Culture and recreation	-	20	-	20	-	20
Total governmental activities	217,639	2,102	36,164	(179,373)	-	(179,373)
Business-type activities:						
Wastewater	1,525,902	356,365	1,300,722	-	131,185	131,185
Total business-type activities	1,525,902	356,365	1,300,722	-	131,185	131,185
Total primary government	\$ 1,743,541	\$ 358,467	\$ 1,336,886	(179,373)	131,185	(48,188)
General receipts:						
Property taxes				63,516	-	63,516
Intergovernmental				66,075	-	66,075
Other local sources				79,115	-	79,115
Investment earnings				269	-	269
Total general receipts				208,975	-	208,975
Change in net assets				29,602	131,185	160,787
Net assets - beginning				178,731	277,978	456,709
Net assets - ending				\$ 208,333	\$ 409,163	\$ 617,496
<u>Assets</u>						
Cash and investments				\$ 58,237	\$ (34,026)	\$ 24,211
Restricted assets:						
Cash and investments				150,096	443,189	593,285
Total assets				\$ 208,333	\$ 409,163	\$ 617,496
<u>Net Assets</u>						
Restricted for:						
General government				\$ 67,062	\$ -	\$ 67,062
Highways and streets				33,575	-	33,575
Public safety				4,618	-	4,618
Capital outlay				44,821	-	44,821
Culture and recreation				20	-	20
Debt service				-	316,113	316,113
Other purposes				-	127,076	127,076
Unrestricted				58,237	(34,026)	24,211
Total net assets				\$ 208,333	\$ 409,163	\$ 617,496

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

TOWN OF FARMERSBURG
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2009

	General	Cumulative Capital Development	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 55,231	\$ 3,406	\$ 4,175	\$ 62,812
Licenses and permits	30	613	93	736
Intergovernmental	18,079	118	108,135	126,332
Charges for services	85	-	-	85
Fines and forfeits	1,349	-	-	1,349
Other	7,713	778	1,750	10,241
	<u>82,487</u>	<u>4,915</u>	<u>114,153</u>	<u>201,555</u>
Total receipts				
Disbursements:				
General government	-	-	77,440	77,440
Public safety	-	-	148	148
Highways and streets	-	-	29,007	29,007
Culture and recreation	76,678	-	-	76,678
Capital outlay:				
General government	-	1,100	2,317	3,417
Highways and streets	-	-	12,935	12,935
Culture and recreation	43	-	-	43
	<u>76,721</u>	<u>1,100</u>	<u>121,847</u>	<u>199,668</u>
Total disbursements				
Excess (deficiency) of receipts over disbursements	<u>5,766</u>	<u>3,815</u>	<u>(7,694)</u>	<u>1,887</u>
Cash and investment fund balance - beginning	<u>76,354</u>	<u>34,778</u>	<u>65,714</u>	<u>176,846</u>
Cash and investment fund balance - ending	<u>\$ 82,120</u>	<u>\$ 38,593</u>	<u>\$ 58,020</u>	<u>\$ 178,733</u>
<u>Cash and Investment Assets - Ending</u>				
Cash and investments	\$ 82,120	\$ -	\$ -	\$ 82,120
Restricted assets:				
Cash and investments	<u>-</u>	<u>38,593</u>	<u>58,020</u>	<u>96,613</u>
Total cash and investment assets - ending	<u>\$ 82,120</u>	<u>\$ 38,593</u>	<u>\$ 58,020</u>	<u>\$ 178,733</u>
<u>Cash and Investment Fund Balance - Ending</u>				
Restricted for:				
General government	\$ -	\$ -	\$ 24,134	\$ 24,134
Public safety	-	-	819	819
Highways and streets	-	-	33,067	33,067
Capital outlay	-	38,593	-	38,593
Unrestricted	<u>82,120</u>	<u>-</u>	<u>-</u>	<u>82,120</u>
Total cash and investment fund balance - ending	<u>\$ 82,120</u>	<u>\$ 38,593</u>	<u>\$ 58,020</u>	<u>\$ 178,733</u>

