

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

TOWN OF LAPEL  
MADISON COUNTY, INDIANA

January 1, 2011 to December 31, 2012



**FILED**  
09/09/2013



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Thomas G. Tudor	01-01-08 to 12-31-15
President of the Town Council	Gary Shuck	01-01-11 to 12-31-13



## INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF LAPEL, MADISON COUNTY, INDIANA

### ***Report on the Financial Statement***

We have audited the accompanying financial statement of the Town of Lapel (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As discussed in Note 1 of the financial statement, the Town prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012.

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated July 11, 2013, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

***Accompanying Information***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, and Schedule of Leases and Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman  
State Examiner

July 11, 2013



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE TOWN OF LAPEL, MADISON COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Town of Lapel (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated July 11, 2013, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be significant deficiencies

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2.

***Town of Lapel's Response to Findings***

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman  
State Examiner

July 11, 2013

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## FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Town. The financial statement and notes are presented as intended by the Town.

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TOWN OF LAPEL  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments			Cash and Investments			Cash and Investments
	01-01-11	Receipts	Disbursements	12-31-11	Receipts	Disbursements	
General	\$ 16,043	\$ 683,488	\$ 657,738	\$ 41,793	\$ 692,330	\$ 636,506	\$ 97,617
Motor Vehicle Highway	27,199	84,695	103,743	8,151	116,539	89,187	35,503
Local Road And Street	2,631	17,919	19,034	1,516	24,908	11,286	15,138
Law Enforcement Continuing Ed	5,357	7,663	9,347	3,673	8,318	4,670	7,321
Parks And Recreation	1,824	21,623	17,288	6,159	12,362	11,238	7,283
Rainy Day	49,892	7,500	19,809	37,583	25,520	31,880	31,223
Food And Beverage Tax	31,000	180	-	31,180	85,084	-	116,264
Cumulative Capl Imprv Cigarette Tax	43,027	5,672	3,165	45,534	8,958	3,776	50,716
Cumulative Fire	31,293	1,244	32,537	-	-	-	-
Park Donations	588	-	-	588	22,000	12,408	10,180
Farmers Market	190	390	280	300	-	-	300
Spl Fire Territory General	-	104,163	104,163	-	147,089	147,089	-
Spl Fire Territory Equip Replace	-	31,656	31,656	-	49,853	49,853	-
Office Cash	800	-	-	800	-	-	800
Payroll	7,609	530,811	530,255	8,165	539,396	544,241	3,320
Wastewater Utility-Operating	36,655	547,211	471,146	112,720	772,021	621,152	263,589
Wastewater Utility-Customer Deposit	5,904	410	328	5,986	246	246	5,986
Wastewater Sinking	422,258	223,944	223,844	422,358	453,012	452,958	422,412
Wastewater Improvements	151,430	27,538	-	178,968	26,719	25,106	180,581
Wastewater-Cash Reserve	13,980	86,920	100,900	-	140,545	131,256	9,289
Wastewater Impact Fees	8,670	2,076	-	10,746	2,029	2,053	10,722
Water Work In Progress	-	200,348	200,348	-	1,457,439	1,457,439	-
Water Utility-Operating	34,217	615,263	555,678	93,802	2,032,584	2,098,234	28,152
Water Utility-Customer Deposit	13,570	2,040	1,670	13,940	1,695	1,300	14,335
Water Utility B&I Sinking	154,950	82,752	75,192	162,510	125,923	75,528	212,905
Water Utility Improvements	2,140	12,039	-	14,179	59,171	58,950	14,400
Water Meter Replacements	59,075	485	-	59,560	15,344	814	74,090
Water Well Maint	3,619	6,039	-	9,658	10,427	9,373	10,712
Water Impact Fees	85,416	2,559	64,416	23,559	4,179	2,116	25,622
Water Tower Maint	60,104	5,575	4,991	60,688	6,953	-	67,641
Gas Utility-Operating	90,513	704,184	713,855	80,842	723,144	700,600	103,386
Gas Utility Construction In Progress	-	48,485	48,485	-	-	-	-
Gas Customer Deposits	37,891	5,105	10,376	32,620	4,675	2,884	34,411
Gas-Cash Reserve	353	197,666	198,019	-	153,715	153,121	594
Gas Meter Replacements	4,149	7,847	-	11,996	16,318	12,599	15,715
Storm Water Operating	-	3,452	3,452	-	58,870	51,332	7,538
Totals	<u>\$ 1,402,347</u>	<u>\$ 4,278,942</u>	<u>\$ 4,201,715</u>	<u>\$ 1,479,574</u>	<u>\$ 7,797,366</u>	<u>\$ 7,399,195</u>	<u>\$ 1,877,745</u>

