

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

FINANCIAL STATEMENTS REVIEW REPORT

OF

TOWN OF NEW MIDDLETOWN

HARRISON COUNTY, INDIANA

January 1, 2016 to December 31, 2019



FILED

08/03/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Shana R. Lyons	01-01-16 to 12-31-20
President of the Town Council	Larry Joe Lyons, Jr. Fred Lawson	01-01-16 to 08-12-17 08-13-17 to 12-31-20



INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TO: THE OFFICIALS OF THE TOWN OF NEW MIDDLETOWN, HARRISON COUNTY, INDIANA

We have reviewed the accompanying financial statements of the Town of New Middletown (Town), for the period of January 1, 2016 to December 31, 2019. 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 the 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

June 17, 2020

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 NEW MIDDLETOWN
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Years Ended December 31, 2016 and 2017

Fund	Cash and Investments 01-01-16	Receipts	Disbursements	Cash and Investments 12-31-16	Receipts	Disbursements	Cash and Investments 12-31-17
General	\$ 120,500	\$ 56,509	\$ 61,092	\$ 115,917	\$ 42,429	\$ 73,321	\$ 85,025
Motor Vehicle Highway	19,290	3,315	2,053	20,552	3,522	1,664	22,410
Local Road and Street	11,932	790	-	12,722	1,016	-	13,738
Cumulative Capital Improvement	2,742	112	-	2,854	226	-	3,080
Donation-Festival	367	-	849	(482)	-	-	(482)
Payroll	(218)	218	-	-	-	-	-
Totals	<u>\$ 154,613</u>	<u>\$ 60,944</u>	<u>\$ 63,994</u>	<u>\$ 151,563</u>	<u>\$ 47,193</u>	<u>\$ 74,985</u>	<u>\$ 123,771</u>

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

TOWN OF NEW MIDDLETOWN
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Years Ended December 31, 2018 and 2019

Fund	Cash and Investments 01-01-18	Receipts	Disbursements	Cash and Investments 12-31-18	Receipts	Disbursements	Cash and Investments 12-31-19
General	\$ 85,025	\$ 39,213	\$ 72,129	\$ 52,109	\$ 40,367	\$ 72,317	\$ 20,159
Motor Vehicle Highway	22,410	4,339	1,944	24,805	3,838	1,978	26,665
Local Road and Street	13,738	1,404	-	15,142	1,584	-	16,726
Cumulative Capital Improvement	3,080	218	-	3,298	212	-	3,510
Donation-Festival	(482)	-	-	(482)	-	-	(482)
Totals	<u>\$ 123,771</u>	<u>\$ 45,174</u>	<u>\$ 74,073</u>	<u>\$ 94,872</u>	<u>\$ 46,001</u>	<u>\$ 74,295</u>	<u>\$ 66,578</u>

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

TOWN OF NEW MIDDLETOWN
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 NEW MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

TOWN OF NEW MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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 4. 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 5. Cash Balance Deficits

The financial statements contain a fund with a deficit in cash. This is a result of disbursements exceeding available funds on hand for the community park project paid from the Donation-Festival fund. A subsequent donation from a private individual to reimburse the Town for the disbursement was erroneously receipted into the General fund, leaving the Donation-Festival fund with a deficit cash balance of \$482.

Note 6. Subsequent Events

On March 6, 2020, the Town purchased real estate that it had been leasing since March 1, 2017, for use as a Town Hall. The purchase price of the real estate was \$120,000. The real estate purchase was funded by a \$50,000 gift from Harrison County, made from riverboat funds, and a \$70,000 bank loan from First Harrison Bank. The loan is for a 20-year term with a variable interest rate based on the 1-year Treasury Index plus 2.20 percent. The initial interest rate on the loan is 3.35 percent, with monthly payments of \$401.

TOWN OF NEW MIDDLETOWN
REVIEW RESULTS AND COMMENTS

ADOPTION OF AND TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

As of December 31, 2019, the Town Council had not adopted internal control standards and procedures as required by state statute. In addition, there was no training of Town personnel concerning internal control standards and procedures during the review 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 that the Town had adopted internal control standards and provided training for Town personnel concerning those standards when submitting the Town's Annual Financial Report on Indiana Gateway for Government Units financial reporting system for each year of the review period.

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](#)."

TOWN OF NEW MIDDLETOWN
REVIEW RESULTS AND COMMENTS
(Continued)

MOTOR VEHICLE HIGHWAY RESTRICTED FUND

Condition and Context

The Town did not establish a Motor Vehicle Highway (MVH) Restricted fund for the receipt of 50 percent of the state MVH distributions, effective January 1, 2019, as required by State Examiner Directive 2018-2, and as necessary for compliance with the provisions of Indiana Code 8-14-1-5(c).

Criteria

The purpose of this Directive is to authorize and require . . . towns that receive distributions from the State Motor Vehicle Highway Account to create a new sub-fund within the MVH Fund to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes. . . .

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

TOWN OF NEW MIDDLETOWN
EXIT CONFERENCE

The contents of this report were discussed on June 17, 2020, with Fred Lawson, President of the Town Council, and Shana R. Lyons, Clerk-Treasurer.