

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT
OF
TOWN OF INGALLS
MADISON COUNTY, INDIANA
January 1, 2004 to December 31, 2005



FILED
10/30/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis	6,10
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds.....	7,11
Proprietary Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Funds.....	8,12
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Funds	9,13
Notes to Financial Statements	14-18
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds.....	19-20
Audit Results and Comments:	
Cash Change Fund Shortage	21
Retirement Plan	21-22
Capital Asset Records	22
Loan Between City or Town Funds.....	22
Appropriations.....	23
Loan from Water Utility in Anticipation of Taxes to be Collected	23
Compensation and Benefits.....	24
Service and Time Records	24
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	26-27
Schedule of Expenditures of Federal Awards.....	28
Note to Schedule of Expenditures of Federal Awards	29
Schedule of Findings and Questioned Costs.....	30
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	31
Exit Conference.....	32

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	William Kipling Golden	01-01-04 to 12-31-07
President of the Town Council	Patrick Fox	01-01-04 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ingalls (Town), as of and for the years ended December 31, 2004 and 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2004 and 2005, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated August 22, 2006, 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 and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town taken as a whole. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Town has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, as listed in the table of contents, are presented for additional analysis and are not a required part of the basic financial statements. The Combining Schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

August 22, 2006



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

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

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

We have audited the financial statements of the Town of Ingalls (Town), as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated August 22, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the Town on August 22, 2006. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the Town's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 22, 2006

TOWN OF INGALLS
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2004

Functions/Programs	Disbursements	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 153,600	\$ 2,949	\$ -	\$ -	\$ (150,651)	\$ -	\$ (150,651)
Public safety	139,108	55,710	500	-	(82,898)	-	(82,898)
Highways and streets	41,453	-	37,615	13,326	9,488	-	9,488
Culture and recreation	12,707	-	-	-	(12,707)	-	(12,707)
Interest on long-term debt	3,108	-	-	-	(3,108)	-	(3,108)
Total governmental activities	<u>349,976</u>	<u>58,659</u>	<u>38,115</u>	<u>13,326</u>	<u>(239,876)</u>	<u>-</u>	<u>(239,876)</u>
Business-type activities:							
Water	708,493	873,200	-	-	-	164,707	164,707
Total primary government	<u>\$ 1,058,469</u>	<u>\$ 931,859</u>	<u>\$ 38,115</u>	<u>\$ 13,326</u>	<u>(239,876)</u>	<u>164,707</u>	<u>(75,169)</u>
General receipts:							
Property taxes					229,635	-	229,635
Other local sources					-	16,800	16,800
Bonds and loans					5,000	15,000	20,000
Grants and contributions not restricted to specific programs					116,396	-	116,396
Unrestricted investment earnings					349	2,331	2,680
Total general receipts					<u>351,380</u>	<u>34,131</u>	<u>385,511</u>
Change in net assets					111,504	198,838	310,342
Net assets - beginning					<u>58,893</u>	<u>233,178</u>	<u>292,071</u>
Net assets - ending					<u>\$ 170,397</u>	<u>\$ 432,016</u>	<u>\$ 602,413</u>
<u>Assets</u>							
Cash and investments					\$ 170,397	\$ 157,262	\$ 327,659
Restricted assets:							
Cash and investments					-	274,754	274,754
Total assets					<u>\$ 170,397</u>	<u>\$ 432,016</u>	<u>\$ 602,413</u>
<u>Net Assets</u>							
Restricted for:							
Debt service					\$ -	\$ 181,122	\$ 181,122
Other purposes					-	93,632	93,632
Unrestricted					<u>170,397</u>	<u>157,262</u>	<u>327,659</u>
Total net assets					<u>\$ 170,397</u>	<u>\$ 432,016</u>	<u>\$ 602,413</u>