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

TOWN OF LAPEL  
NOTES TO FINANCIAL STATEMENT

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

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

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

*B. Basis of Accounting*

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

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

*C. Cash and Investments*

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

*D. Receipts*

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

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

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

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

TOWN OF LAPEL  
NOTES TO FINANCIAL STATEMENT  
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

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

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

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

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

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

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

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.

TOWN OF LAPEL  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*F. Interfund Transfers*

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

*G. Fund Accounting*

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

**Note 2. Budgets**

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

**Note 3. Property Taxes**

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

**Note 4. Deposits and Investments**

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

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.

TOWN OF LAPEL  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**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, and natural disasters.

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

**Note 6. Pension Plan**

*Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy and Annual Pension Cost*

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

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## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's Annual Reports information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Town which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF LAPEL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Ed	Parks And Recreation	Rainy Day	Food And Beverage Tax	Cumulative Capl Imprv Cigarette Tax	Cumulative Fire	Park Donations
Cash and investments - beginning	\$ 16,043	\$ 27,199	\$ 2,631	\$ 5,357	\$ 1,824	\$ 49,892	\$ 31,000	\$ 43,027	\$ 31,293	\$ 588
Receipts:										
Taxes	199,025	34,122	-	-	16,022	-	-	-	1,169	-
Licenses and permits	4,974	-	-	1,045	-	-	-	-	-	-
Intergovernmental	237,188	50,452	16,118	-	2,101	-	-	5,328	-	-
Charges for services	116,462	-	-	-	-	-	-	-	-	-
Fines and forfeits	890	-	-	478	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-	-
Other receipts	124,949	121	1,801	6,140	3,500	7,500	180	344	75	-
Total receipts	683,488	84,695	17,919	7,663	21,623	7,500	180	5,672	1,244	-
Disbursements:										
Personal services	259,618	16,688	-	-	4,460	-	-	-	-	-
Supplies	23,758	4,273	-	-	20	-	-	-	-	-
Other services and charges	164,336	20,633	-	9,347	5,735	19,809	-	3,165	-	-
Capital outlay	40,456	62,149	19,034	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-	-
Other disbursements	169,570	-	-	-	7,073	-	-	-	32,537	-
Total disbursements	657,738	103,743	19,034	9,347	17,288	19,809	-	3,165	32,537	-
Excess (deficiency) of receipts over disbursements	25,750	(19,048)	(1,115)	(1,684)	4,335	(12,309)	180	2,507	(31,293)	-
Cash and investments - ending	\$ 41,793	\$ 8,151	\$ 1,516	\$ 3,673	\$ 6,159	\$ 37,583	\$ 31,180	\$ 45,534	\$ -	\$ 588

