

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

FINANCIAL STATEMENTS REVIEW REPORT

OF

TOWN OF MONTGOMERY

DAVISS COUNTY, INDIANA

January 1, 2016 to December 31, 2018



**FILED**  
12/27/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cynthia Smith	01-01-16 to 12-31-19
President of the Town Council	John M. Healy	01-01-16 to 12-31-19



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TO: THE OFFICIALS OF THE TOWN OF MONTGOMERY, DAVIESS COUNTY, INDIANA

We have reviewed the accompanying financial statements of the Town of Montgomery (Town), for the period of January 1, 2016 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

December 16, 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 MONTGOMERY  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
For the Year Ended December 31, 2016

Fund	Cash and Investments 01-01-16	Receipts	Disbursements	Cash and Investments 12-31-16
General	\$ 62,652	\$ 92,043	\$ 113,053	\$ 41,642
Motor Vehicle Highway	36,986	59,185	82,042	14,129
Local Road And Street	6,633	2,675	7,000	2,308
Fire	26,210	26,997	28,938	24,269
Rainy Day Fund	-	100,000	-	100,000
Cumulative Capl Imprv Cigarette Tax	11,462	874	-	12,336
Co Economic Development Income Tax	57,241	5,770	28,097	34,914
Fire Donation	38,732	79,037	90,389	27,380
Wastewater Utility Operating	(2,127)	136,765	194,668	(60,030)
Wastewater Utility Bond And Interest	132,048	54,301	42,771	143,578
Wastewater Utility Deprec/Improve	23,000	1,000	-	24,000
Water Utility Operating	512,262	145,353	169,557	488,058
Water Utility Deprec/Improve	36,694	1,000	-	37,694
Water Utility Customer Deposit	12,950	2,200	355	14,795
Totals	<u>\$ 954,743</u>	<u>\$ 707,200</u>	<u>\$ 756,870</u>	<u>\$ 905,073</u>

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

TOWN OF MONTGOMERY  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
For the Year Ended December 31, 2017

Fund	Cash and Investments 01-01-17	Receipts	Disbursements	Cash and Investments 12-31-17
General	\$ 41,642	\$ 99,579	\$ 100,219	\$ 41,002
Motor Vehicle Highway	14,129	93,265	38,609	68,785
Local Road And Street	2,308	4,209	-	6,517
Rainy Day Fund	100,000	101,000	201,000	-
Cumulative Capl Imprv Cigarette Tax	12,336	834	6,500	6,670
Co Economic Development Income Tax	34,914	6,878	-	41,792
Fire	24,269	18,962	20,066	23,165
Fire Donation	27,380	14,982	6,926	35,436
Wastewater Utility Operating	(60,030)	272,245	229,269	(17,054)
Wastewater Utility Bond And Interest	50,773	12,000	38,018	24,755
Wastewater Utility Deprec/Improve	24,000	-	-	24,000
Wastewater Utility Construction Bond And Interest	92,805	42,832	83,900	51,737
Water Utility Operating	488,058	236,408	346,198	378,268
Water Utility Deprec/Improve	37,694	1,000	-	38,694
Water Utility Customer Deposit	14,795	3,560	734	17,621
Totals	<u>\$ 905,073</u>	<u>\$ 907,754</u>	<u>\$ 1,071,439</u>	<u>\$ 741,388</u>

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

TOWN OF MONTGOMERY  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
For the Year Ended December 31, 2018

Fund	Cash and Investments 01-01-18	Receipts	Disbursements	Cash and Investments 12-31-18
General	\$ 41,002	\$ 128,988	\$ 99,162	\$ 70,828
Motor Vehicle Highway	68,785	166,941	194,467	41,259
Local Road And Street	6,517	5,825	-	12,342
Cumulative Capl Imprv Cigarette Tax	6,670	802	-	7,472
Co Economic Development Income Tax	41,792	10,255	-	52,047
Fire	23,165	13,150	23,935	12,380
Fire Donation	35,436	17,517	10,232	42,721
Wastewater Utility Operating	(17,054)	224,315	197,299	9,962
Wastewater Utility Bond And Interest	24,755	13,000	8,119	29,636
Wastewater Utility Deprec/Improve	24,000	1,000	-	25,000
Wastewater Utility Const Bond And Interest	51,737	49,281	39,239	61,779
Wastewater Utility Construction	-	384,000	113,620	270,380
Water Utility Operating	378,268	201,036	179,865	399,439
Water Utility Deprec/Improve	38,694	1,000	-	39,694
Water Utility Customer Deposit	17,621	3,837	460	20,998
Totals	<u>\$ 741,388</u>	<u>\$ 1,220,947</u>	<u>\$ 866,398</u>	<u>\$ 1,095,937</u>

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

TOWN OF MONTGOMERY  
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.

