

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

ANNUAL FINANCIAL REPORT

2010

TOWN OF SHOALS

MARTIN COUNTY, INDIANA



FILED
08/10/2011

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards.....	3-4
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	5-6
Financial Statement(s): Statement(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	8
Notes to Financial Statement(s).....	9-13
Supplementary Information: Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	16-18
Schedule of Long-Term Debt	19
Audit Result(s) and Comment(s): Errors on Claims	20
Customer Deposit Register	
Capital Asset Records	
Delinquent Wastewater Accounts.....	21
Supplemental Audit of Federal Awards: 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.....	24-25
Schedule of Expenditures of Federal Awards	26
Note(s) to Schedule of Expenditures of Federal Awards	27
Schedule of Findings and Questioned Costs	28
Auditee Prepared Schedule(s): Summary Schedule of Prior Audit Findings	29
Exit Conference.....	30

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lori Butler	01-01-08 to 12-31-11
President of the Town Council	Cecil Ragsdale	01-01-10 to 12-31-11
Superintendent of Water and Wastewater Utilities	Kevin Crecelius	01-01-10 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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 SHOALS, MARTIN COUNTY, INDIANA

We have audited the accompanying financial statement of the Town of Shoals (Town), for the year ended December 31, 2010. This financial statement is the responsibility of the Town's management. Our responsibility is to express opinions 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 includes consideration of internal control over financial reporting as a basis for designing 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 over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As discussed in Note 1, the Town prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by 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.

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 year ended December 31, 2010, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated July 21, 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.

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.

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

Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statement. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis and Schedule of Long-Term Debt 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.

This report is intended solely for the information and use of the Town's management, the 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

July 21, 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 SHOALS, MARTIN COUNTY, INDIANA

We have audited the financial statement of the Town of Shoals (Town), for the year ended December 31, 2010, and have issued our report thereon dated July 21, 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 statement, 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.

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.

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

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)

Compliance and Other Matters

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

This report is intended solely for the information and use of the Town's management, the 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

July 21, 2011

FINANCIAL STATEMENT(S)

TOWN OF SHOALS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General	\$ 170,373	\$ 346,431	\$ 295,776	\$ 221,028
Motor Vehicle Highway	41,065	39,861	30,295	50,631
Local Road And Street	6,630	9,052	10,984	4,698
Law Enforcement Continuing Education	2,872	150	147	2,875
Riverboat	5,050	5,050	-	10,100
Fire Donation	1,103	525	1,627	1
Park Donation	381	200	-	581
Rainy Day	15,962	7,778	2,975	20,765
Levy Excess	-	442	-	442
Fire Station Project	-	367,667	367,667	-
Down Town Project	-	294,607	293,107	1,500
County Economic Development Income Tax	40,512	34,784	24,640	50,656
Cumulative Capital Improvement	9,970	2,363	-	12,333
Cemetery Trust	1,500	-	-	1,500
Payroll	(43)	195,755	195,420	292
Wastewater Utility-Operating	172,260	187,554	160,227	199,587
Wastewater Utility-Bond And Interest	35,692	33,601	39,488	29,805
Wastewater Utility-Debt Reserve	6,555	3,504	-	10,059
Water Utility-Operating	43,857	126,883	123,761	46,979
Water Utility-Depreciation/Improvement	20,521	220	-	20,741
Water Utility-Customer Deposit	29,148	5,404	3,675	30,877
Totals	<u>\$ 603,408</u>	<u>\$ 1,661,831</u>	<u>\$ 1,549,789</u>	<u>\$ 715,450</u>

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

TOWN OF SHOALS
NOTES TO FINANCIAL STATEMENT(S)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The Town was established under the laws of the State of Indiana. The Town operates under an appointed governing board.

The accompanying financial statement(s) present(s) the financial information for the Town (primary government), and does not include financial information for any of the Town's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the Town (primary government).

B. Basis of Accounting

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

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

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

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

TOWN OF SHOALS
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

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

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, 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.

TOWN OF SHOALS
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

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

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

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

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

F. Interfund Transfers

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

G. Fund Accounting

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

Note 2. Budgets

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

TOWN OF SHOALS
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Note 3. Property Taxes

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

Note 4. Deposits and Investments

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

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

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. These risks may also be mitigated by the Town by recording as a disbursement and replacement items purchased.

Note 6. Pension Plan(s)

A. 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 PERF Board, most requirements of the system, and give the Town authority to

TOWN OF SHOALS
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

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.

PERF 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:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town of Shoals' Annual Report(s) can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

TOWN OF SHOALS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Education	Riverboat	Fire Donation	Park Donation	Rainy Day
Cash and investments - beginning	\$ 170,373	\$ 41,065	\$ 6,630	\$ 2,872	\$ 5,050	\$ 1,103	\$ 381	\$ 15,962
Receipts:								
Taxes	184,526	16,333	-	-	-	-	-	-
Licenses and permits	-	-	-	150	-	-	-	-
Intergovernmental	99,358	23,484	3,884	-	5,050	-	-	7,778
Charges for services	27,575	-	240	-	-	-	-	-
Fines and forfeits	419	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	34,553	44	4,928	-	-	525	200	-
Total receipts	346,431	39,861	9,052	150	5,050	525	200	7,778
Disbursements:								
Personal services	130,170	17,122	-	-	-	-	-	-
Supplies	13,204	10,000	6,140	-	-	1,627	-	-
Other services and charges	100,109	3,129	4,095	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	22,127	-	-	147	-	-	-	2,975
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	30,166	44	749	-	-	-	-	-
Total disbursements	295,776	30,295	10,984	147	-	1,627	-	2,975
Excess (deficiency) of receipts over disbursements	50,655	9,566	(1,932)	3	5,050	(1,102)	200	4,803
Cash and investments - ending	\$ 221,028	\$ 50,631	\$ 4,698	\$ 2,875	\$ 10,100	\$ 1	\$ 581	\$ 20,765