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

TOWN OF FARMERSBURG
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2010

	General	EDIT Tax	Cumulative Capital Development	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 59,517	\$ -	\$ 3,999	\$ -	\$ 63,516
Licenses and permits	110	-	672	-	782
Intergovernmental	16,871	-	1,848	47,356	66,075
Charges for services	-	-	-	20	20
Fines and forfeits	-	-	-	1,300	1,300
Other	8,101	62,462	1,709	43,276	115,548
Total receipts	84,599	62,462	8,228	91,952	247,241
Disbursements:					
General government	86,257	24,827	-	2,091	113,175
Highways and streets	-	-	-	36,954	36,954
Capital outlay:					
General government	22,225	-	2,000	36,164	60,389
Highways and streets	-	-	-	7,121	7,121
Total disbursements	108,482	24,827	2,000	82,330	217,639
Excess (deficiency) of receipts over disbursements	(23,883)	37,635	6,228	9,622	29,602
Other financing sources (uses):					
Transfers in	2,091	-	-	-	2,091
Transfers out	(2,091)	-	-	-	(2,091)
Total other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(23,883)	37,635	6,228	9,622	29,602
Cash and investment fund balance - beginning	82,120	14,659	38,593	43,359	178,731
Cash and investment fund balance - ending	<u>\$ 58,237</u>	<u>\$ 52,294</u>	<u>\$ 44,821</u>	<u>\$ 52,981</u>	<u>208,333</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 58,237	\$ -	\$ -	\$ -	\$ 58,237
Restricted assets:					
Cash and investments	-	52,294	44,821	52,981	150,096
Total cash and investment assets - ending	<u>\$ 58,237</u>	<u>\$ 52,294</u>	<u>\$ 44,821</u>	<u>\$ 52,981</u>	<u>\$ 208,333</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
General government	\$ -	\$ 52,294	\$ -	\$ 14,768	\$ 67,062
Public safety	-	-	-	4,618	4,618
Highways and streets	-	-	-	33,575	33,575
Culture and recreation	-	-	-	20	20
Capital outlay	-	-	44,821	-	44,821
Unrestricted	58,237	-	-	-	58,237
Total cash and investment fund balance - ending	<u>\$ 58,237</u>	<u>\$ 52,294</u>	<u>\$ 44,821</u>	<u>\$ 52,981</u>	<u>\$ 208,333</u>

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

TOWN OF FARMERSBURG
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUND
As of and for the Year Ended December 31, 2009

	<u>Wastewater</u>
Operating receipts:	
Metered/measured	\$ 291,845
Fees	250
Miscellaneous	93,149
Total operating receipts	385,244
Operating disbursements:	
Salaries and wages	32,684
Material and supplies	106,427
Equipment and capital improvements	101,998
Miscellaneous	898,235
Total operating disbursements	1,139,344
Deficiency of operating receipts over operating disbursements	(754,100)
Capital contributions	821,854
Transfers in	150,000
Transfers out	(150,000)
Excess of receipts, contributions and transfers in over disbursements and transfers out	67,754
Cash and investment fund balance - beginning	210,225
Cash and investment fund balance - ending	\$ 277,979
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 15,611
Restricted assets:	
Cash and investments	262,368
Total cash and investment assets - December 31	\$ 277,979
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 259,866
Other purposes	2,502
Unrestricted	15,611
Total cash and investment fund balance - December 31	\$ 277,979

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

TOWN OF FARMERSBURG
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUND
As of and for the Year Ended December 31, 2010

	Wastewater
Operating receipts:	
Metered/measured	\$ 356,365
Operating disbursements:	
Material and supplies	35,506
Equipment and capital improvements	1,321,924
Miscellaneous	168,472
Total operating disbursements	1,525,902
Excess (deficiency) of operating receipts over operating disbursements	(1,169,537)
Capital contributions	1,300,722
Transfers in	180,000
Transfers out	(180,000)
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	131,185
Cash and investment fund balance - beginning	277,978
Cash and investment fund balance - ending	\$ 409,163
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ (34,026)
Restricted assets:	
Cash and investments	443,189
Total cash and investment assets - December 31	\$ 409,163
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 316,113
Other purposes	127,076
Unrestricted	(34,026)
Total cash and investment fund balance - December 31	\$ 409,163

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

TOWN OF FARMERSBURG
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUND
For The Year Ended December 31, 2009

	<u>Agency Funds</u>
Cash and investment fund balance - ending	<u>\$ 364</u>

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

TOWN OF FARMERSBURG
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUND
For The Year Ended December 31, 2010

	<u>Agency Funds</u>
Cash and investment fund balance - ending	<u>\$ 979</u>

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

TOWN OF FARMERSBURG
NOTES TO FINANCIAL STATEMENTS

I. 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 the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, general administrative services, and wastewater.