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

	Farmers Market	Spl Fire Territory General	Spl Fire Territory Equip Replace	Office Cash	Payroll	Wastewater Utility-Operating	Wastewater Utility-Customer Deposit	Wastewater Sinking	Wastewater Improvements
Cash and investments - beginning	\$ 190	\$ -	\$ -	\$ 800	\$ 7,609	\$ 36,655	\$ 5,904	\$ 422,258	\$ 151,430
Receipts:									
Taxes	-	95,490	28,727	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	8,673	2,929	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	534,203	-	-	-
Other receipts	390	-	-	-	530,811	13,008	410	223,944	27,538
Total receipts	<u>390</u>	<u>104,163</u>	<u>31,656</u>	<u>-</u>	<u>530,811</u>	<u>547,211</u>	<u>410</u>	<u>223,944</u>	<u>27,538</u>
Disbursements:									
Personal services	-	-	-	-	530,255	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	317,117	-	-	-
Other disbursements	280	104,163	31,656	-	-	154,029	328	223,844	-
Total disbursements	<u>280</u>	<u>104,163</u>	<u>31,656</u>	<u>-</u>	<u>530,255</u>	<u>471,146</u>	<u>328</u>	<u>223,844</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>556</u>	<u>76,065</u>	<u>82</u>	<u>100</u>	<u>27,538</u>
Cash and investments - ending	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 800</u>	<u>\$ 8,165</u>	<u>\$ 112,720</u>	<u>\$ 5,986</u>	<u>\$ 422,358</u>	<u>\$ 178,968</u>

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

	Wastewater-Cash Reserve	Wastewater Impact Fees	Water Work In Progress	Water Utility-Operating	Water Utility-Customer Deposit	Water Utility B&I Sinking	Water Utility Improvements	Water Meter Replacements	Water Well Maint
Cash and investments - beginning	\$ 13,980	\$ 8,670	\$ -	\$ 34,217	\$ 13,570	\$ 154,950	\$ 2,140	\$ 59,075	\$ 3,619
Receipts:									
Taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	2,000	-	517,655	-	-	-	-	-
Other receipts	86,920	76	200,348	97,608	2,040	82,752	12,039	485	6,039
Total receipts	86,920	2,076	200,348	615,263	2,040	82,752	12,039	485	6,039
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	200,348	187,129	-	-	-	-	-
Other disbursements	100,900	-	-	368,549	1,670	75,192	-	-	-
Total disbursements	100,900	-	200,348	555,678	1,670	75,192	-	-	-
Excess (deficiency) of receipts over disbursements	(13,980)	2,076	-	59,585	370	7,560	12,039	485	6,039
Cash and investments - ending	\$ -	\$ 10,746	\$ -	\$ 93,802	\$ 13,940	\$ 162,510	\$ 14,179	\$ 59,560	\$ 9,658

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

	Water Impact Fees	Water Tower Maint	Gas Utility-Operating	Gas Utility Construction In Progress	Gas Customer Deposits	Gas-Cash Reserve	Gas Meter Replacements	Storm Water Operating	Totals
Cash and investments - beginning	\$ 85,416	\$ 60,104	\$ 90,513	\$ -	\$ 37,891	\$ 353	\$ 4,149	\$ -	\$ 1,402,347
Receipts:									
Taxes	-	-	-	-	-	-	-	-	374,555
Licenses and permits	-	-	-	-	-	-	-	-	6,019
Intergovernmental	-	-	-	-	-	-	-	-	322,789
Charges for services	-	-	-	-	-	-	-	-	116,462
Fines and forfeits	-	-	-	-	-	-	-	-	1,368
Utility fees	-	-	701,056	-	-	-	-	-	1,754,914
Other receipts	2,559	5,575	3,128	48,485	5,105	197,666	7,847	3,452	1,702,835
Total receipts	2,559	5,575	704,184	48,485	5,105	197,666	7,847	3,452	4,278,942
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	811,021
Supplies	-	-	-	-	-	-	-	-	28,051
Other services and charges	-	-	-	-	-	-	-	-	223,025
Capital outlay	-	-	-	-	-	-	-	-	121,639
Utility operating expenses	-	-	638,619	8,146	-	-	-	3,452	1,354,811
Other disbursements	64,416	4,991	75,236	40,339	10,376	198,019	-	-	1,663,168
Total disbursements	64,416	4,991	713,855	48,485	10,376	198,019	-	3,452	4,201,715
Excess (deficiency) of receipts over disbursements	(61,857)	584	(9,671)	-	(5,271)	(353)	7,847	-	77,227
Cash and investments - ending	\$ 23,559	\$ 60,688	\$ 80,842	\$ -	\$ 32,620	\$ -	\$ 11,996	\$ -	\$ 1,479,574