*Licenses and permits.* 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 the following: peddler licenses, animal licenses, auctioneer licenses, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

TOWN OF MONTGOMERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

*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.

*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.

*Utility fees.* Amounts received from charges for current services.

*Penalties.* Amounts received from late payment fees.

*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.

*Debt service - principal and interest.* Amounts disbursed for 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.* Amounts disbursed for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

TOWN OF MONTGOMERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

*Utility operating expenses.* Amounts disbursed for operating the utilities.

*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.

**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.

TOWN OF MONTGOMERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**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.

**Note 5. Risk Management**

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

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

**Note 6. Pension Plan**

*Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund Defined Benefit Plan (PERF DB) is a cost-sharing multiple-employer defined benefit plan and provides retirement, disability, and survivor benefits to plan members. PERF DB is administered through the Indiana Public Retirement System (INPRS) Board in accordance with state statutes (IC 5-10.2 and IC 5-10.3) and administrative code (35 IAC 1.2), which govern most requirements of the system and give the Town authority to contribute to the plan.

The Public Employees' Hybrid Plan (PERF Hybrid) consists of two components: PERF DB, the employer-funded monthly defined benefit component, and the Public Employees' Hybrid Members Defined Contribution Account, the defined contribution component.

The Retirement Savings Plan for Public Employees (My Choice) is a multiple-employer defined contribution plan. It is administered through the INPRS Board in accordance with state statutes (IC 5-10.2 and IC 5-10.3) and administrative code (35 IAC 1.2), which govern most requirements of the system and give the Town authority to contribute to the plan.

New employees hired have a one-time election to join either the PERF Hybrid or the My Choice.

TOWN OF MONTGOMERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

*Financial Report*

INPRS 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  
One North Capitol, Suite 001  
Indianapolis, IN 46204  
Ph. (844) 464-6777

*Contributions*

Members' contributions are set by state statute at 3 percent of compensation for both the defined contribution component of PERF Hybrid and My Choice. The employer may elect to make the contribution on behalf of the member of the defined contribution component of PERF Hybrid and My Choice members may receive additional employer contribution in lieu of the PERF DB. Contributions to the PERF DB are determined by INPRS Board based on actuarial valuation.

**Note 7. Cash Balance Deficits**

The financial statements contain one fund, the Wastewater Utility Operating fund, with a \$60,030 deficit in cash on December 31, 2016. This is a result of expending more monies than available from a fund already in a deficit as of the beginning of the calendar year.

The financial statements contain one fund, the Wastewater Utility Operating fund, with a \$17,054 deficit in cash on December 31, 2017. This is a result of expending more monies than available from a fund already in a deficit as of the beginning of the calendar year.

**Note 8. Combined Funds**

The Wastewater Utility Bond And Interest fund and Wastewater Utility Construction Bond And Interest fund were combined and reported as the Wastewater Utility Bond And Interest fund in the 2016 financial statements, but reported as two separate funds beginning January 1, 2017.

TOWN OF MONTGOMERY  
REVIEW RESULTS AND COMMENTS

***ADOPTION OF INTERNAL CONTROL STANDARDS AND TRAINING***

*Condition and Context*

The Town Council did not adopt the required minimum internal control standards and procedures until December 4, 2017. As of December 31, 2018, the Town Council had failed to ensure all required personnel had received training over the internal control standards and procedures adopted.

*Criteria*

Indiana 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 certified on the 2018 Annual Financial Report that all required Town personnel had received training over the internal control standards adopted by the Town. However, evidence was not presented to support that the training had occurred.

*Context*

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](#)."

TOWN OF MONTGOMERY  
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2019, with Cynthia Smith, Clerk-Treasurer, and John M. Healy, President of the Town Council.