The Town's financial reporting entity is composed of the following:

Primary Government: Town of Farmersburg

In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Cumulative Capital Development Fund is used to account for receipts and disbursements of taxes levied under Indiana Code IC 36-9-15.5 for capital project uses.

The EDIT Tax Fund (capital projects) accounts for the Town's use of economic development income tax revenues.

The Town reports the following major enterprise fund:

The Wastewater Utility Fund accounts for the operation of the wastewater treatment plant, pumping stations, and collections systems.

TOWN OF FARMERSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the Town reports the following fund types:

The agency fund accounts for assets held by the Town as an agent for payroll.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, 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 cash and investment 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. Investment transactions are not presented on the financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Town and its enterprise funds. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The Town does not have any internal service funds.

When both restricted and unrestricted resources are available for use, the Town's policy is to use restricted resources first, then unrestricted resources as they are needed.

TOWN OF FARMERSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. Cash and Investments

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

3. Property Taxes

Normally, property taxes levied are collected by the County Treasurer and are distributed to the Town in June and in December. 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. Taxable property is assessed at 100% 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 may become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as a liability in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

TOWN OF FARMERSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.
4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

Government-Wide Financial Statements

Interfund activity, if any, is eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and

TOWN OF FARMERSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

G. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the Town submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. Prior to November 1, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the Town receives approval of the Indiana Department of Local Government Finance.

The Town's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Cash Balance Deficits

At December 31, 2009 and 2010, the following funds reported deficits in cash, which are violations of the Uniform Compliance Guidelines as authorized by state statute:

Fund	2009	2010
Sanitation	\$ 5,323	\$ -
Wastewater Operating	-	34,026

A cash and investment deficit arose primarily from disbursements exceeding receipts; these deficits will be repaid from future receipts.

TOWN OF FARMERSBURG
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. IC 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Town does not have a deposit policy for custodial credit risk. At December 31, 2010, the Town had deposit balances in the amount of \$618,476.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

IV. Other Information

A. Risk Management

The Town is 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, and dependents; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, and dependents; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Rate Structure – Enterprise Funds

Wastewater Utility

The current rate structure was approved by the Town Council on January 8, 2004.

C. Receipts Pledged

Wastewater Utility Receipts Pledged

The Town has pledged future wastewater customer receipts, net of specified operating expenditures, to repay revenue bonds issued in 1994. Proceeds from the bonds provided financing for improvements and extensions to wastewater utility. The bonds are payable solely from wastewater customer receipts net receipts and are payable through 2015. Annual principal and interest payments are expected to require less than 3.5% of net receipts.

The Town has pledged future wastewater customer receipts, net of specified operating expenditures, to repay revenue bonds issued in 2009. Proceeds from the bonds provided financing for wastewater utility upgrades. The bonds are payable solely from wastewater customer receipts net receipts and are payable through 2049. Annual principal and interest payments are expected to require less than 2.75% of net receipts.