TOWN OF LAPEL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Ed	Parks And Recreation	Rainy Day	Food And Beverage Tax	Cumulative Capl Imprv Cigarette Tax	Cumulative Fire	Park Donations
Cash and investments - beginning	\$ 41,793	\$ 8,151	\$ 1,516	\$ 3,673	\$ 6,159	\$ 37,583	\$ 31,180	\$ 45,534	\$ -	\$ 588
Receipts:										
Taxes	198,194	34,488	-	-	9,871	-	-	-	-	-
Licenses and permits	9,582	-	-	1,210	-	-	-	-	-	-
Intergovernmental	270,656	53,107	17,266	-	2,491	-	-	5,484	-	-
Charges for services	109,505	-	-	28	-	-	-	-	-	-
Fines and forfeits	1,003	-	-	479	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-	-
Other receipts	103,390	28,944	7,642	6,601	-	25,520	85,084	3,474	-	22,000
Total receipts	692,330	116,539	24,908	8,318	12,362	25,520	85,084	8,958	-	22,000
Disbursements:										
Personal services	262,241	31,885	-	-	3,017	-	-	-	-	-
Supplies	27,255	528	-	-	1,449	-	-	-	-	-
Other services and charges	165,522	21,819	-	4,670	-	12,746	-	425	-	12,408
Capital outlay	12,343	9,192	3,655	-	6,772	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-	-
Other disbursements	169,145	25,763	7,631	-	-	19,134	-	3,351	-	-
Total disbursements	636,506	89,187	11,286	4,670	11,238	31,880	-	3,776	-	12,408
Excess (deficiency) of receipts over disbursements	55,824	27,352	13,622	3,648	1,124	(6,360)	85,084	5,182	-	9,592
Cash and investments - ending	\$ 97,617	\$ 35,503	\$ 15,138	\$ 7,321	\$ 7,283	\$ 31,223	\$ 116,264	\$ 50,716	\$ -	\$ 10,180

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

	Farmers Market	Spl Fire Territory General	Spl Fire Territory Equip Replace	Office Cash	Payroll	Wastewater Utility-Operating	Wastewater Utility-Customer Deposit	Wastewater Sinking	Wastewater Improvements
Cash and investments - beginning	\$ 300	\$ -	\$ -	\$ 800	\$ 8,165	\$ 112,720	\$ 5,986	\$ 422,358	\$ 178,968
Receipts:									
Taxes	-	134,051	45,796	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	13,036	4,057	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	578,145	246	-	-
Other receipts	-	2	-	-	539,396	193,876	-	453,012	26,719
Total receipts	-	147,089	49,853	-	539,396	772,021	246	453,012	26,719
Disbursements:									
Personal services	-	-	-	-	371,315	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	7,061	-	-	-	-
Capital outlay	-	-	-	-	-	20,372	-	-	-
Utility operating expenses	-	-	-	-	-	243,188	246	-	11,122
Other disbursements	-	147,089	49,853	-	165,865	357,592	-	452,958	13,984
Total disbursements	-	147,089	49,853	-	544,241	621,152	246	452,958	25,106
Excess (deficiency) of receipts over disbursements	-	-	-	-	(4,845)	150,869	-	54	1,613
Cash and investments - ending	\$ 300	\$ -	\$ -	\$ 800	\$ 3,320	\$ 263,589	\$ 5,986	\$ 422,412	\$ 180,581

