

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

FINANCIAL STATEMENTS REVIEW REPORT

OF

TOWN OF MEROM

SULLIVAN COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED

10/04/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Accountant's Review Report.....	3-4
Financial Statements and Accompanying Notes:	
Statements of Receipts, Disbursements, and Cash and Investment	
Balances - Regulatory Basis.....	6-7
Notes to Financial Statements.....	8-11
Review Results and Comments:	
Adoption and Training of Internal Controls.....	12
Certification on Internal Control Standards	12
Transfer of Town Funds	12-13
Condition of Records	14
Bank Account Reconciliations	14
Exit Conference.....	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	June Shacklett	01-01-12 to 12-31-19
President of the Town Council	Jackie Gettinger	01-01-15 to 12-31-15
	John Gettinger	01-01-16 to 12-31-19



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statements of the Town of Merom (Town), for the period of January 1, 2015 to December 31, 2018. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Town's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with a regulatory 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This includes determining that the basis of accounting the Town uses is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the prescribed basis of accounting described in Note 1. We believe that the results of our procedures provide a reasonable basis for our conclusion.


INDEPENDENT ACCOUNTANT'S REVIEW REPORT
(Continued)

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the prescribed basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.


Paul D. Joyce, CPA
State Examiner

August 12, 2019

FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

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

TOWN OF MEROM
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Years Ended December 31, 2015 and 2016

Fund	2015			2016			
	Cash and Investments 01-01-15	Receipts	Disbursements	Cash and Investments 12-31-15	Receipts	Disbursements	Cash and Investments 12-31-16
GENERAL FUND	\$ 249,305	\$ 66,535	\$ 89,276	\$ 226,564	\$ 40,597	\$ 92,997	\$ 174,164
MOTOR VEHICLE HIGHWAY	-	14,591	14,591	-	9,321	7,365	1,956
LOCAL ROAD & STREET	-	2,685	2,653	32	1,350	390	992
RIVERBOAT	-	1,306	1,306	-	1,348	1,348	-
RECREATION	2,783	441	1,258	1,966	396	178	2,184
RAINY DAY	3,315	870	3,089	1,096	4,589	2,000	3,685
CEDIT	8,859	6,915	9,872	5,902	68,453	74,355	-
CUM CAP IMP- CIG TAX	203	573	776	-	274	-	274
BUILDING	1,343	4,545	4,522	1,366	2,425	1,608	2,183
CEMETERY (OPERATING)	14,301	1,620	3,469	12,452	10,573	15,976	7,049
CEMETERY PERPETUAL	4,100	-	-	4,100	-	-	4,100
Totals	<u>\$ 284,209</u>	<u>\$ 100,081</u>	<u>\$ 130,812</u>	<u>\$ 253,478</u>	<u>\$ 139,326</u>	<u>\$ 196,217</u>	<u>\$ 196,587</u>

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

TOWN OF MEROM
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Years Ended December 31, 2017 and 2018

Fund	Cash and Investments 01-01-17	Receipts	Disbursements	Cash and Investments 12-31-17	Receipts	Disbursements	Cash and Investments 12-31-18
GENERAL FUND	\$ 174,164	\$ 39,188	\$ 56,838	\$ 156,514	\$ 53,310	\$ 61,237	\$ 148,587
MOTOR VEHICLE HIGHWAY	1,956	12,730	13,181	1,505	14,122	13,062	2,565
LOCAL ROAD & STREET	992	1,718	2,073	637	2,357	2,583	411
RIVERBOAT	-	-	-	-	2,905	-	2,905
RECREATION	2,184	500	1,510	1,174	1,000	799	1,375
RAINY DAY	3,685	1,302	3,500	1,487	2,019	2,095	1,411
CEDIT	-	11,713	11,090	623	25,225	18,751	7,097
CUM CAP IMP- CIG TAX	274	554	500	328	533	-	861
BUILDING	2,183	3,146	5,290	39	3,157	2,611	585
ROAD GRANT	-	1	-	1	47,493	47,493	1
CEMETERY (OPERATING)	7,049	950	10	7,989	1,100	80	9,009
CEMETERY PERPETUAL	4,100	-	-	4,100	-	-	4,100
Totals	<u>\$ 196,587</u>	<u>\$ 71,802</u>	<u>\$ 93,992</u>	<u>\$ 174,397</u>	<u>\$ 153,221</u>	<u>\$ 148,711</u>	<u>\$ 178,907</u>

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

TOWN OF MEROM
NOTES TO FINANCIAL STATEMENTS

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 accompanying financial statements present the financial information for the Town.

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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

C. Cash and Investments

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

D. Receipts

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

Taxes. Amounts received from one or more of the following: property tax, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeeper's 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.

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

TOWN OF MEROM
NOTES TO FINANCIAL STATEMENTS
(Continued)

Charges for services. Amounts received for services including, but not limited to, the following: planning commission charges, building department charges, copies of public records, copy machines 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.