TOWN OF FARMERSBURG
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009

	Motor Vehicle Highway	Local Road And Street	Riverboat	Law Enforcement	Levy Excess	EDIT Tax	Totals
Receipts:							
Taxes	\$ -	\$ 4,175	\$ -	\$ -	\$ -	\$ -	\$ 4,175
Licenses and permits	-	-	-	93	-	-	93
Intergovernmental	39,622	-	7,384	-	-	61,129	108,135
Other	1,750	-	-	-	-	-	1,750
Total receipts	<u>41,372</u>	<u>4,175</u>	<u>7,384</u>	<u>93</u>	<u>-</u>	<u>61,129</u>	<u>114,153</u>
Disbursements:							
General government	-	-	-	-	-	77,440	77,440
Public safety	-	-	-	148	-	-	148
Highways and streets	29,007	-	-	-	-	-	29,007
Capital outlay:							
General government	-	-	-	-	-	2,317	2,317
Highways and streets	7,507	5,428	-	-	-	-	12,935
Total disbursements	<u>36,514</u>	<u>5,428</u>	<u>-</u>	<u>148</u>	<u>-</u>	<u>79,757</u>	<u>121,847</u>
Excess (deficiency) of receipts over disbursements	<u>4,858</u>	<u>(1,253)</u>	<u>7,384</u>	<u>(55)</u>	<u>-</u>	<u>(18,628)</u>	<u>(7,694)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	4,858	(1,253)	7,384	(55)	-	(18,628)	(7,694)
Cash and investment fund balance - beginning	<u>27,525</u>	<u>1,937</u>	<u>-</u>	<u>874</u>	<u>2,091</u>	<u>33,287</u>	<u>65,714</u>
Cash and investment fund balance - ending	<u>\$ 32,383</u>	<u>\$ 684</u>	<u>\$ 7,384</u>	<u>\$ 819</u>	<u>\$ 2,091</u>	<u>\$ 14,659</u>	<u>\$ 58,020</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	<u>32,383</u>	<u>684</u>	<u>7,384</u>	<u>819</u>	<u>2,091</u>	<u>14,659</u>	<u>58,020</u>
Total cash and investment assets - ending	<u>\$ 32,383</u>	<u>\$ 684</u>	<u>\$ 7,384</u>	<u>\$ 819</u>	<u>\$ 2,091</u>	<u>\$ 14,659</u>	<u>\$ 58,020</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
General government	\$ -	\$ -	\$ 7,384	\$ -	\$ 2,091	\$ 14,659	\$ 24,134
Public safety	-	-	-	819	-	-	819
Highways and streets	32,383	684	-	-	-	-	33,067
Unrestricted	-	-	-	-	-	-	-
Total cash and investment fund balance - ending	<u>\$ 32,383</u>	<u>\$ 684</u>	<u>\$ 7,384</u>	<u>\$ 819</u>	<u>\$ 2,091</u>	<u>\$ 14,659</u>	<u>\$ 58,020</u>

TOWN OF FARMERSBURG
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2010

	Motor Vehicle	Local Roads And Streets	River Boat Revenue	Law Enforcement	Levy Excess
Receipts:					
Intergovernmental	\$ 39,584	\$ 388	\$ 7,384	\$ -	\$ -
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Other	271	4,341	-	1,300	-
Total receipts	39,855	4,729	7,384	1,300	-
Disbursements:					
General government	-	-	-	-	2,091
Highways and streets	36,954	-	-	-	-
Capital outlay:					
General government	-	-	-	-	-
Highways and streets	3,331	3,790	-	-	-
Total disbursements	40,285	3,790	-	-	2,091
Excess (deficiency) of receipts over disbursements	(430)	939	7,384	1,300	(2,091)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(430)	939	7,384	1,300	(2,091)
Cash and investment fund balance - beginning	32,382	684	7,384	818	2,091
Cash and investment fund balance - ending	<u>\$ 31,952</u>	<u>\$ 1,623</u>	<u>\$ 14,768</u>	<u>\$ 2,118</u>	<u>\$ -</u>
Cash and Investment Assets - Ending					
Restricted assets:					
Cash and investments	31,952	1,623	14,768	2,118	-
Total cash and investment assets - ending	<u>\$ 31,952</u>	<u>\$ 1,623</u>	<u>\$ 14,768</u>	<u>\$ 2,118</u>	<u>\$ -</u>
Cash and Investment Fund Balance - Ending					
Restricted for:					
General government	\$ -	\$ -	\$ 14,768	\$ -	\$ -
Public safety	-	-	-	2,118	-
Highways and streets	31,952	1,623	-	-	-
Culture and recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total cash and investment fund balance - ending	<u>\$ 31,952</u>	<u>\$ 1,623</u>	<u>\$ 14,768</u>	<u>\$ 2,118</u>	<u>\$ -</u>

TOWN OF FARMERSBURG
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2010
 (Continued)