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

	Wastewater-Cash Reserve	Wastewater Impact Fees	Water Work In Progress	Water Utility-Operating	Water Utility-Customer Deposit	Water Utility B&I Sinking	Water Utility Improvements	Water Meter Replacements	Water Well Maint
Cash and investments - beginning	\$ -	\$ 10,746	\$ -	\$ 93,802	\$ 13,940	\$ 162,510	\$ 14,179	\$ 59,560	\$ 9,658
Receipts:									
Taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	2,000	-	497,193	1,695	-	-	-	-
Other receipts	140,545	29	1,457,439	1,535,391	-	125,923	59,171	15,344	10,427
Total receipts	140,545	2,029	1,457,439	2,032,584	1,695	125,923	59,171	15,344	10,427
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	20,374	-	-	-	-	-
Utility operating expenses	-	-	1,457,439	264,912	-	-	37,463	814	9,373
Other disbursements	131,256	2,053	-	1,812,948	1,300	75,528	21,487	-	-
Total disbursements	131,256	2,053	1,457,439	2,098,234	1,300	75,528	58,950	814	9,373
Excess (deficiency) of receipts over disbursements	9,289	(24)	-	(65,650)	395	50,395	221	14,530	1,054
Cash and investments - ending	\$ 9,289	\$ 10,722	\$ -	\$ 28,152	\$ 14,335	\$ 212,905	\$ 14,400	\$ 74,090	\$ 10,712

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

	Water Impact Fees	Water Tower Maint	Gas Utility-Operating	Gas Utility Construction In Progress	Gas Customer Deposits	Gas-Cash Reserve	Gas Meter Replacements	Storm Water Operating	Totals
Cash and investments - beginning	\$ 23,559	\$ 60,688	\$ 80,842	\$ -	\$ 32,620	\$ -	\$ 11,996	\$ -	\$ 1,479,574
Receipts:									
Taxes	-	-	-	-	-	-	-	-	422,400
Licenses and permits	-	-	-	-	-	-	-	-	10,792
Intergovernmental	-	-	-	-	-	-	-	-	366,097
Charges for services	-	-	-	-	-	-	-	-	109,533
Fines and forfeits	-	-	-	-	-	-	-	-	1,482
Utility fees	2,000	-	522,131	-	4,675	-	-	23,572	1,631,657
Other receipts	2,179	6,953	201,013	-	-	153,715	16,318	35,298	5,255,405
Total receipts	4,179	6,953	723,144	-	4,675	153,715	16,318	58,870	7,797,366
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	668,458
Supplies	-	-	-	-	-	-	-	-	29,232
Other services and charges	-	-	-	-	-	-	-	-	224,651
Capital outlay	-	-	20,375	-	-	-	-	-	93,083
Utility operating expenses	-	-	509,226	-	-	-	-	50,112	2,583,895
Other disbursements	2,116	-	170,999	-	2,884	153,121	12,599	1,220	3,799,876
Total disbursements	2,116	-	700,600	-	2,884	153,121	12,599	51,332	7,399,195
Excess (deficiency) of receipts over disbursements	2,063	6,953	22,544	-	1,791	594	3,719	7,538	398,171
Cash and investments - ending	\$ 25,622	\$ 67,641	\$ 103,386	\$ -	\$ 34,411	\$ 594	\$ 15,715	\$ 7,538	\$ 1,877,745

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TOWN OF LAPEL  
SCHEDULE OF LEASES AND DEBT  
December 31, 2012

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
General obligation bonds	Berkadia	\$ 108,000	\$ 30,600
General obligation bonds	92-01 RD	1,501,000	98,298
General obligation bonds	92-03 RD	50,700	3,182
General obligation bonds	92-05 RD	<u>1,649,000</u>	<u>92,021</u>
Total Wastewater		<u>3,308,700</u>	<u>224,101</u>
Water:			
General obligation bonds	91-02	1,144,000	76,240
General obligation bonds	91-06	<u>1,252,000</u>	<u>23,920</u>
Total Water		<u>2,396,000</u>	<u>100,160</u>
Totals		<u>\$ 5,704,700</u>	<u>\$ 324,261</u>

TOWN OF LAPEL  
AUDIT RESULTS AND COMMENTS

***BANK ACCOUNT RECONCILIATIONS***

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliation as presented contained errors and did not balance as of December 31, 2012. We identified a receipt for \$64,073 which was not posted to the computer system in 2012. The error was not identified by the Town during the bank reconcilments for September 2012 to April 2013.