TOWN OF SHOALS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Levy Excess	Fire Station Project	Down Town Project	County Economic Development Income Tax	Cumulative Capital Improvement	Cemetery Trust	Payroll
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 40,512	\$ 9,970	\$ 1,500	\$ (43)
Receipts:							
Taxes	442	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	367,667	294,607	19,940	2,363	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	14,844	-	-	195,755
Total receipts	<u>442</u>	<u>367,667</u>	<u>294,607</u>	<u>34,784</u>	<u>2,363</u>	<u>-</u>	<u>195,755</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	367,667	293,107	24,640	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	195,420
Total disbursements	<u>-</u>	<u>367,667</u>	<u>293,107</u>	<u>24,640</u>	<u>-</u>	<u>-</u>	<u>195,420</u>
Excess (deficiency) of receipts over disbursements	<u>442</u>	<u>-</u>	<u>1,500</u>	<u>10,144</u>	<u>2,363</u>	<u>-</u>	<u>335</u>
Cash and investments - ending	<u>\$ 442</u>	<u>\$ -</u>	<u>\$ 1,500</u>	<u>\$ 50,656</u>	<u>\$ 12,333</u>	<u>\$ 1,500</u>	<u>\$ 292</u>

TOWN OF SHOALS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Wastewater Utility-Operating	Wastewater Utility-Bond And Interest	Wastewater Utility-Debt Reserve	Water Utility-Operating	Water Utility-Depreciation/ Improvement	Water Utility-Customer Deposit	Totals
Cash and investments - beginning	\$ 172,260	\$ 35,692	\$ 6,555	\$ 43,857	\$ 20,521	\$ 29,148	\$ 603,408
Receipts:							
Taxes	-	-	-	-	-	-	201,301
Licenses and permits	-	-	-	-	-	-	150
Intergovernmental	-	-	-	1,249	-	-	825,380
Charges for services	-	-	-	-	-	-	27,815
Fines and forfeits	-	-	-	-	-	-	419
Utility fees	184,095	-	-	109,891	-	-	293,986
Other receipts	3,459	33,601	3,504	15,743	220	5,404	312,780
Total receipts	<u>187,554</u>	<u>33,601</u>	<u>3,504</u>	<u>126,883</u>	<u>220</u>	<u>5,404</u>	<u>1,661,831</u>
Disbursements:							
Personal services	-	-	-	-	-	-	147,292
Supplies	-	-	-	-	-	-	30,971
Other services and charges	-	-	-	-	-	-	107,333
Debt service - principal and interest	37,104	39,488	-	-	-	-	76,592
Capital outlay	10,000	-	-	-	-	-	720,663
Utility operating expenses	107,865	-	-	118,434	-	3,675	229,974
Other disbursements	5,258	-	-	5,327	-	-	236,964
Total disbursements	<u>160,227</u>	<u>39,488</u>	<u>-</u>	<u>123,761</u>	<u>-</u>	<u>3,675</u>	<u>1,549,789</u>
Excess (deficiency) of receipts over disbursements	<u>27,327</u>	<u>(5,887)</u>	<u>3,504</u>	<u>3,122</u>	<u>220</u>	<u>1,729</u>	<u>112,042</u>
Cash and investments - ending	<u>\$ 199,587</u>	<u>\$ 29,805</u>	<u>\$ 10,059</u>	<u>\$ 46,979</u>	<u>\$ 20,741</u>	<u>\$ 30,877</u>	<u>\$ 715,450</u>

TOWN OF SHOALS
 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 Due Within One Year
Wastewater Utility:		
Revenue bonds:		
2003 Wastewater Improvements	\$ 673,000	\$ 10,000

TOWN OF SHOALS
AUDIT RESULT(S) AND COMMENT(S)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period:

1. Claims were not adequately itemized.
2. All claims were not certified by the Clerk-Treasurer.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

A similar comment appeared in the prior report.

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger.

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

A similar comment appeared in the prior report.

TOWN OF SHOALS
AUDIT RESULT(S) AND COMMENT(S)
(Continued)

CAPITAL ASSET RECORDS

The Town and Utilities do not maintain capital asset records.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) the amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

A similar comment appeared in the prior report.

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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
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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 SHOALS, MARTIN COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Shoals (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 program(s) for the year ended December 31, 2010. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program 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 program for the year ended December 31, 2010.

Internal Control Over Compliance

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 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.

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 deficiency in 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 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.

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

This report is intended solely for the information and use of the Town's management, the Town Council, others within the entity, 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

July 21, 2011

TOWN OF SHOALS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Office of Community and Rural Affairs			
CDBG - State-Administered Small Cities Program Cluster			
Community Development Block Grants/State's Program			
and Non-Entitlement Grants in Hawaii	14.228		
		DR2-09-044	\$ 293,107
		DR2-09-049	<u>367,667</u>
Total federal awards expended			<u>\$ 660,774</u>

The accompanying note(s) are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF SHOALS
NOTE(S) TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Shoals (Town) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of Towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF SHOALS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement(s):

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	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:

_____ Name of Federal Program or Cluster

CDBG - State-Administered Small Cities Program Cluster

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF SHOALS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF SHOALS
EXIT CONFERENCE

The contents of this report were discussed on July 21, 2011, with Lori Butler, Clerk-Treasurer, and Cecil Ragsdale, President of the Town Council.