	Docket Fees	Park And Recreation Improvements	Efficiency Grant	Police Car Payments	Totals
Receipts:					
Intergovernmental	\$ -	\$ -	\$ -	\$ -	47,356.00
Charges for services	-	20	-	-	20.00
Fines and forfeits	1,300	-	-	-	1,300.00
Other	-	-	36,164	1,200	43,275.56
Total receipts	<u>1,300</u>	<u>20</u>	<u>36,164</u>	<u>1,200</u>	<u>91,952</u>
Disbursements:					
General government	-	-	-	-	2,091
Highways and streets	-	-	-	-	36,954
Capital outlay:					
General government	-	-	36,164	-	36,164
Highways and streets	-	-	-	-	7,121
Total disbursements	<u>-</u>	<u>-</u>	<u>36,164</u>	<u>-</u>	<u>82,330</u>
Excess (deficiency) of receipts over disbursements	<u>1,300</u>	<u>20</u>	<u>-</u>	<u>1,200</u>	<u>9,622</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,300	20	-	1,200	9,622
Cash and investment fund balance - beginning	-	-	-	-	43,359
Cash and investment fund balance - ending	<u>\$ 1,300</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 1,200</u>	<u>\$ 52,981</u>
<u>Cash and Investment Assets - Ending</u>					
Restricted assets:					
Cash and investments	<u>1,300</u>	<u>20</u>	<u>-</u>	<u>1,200</u>	<u>52,981</u>
Total cash and investment assets - ending	<u>\$ 1,300</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 1,200</u>	<u>\$ 52,981</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ -	\$ 14,768
Public safety	1,300	-	-	1,200	4,618
Highways and streets	-	-	-	-	33,575
Culture and recreation	-	20	-	-	20
Capital outlay	-	-	-	-	-
Total cash and investment fund balance - ending	<u>\$ 1,300</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 1,200</u>	<u>\$ 52,981</u>

TOWN OF FARMERSBURG
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUND
 For The Year Ended December 31, 2009

	Payroll
Additions:	
Agency fund additions	\$ 19,988
Deductions:	
Agency fund deductions	19,624
Excess of total additions over total deductions	364
Cash and investment fund balance - beginning	-
Cash and investment fund balance - ending	\$ 364

TOWN OF FARMERSBURG
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUND
 For The Year Ended December 31, 2010

	Payroll Account
Additions:	
Agency fund additions	\$ 22,205
Deductions:	
Agency fund deductions	21,590
Excess of total additions over total deductions	615
Cash and investment fund balance - beginning	364
Cash and investment fund balance - ending	\$ 979

TOWN OF FARMERSBURG
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2010

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.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 5,000
Infrastructure	75,000
Buildings	60,000
Improvements other than buildings	12,000
Machinery and equipment	32,225
 Total governmental activities, capital assets not being depreciated	 \$ 184,225

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 20,000
Buildings	50,000
Improvements other than buildings	93,550
Machinery and equipment	50,000
 Total business-type activities, capital assets not being depreciated	 \$ 213,550

TOWN OF FARMERSBURG
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type activities:		
Wastewater Utility:		
Notes and loans payable:		
2005 Improvements	\$ 567,000	\$ 30,097
Revenue bonds:		
2009 Series B Bond	669,000	58,361
2009 Refunding Revenue Bonds	<u>385,000</u>	<u>16,450</u>
 Total Wastewater Utility	 <u>\$ 1,621,000</u>	 <u>\$ 104,908</u>

TOWN OF FARMERSBURG
AUDIT RESULTS AND COMMENTS

PRESCRIBED FORMS (Town and Utility)

The following prescribed or approved forms were not always in use:

Register of Investments, General Form 350
Employee's Service Record, General Form 99A

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS (Town and Utility)

We noted several deficiencies in the internal control system of the Town related to the bank reconciliation process that were considered to constitute a material weakness. The Clerk-Treasurer is responsible for reconciling the bank accounts to the Town's records each month. She also has the responsibility to write checks and post transactions to the ledger. There is no approval or oversight of the bank reconciliation once it is completed. The lack of oversight and approval of the bank reconciliation could allow misstatements to be undetected.

We recommended a Town Council member review, initial, and approve the bank reconciliations. Additionally, we recommended Town Council approval for any adjustments made to the ledger.

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

OFFICIAL BOND (Town)

Each official bond was issued as a continuous bond with the same bond number and not on an annual term with a new bond issued each year. The bond for the Town Council was not bound unto the State of Indiana.

IC 5-4-1-18(c)(1) states in part:

"The amount of annual coverage must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts . . ."

IC 5-4-1-10 states:

"All official bonds shall be payable to the state of Indiana; and every such bond shall be obligatory to such state, upon the principal and sureties, for the faithful discharge of all duties required of such officer by any law, then or subsequently in force, for the use of any person injured by any breach of the condition thereof."