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

***ANNUAL REPORT***

A number of deficiencies were identified with the 2011 and 2012 Annual Reports for the Town as indicated below:

- The 2011 and 2012 Annual Reports did not include any capital asset information. The Town is not maintaining any capital asset information.
- The Town did not report any accounts receivable or accounts payables information in the 2011 or 2012 Annual Reports, as required.
- In the 2012 Annual Report, the Town reported \$407,000 for receipts and \$381,536 in federal disbursements. The actual federal activity for 2012 which should have been reported was \$1,448,600 in receipts and \$1,442,548 in disbursements.

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

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

***SUPPORTING DOCUMENTATION***

We observed credit card disbursements for two vendors that were paid from itemized statements with no receipts or shipping documents attached. Of the credit card transactions tested, 82 percent of the transactions were paid based on a statement and not an itemized receipt.

TOWN OF LAPEL  
AUDIT RESULTS AND COMMENTS  
(Continued)

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)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE TOWN OF LAPEL, MADISON COUNTY, INDIANA

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

We have audited the Town of Lapel's (Town) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2011 to December 31, 2012. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

***Basis for Qualified Opinion on Water and Waste Disposal Loans and Grants (Section 306C)***

As described in items 2012-3 and 2012-4 in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding Reporting and Equipment and Real Property Management that are applicable to its Water and Waste Disposal Loans and Grants (Section 306C). Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

***Qualified Opinion on Water and Waste Disposal Loans and Grants (Section 306C)***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Water and Waste Disposal Loans and Grants (Section 306C) for the period of January 1, 2011 to December 31, 2012.

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

***Other Matters***

The Town's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control Over Compliance***

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-3 and 2012-4 to be material weaknesses.

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman  
State Examiner

July 11, 2013

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#### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

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TOWN OF LAPEL  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Years Ended December 31, 2011 and 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>Department of Agriculture</u>					
Water and Waste Disposal Loans and Grants (Section 306C)	Direct				
Water Project		10.770	91-06	<u>\$ 103,955</u>	<u>\$ 1,442,548</u>

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

TOWN OF LAPEL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

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

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

**Note 2. Loans Outstanding**

The Town had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2011 and 2012. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2011	2012
Water and Waste Disposal Loans and Grants (Section 306C)	10.770	\$ 103,955	\$ 1,252,000

TOWN OF LAPEL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	yes
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

CFDA Number	Name of Federal Program or Cluster
10.770	Water and Waste Disposal Loans and Grants (Section 306C)

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

Auditee qualified as low-risk auditee? no

**Section II – Financial Statement Findings**

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

Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statement and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements.

We noted the following deficiency in the internal control system of the Town related to the procedures in the completion of the bank reconciliation, which we believe constitutes a significant deficiency:

We identified a receipt for \$64,073 which was not posted to the computer system in 2012. The error was not identified by the Town during the bank reconciliations from September 2012 to May 2013.

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

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

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***FINDING 2012-2 - LACK OF CONTROLS OVER PREPARATION OF THE SEFA***

The Schedule of Expenditures of Federal Awards (SEFA) is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, and Local Governments, and Non-Profit Organizations for entities receiving federal funds in excess of \$500,000 in order to summarize the use of federal monies received. The Town did not have a proper system of internal control in place to prevent or detect and correct errors on the SEFA.

The Town reported federal grant activity for 2012 in the amount of \$407,000 in receipts and \$381,536 in federal disbursements. The actual amount of activity for 2012 was \$1,448,600 in receipts and \$1,442,548 in disbursements.

The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

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

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section. 300 states in part: "The auditee shall . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section.310."