Other receipts. Amounts received from various sources, including, but 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 include the following uses:

Personal services. Amounts disbursed 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. Amounts disbursed for 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, but are not limited to, the following: office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges. Amounts disbursed for services including, but not limited to, the following: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Capital outlay. Amounts disbursed for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Other disbursements. Amounts disbursed for various other purposes including, but 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, make transfers 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.

TOWN OF MEROM
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Fund Accounting

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for amounts 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 amounts 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 December 31 of the year preceding the budget year or January 15 of the budget year if the Town is issuing debt after December 1 or intends on filing a shortfall appeal. These rates were based upon the assessed valuations adjusted for various tax credits from the preceding year's lien date of January 1. 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, the following: 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 MEROM
NOTES TO FINANCIAL STATEMENTS
(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, retirees, and dependents; and natural disasters.

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

Note 6. Restatements

For the year ended December 31, 2015, certain changes have been made to some of the beginning balances of the financial statements to more appropriately reflect financial activity of the Town. The following schedule presents a summary of restated beginning balances:

Fund	Balance as of December 31, 2014	Prior Period Adjustment	Balance as of January 1, 2015
GENERAL FUND	\$ 3,215	\$ 246,090	\$ 249,305
CEDIT	8,858	1	8,859
CEMETERY (OPERATING)	25,123	(10,822)	14,301
PAYROLL	6,882	(6,882)	-
WATER UTILITY OPERATING	221,662	(221,662)	-
WATER METER DEPOSIT	1,225	(1,225)	-
WATER DEBT SERVICE	7,594	(7,594)	-
WATER IMPROVEMENT	1,900	(1,900)	-

Note 7. Combined Funds

Funds related to Payroll and the Water Utility were reported individually in the prior financial statements, but were combined into the General Fund in the current financial statements.

TOWN OF MEROM
REVIEW RESULTS AND COMMENTS

ADOPTION AND TRAINING OF INTERNAL CONTROLS

Condition and Context

The Town Council had not adopted the minimum level of internal controls as required by statute. The Town Council did not provide training to personnel concerning internal control standards and procedures during the audit period.

Criteria

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified on the Annual Financial Report (AFR) for 2016, 2017, and 2018 that the required internal control standards had been adopted and training had been provided to personnel. However, the Town had not adopted the internal control standards as required by Indiana Code 5-11-1-27(g), nor had personnel been trained.

Criteria

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](#)."

TRANSFER OF TOWN FUNDS

Condition and Context

The Town made transfers between the listed funds to cover deficit balances throughout the audit period without an approved resolution.

TOWN OF MEROM
 REVIEW RESULTS AND COMMENTS
 (Continued)

Transfer from Fund	Transfer to Fund	Year of Transfer	Amount
Building	Motor Vehicle Highway	2015	\$ 1,000
CEDIT	Motor Vehicle Highway	2015	1,256
Cum Cap Imp-Cig Tax	Motor Vehicle Highway	2015	776
Local Road & Street	Motor Vehicle Highway	2015	1,546
Rainy Day	General	2015	2,089
Riverboat	Local Road & Street	2015	1,306
CEDIT	General	2016	1,000
CEDIT	Motor Vehicle Highway	2016	413
Riverboat	General	2016	1,000
Riverboat	Motor Vehicle Highway	2016	348
Building	Motor Vehicle Highway	2017	500
CEDIT	General	2017	7,000
CEDIT	Motor Vehicle Highway	2017	2,000
Cum Cap Imp-Cig Tax	Motor Vehicle Highway	2017	500
Local Road & Street	General	2017	1,500
Motor Vehicle Highway	General	2017	1,500
Recreation	Motor Vehicle Highway	2017	1,000
Rainy Day	General	2017	1,500
Building	General	2017	1,500
General Fund	Motor Vehicle Highway	2018	<u>2,505</u>
Total			<u><u>\$ 30,239</u></u>

Criteria

Indiana Code 36-5-4-13(a) states in part:

". . . this subsection applies to a town with a population of five hundred (500) or less. Notwithstanding the provisions of any other statute, a town may transfer money from any town fund to another town fund after the passage of an ordinance or a resolution by the town legislative body specifying the:

- (1) amount of the transfer;
- (2) funds involved;
- (3) date of the transfer; and
- (4) general purpose of the transfer."

TOWN OF MEROM
REVIEW RESULTS AND COMMENTS
(Continued)

CONDITION OF RECORDS

Condition and Context

During the review we noted deficiencies related to the recordkeeping. These errors included deposits for state and local distributions not receipted to the records or recorded twice, and disbursements from the checking account not recorded to the records or recorded twice.

Criteria

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in prior reports B40340 and B45866.

Condition and Context

Depository reconciliations of the fund balances to the bank account balances were incomplete, contained numerous uncorrected posting errors, and did not reconcile to the funds ledger.

Criteria

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

TOWN OF MEROM
EXIT CONFERENCE

The contents of this report were discussed on August 12, 2019, with June Shacklett, Clerk-Treasurer; Kaleb Westbrook, Vice President of the Town Council; and Jackie Gettinger, Town Council member.