TOWN OF FARMERSBURG
AUDIT RESULTS AND COMMENTS
(Continued)

INVESTMENT MATURITY LIMITATIONS (Utility)

The governmental unit purchased certain investments which have a stated maturity in excess of two years.

IC 5-13-9-5.6 states in part:

". . . investments made under this chapter must have a stated final maturity of not more than: . . . two (2) years . . . after the date of purchase or entry into a repurchase agreement."

OVERPAYMENT OF COMPENSATION AND BENEFITS (Town and Utility)

Our audit of payroll revealed employees were overpaid for compensation and benefits for 2009 and 2010 due to a calculation error. Employees were requested to reimburse the Town and Utility for the amount of overpayment. Reimbursements were as follows:

Cindy Davis,	03-10-11	Receipt 1552
John Woodruff	03-09-11	Receipt 1549
Mark Hauser	03-10-11	Receipt 1551
Woody Power III	03-09-11	Receipt 1550
Howard Thompson	03-10-11	Receipt 1553
James Bishop	03-14-11	Receipt 1554
Lynn Padgett	03-14-11	Receipt 1555

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALES TAX (Town and Utility)

Sales tax was paid on some purchases.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPORTING DOCUMENTATION (Town and Utility)

Several payments were observed which were not supported by adequate documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF FARMERSBURG
AUDIT RESULTS AND COMMENTS
(Continued)

PERSONAL EXPENSES (Town and Utility)

A review of credit card payments revealed that the Clerk-Treasurer was allowed to purchase items for personal use using the Town credit card. The Clerk-Treasurer was advised to reimburse the Town. On March 10, 2011, repayment was made by the Clerk-Treasurer (Receipt 1552).

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS (Town and Utility)

The Town and Wastewater Utility are using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF FARMERSBURG
AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES (Utility)

The cash balance of the Sanitation Fund was overdrawn at December 31, 2009. The cash balance of the Wastewater Operating Fund was overdrawn at December 31, 2010.

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 WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF FARMERSBURG, SULLIVAN COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Farmersburg (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2009 and 2010. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2009 and 2010.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A control deficiency in a Town's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 24, 2011

TOWN OF FARMERSBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2009 and 2010

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-09	Total Federal Awards Expended 12-31-10
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 821,800	\$ 486,200
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	DR2-09-011	-	814,480
Total federal awards expended			<u>\$ 821,800</u>	<u>\$ 1,300,680</u>

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

TOWN OF FARMERSBURG
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Farmersburg (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 the 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 FARMERSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

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

Auditee qualified as low-risk auditee? no

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

Section II – Financial Statement Findings

FINDING 2010-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTION
AND REPORTING – MATERIAL WEAKNESSES

We noted a deficiency in the internal control system of the Town related to the bank reconciliation process that was considered to be a material weakness. The Clerk-Treasurer is responsible for reconciling the bank accounts to the Town's records each month. She also has the responsibility to write checks and post transactions to the ledger. There is no approval or oversight of the bank reconciliation once it is completed. The lack of oversight and approval of the bank reconciliation could allow misstatements to be undetected.

We recommended a Town Council member review, initial, and approve the bank reconciliations. Additionally, we recommended Town Council approval for any adjustments made to the ledger.

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 control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF FARMERSBURG
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

March 7, 2011

FEDERAL FINDING 2010-1 CONTROLS OVER FINANCIAL
TRANSACTION AND REPORTING- MATERIAL WEAKNESS

Auditee Contact Person: Cindy Davis
Title of Contact Person: Clerk Treasurer
Phone Number: 812-696-2626
Expected Completion Date: March 2011

Corrective Action Planned:

The finding noted that there is no approval or oversight of the bank reconciliation once it is completed. We plan as of March 30, 2011 to change this by designating one of the Town council members as the person to oversee the bank reconciliation process. This council member will come into the office once a month, review the bank reconciliation performed by the Clerk-Treasurer, and initial the reconciliation's once he has approved them. If there are any problems or questions, this Council member can share them with the rest of the Town Council at the next meeting.

CLERK /TREASURER


CINDY DAVIS

TOWN OF FARMERSBURG
EXIT CONFERENCE

The contents of this report were discussed on March 24, 2011, with Cindy Davis, Clerk-Treasurer, and Woodrow Power III, President of the Town Council.