OMB Circular A-133, Subpart C, section. 310(b) states:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

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

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision I the Department of Health and Human Services.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

***Section III – Federal Award Findings and Questioned Costs***

***FINDING 2012-3 - REPORTING***

Federal Agency: Department of Agriculture  
Federal Program: Water and Waste Disposal Loans and Grants (Section 306C)  
CFDA Number: 10.770  
Federal Award Number and Year (or Other Identifying Number): 92-06

Management of the Town of Lapel has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and compliance requirements that have a direct and material effect to the program. A material weakness was identified within the Town of Lapel's reporting process during the audit of Water and Waste Disposal Loans and Grants. The Town did not submit the required annual management report until notified by Rural Development on April 25, 2013. There were not any controls in place to ensure that the report had been filed timely.

7 CFR 1780.47(f)(2) states: "Annual management reports. Prior to the beginning of each fiscal year the following will be submitted to the processing office. . . .

- (i) Two copies of the management reports and proposed "Annual Budget".
- (ii) Financial information may be reported on Form RD 442–2 which includes Schedule 1, "Statement of Budget, Income and Equity" and Schedule 2, "Projected Cash Flow" or information in similar format.
- (iii) A copy of the rate schedule in effect at the time of submission."

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

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Town.

We recommended that the Town implement proper controls and procedures to ensure compliance with reporting requirements pertaining to the grant.

***FINDING 2012-4 - EQUIPMENT AND REAL PROPERTY MANAGEMENT***

Federal Agency: Department of Agriculture  
Federal Program: Water and Waste Disposal Loans and Grants (Section 306C)  
CFDA Number: 10.770  
Federal Award Number and Year (or Other Identifying Number): 92-06

Management of the Town of Lapel has not established an effective internal control system related to Equipment and Real Property Management that has a direct and material effect to the program. An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with Equipment and Real Property Management compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis.

The Town of Lapel has not established capital asset records for the various utilities of the Town. The cost of equipment purchased with this federal grant was not easily determinable as the equipment purchases were just included in the overall bid and paid to the various engineers as part of construction. No capital asset records exist for the Town's utilities.

7 CFR 3016.32 states in part:

"(d) *Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

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

- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Town.

We recommended that the Town implement proper controls and procedures to ensure that equipment and real property are adequately accounted for as required by federal requirements.

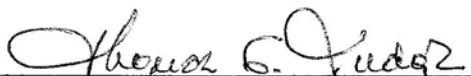
Section 2 Lapel Response  
Finding 2012-1  
Internal Controls Over Financial Transactions And Reporting

The Town Council member that is assigned to support the Town Hall functions will now sign the reconciliations monthly-

- 1) Checking and savings reconciliations agree with the bank statement
- 2) Receipts and disbursements have been posted to the general ledger

Finding 2012-2  
Lack Of Controls Over Preparation Of The SEFA (Schedule of expenditures of Federal Awards?)

In the future the report will be completed under dual control. Both individuals reviewing the document will sign the form.



Thomas G Tudor, Clerk/Treasurer

June 26, 2013

Section 3 Lapel Response  
Finding 2012-3 Reporting  
Federal Agency: Department of Agriculture  
Federal Program: Water and waste disposal loans and grants (Section 306C)  
CFDA Number: 10.770  
Federal Award Number and Year: 92-06

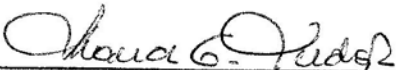
In the future Lapel will comply with all Rural Development reporting requirements.

- 1) Pre December 31st report
- 2) Post December 31st report

Finding 2012-4 Internal Controls Over Equipment And Real Property Management

Lapel will begin the process of developing capital asset records for the following-

Town Hall  
Police Department  
Water Company  
Sewer Company  
Gas Company  
Streets  
Park

  
Thomas G Tudor, Clerk/Treasurer

June 26, 2013

TOWN OF LAPEL  
EXIT CONFERENCE

The contents of this report were discussed on July 11, 2013, with Thomas G. Tudor, Clerk-Treasurer, and Gary Shuck, President of the Town Council. The officials concurred with our audit findings.