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

TOWN OF INGALLS
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2004

	General	Motor Vehicle Highway	Fire Department Equipment	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 203,905	\$ -	\$ -	\$ 25,730	\$ 229,635
Licenses and permits	2,330	-	-	27,444	29,774
Intergovernmental	84,920	37,615	-	23,266	145,801
Charges for services	12,949	-	-	176	13,125
Fines and forfeits	10,290	-	-	5,470	15,760
Other	12,227	74	1,829	8,255	22,385
Total receipts	326,621	37,689	1,829	90,341	456,480
Disbursements:					
General government	144,621	-	-	8,979	153,600
Public safety	107,414	-	3,256	13,827	124,497
Highways and streets	-	33,401	-	5,717	39,118
Culture and recreation	-	-	-	12,707	12,707
Debt service:					
Principal	14,611	-	-	-	14,611
Interest	3,108	-	-	-	3,108
Capital outlay:					
Highways and streets	-	2,335	-	-	2,335
Total disbursements	269,754	35,736	3,256	41,230	349,976
Excess (deficiency) of receipts over disbursements	56,867	1,953	(1,427)	49,111	106,504
Other financing sources (uses)					
Interfund loans	25,000	(5,000)	-	(15,000)	5,000
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	81,867	(3,047)	(1,427)	34,111	111,504
Cash and investment fund balance - beginning	(18,069)	19,638	1,350	55,974	58,893
Cash and investment fund balance - ending	<u>\$ 63,798</u>	<u>\$ 16,591</u>	<u>\$ (77)</u>	<u>\$ 90,085</u>	<u>\$ 170,397</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	<u>\$ 63,798</u>	<u>\$ 16,591</u>	<u>\$ (77)</u>	<u>\$ 90,085</u>	<u>\$ 170,397</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Unrestricted	<u>\$ 63,798</u>	<u>\$ 16,591</u>	<u>\$ (77)</u>	<u>\$ 90,085</u>	<u>\$ 170,397</u>

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

TOWN OF INGALLS
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2004

	Water Utility
Operating receipts:	
Metered water receipts	\$ 661,400
Fire protection receipts	12,000
Other water receipts	<u>199,800</u>
Total operating receipts	<u>873,200</u>
Operating disbursements:	
Salaries and wages	62,418
Employee pensions and benefits	7,282
Purchased power	3,817
Chemicals	9,609
Material and supplies	27,804
Contractual services	368,883
Rents	5,550
Transportation disbursements	3,561
Insurance disbursements	4,709
Miscellaneous disbursements	<u>39,695</u>
Total operating disbursements	<u>533,328</u>
Excess of operating receipts over operating disbursements	<u>339,872</u>
Nonoperating receipts (disbursements):	
Interfund loans	(5,000)
Interest and investment receipts	2,331
Miscellaneous receipts	16,800
Debt service of principal	(93,000)
Interest and investment disbursement	(59,665)
Miscellaneous disbursements	<u>(2,500)</u>
Total nonoperating receipts (disbursements)	<u>(141,034)</u>
Excess of receipts over disbursements and nonoperating receipts (disbursements)	198,838
Excess of receipts over disbursements	198,838
Cash and investment fund balance - beginning	<u>233,178</u>
Cash and investment fund balance - ending	<u>\$ 432,016</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 157,262
Restricted assets:	
Cash and investments	<u>274,754</u>
Total cash and investment assets - December 31	<u>\$ 432,016</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 181,122
Other purposes	93,632
Unrestricted	<u>157,262</u>
Total cash and investment fund balance - December 31	<u>\$ 432,016</u>

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

TOWN OF INGALLS
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2004

	Agency Funds
Additions:	
Agency fund additions	\$ 175,295
Deductions:	
Agency fund deductions	174,882
Excess of total additions over total deductions	413
Cash and investment fund balance - beginning	144
Cash and investment fund balance - ending	\$ 557

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

TOWN OF INGALLS
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2005

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 628,167	\$ 3,225	\$ 454,781	\$ -	\$ (170,161)	\$ -	\$ (170,161)
Public safety	315,034	42,375	-	101,560	(171,099)	-	(171,099)
Highways and streets	64,210	-	36,786	13,223	(14,201)	-	(14,201)
Sanitation	7,700	28,665	-	-	20,965	-	20,965
Culture and recreation	18,045	-	-	-	(18,045)	-	(18,045)
Interest on long-term debt	4,807	-	-	-	(4,807)	-	(4,807)
Total governmental activities	<u>1,037,963</u>	<u>74,265</u>	<u>491,567</u>	<u>114,783</u>	<u>(357,348)</u>	<u>-</u>	<u>(357,348)</u>
Business-type activities:							
Water	<u>804,308</u>	<u>973,359</u>	<u>-</u>	<u>45,219</u>	<u>-</u>	<u>214,270</u>	<u>214,270</u>
Total primary government	<u>\$ 1,842,271</u>	<u>\$ 1,047,624</u>	<u>\$ 491,567</u>	<u>\$ 160,002</u>	<u>(357,348)</u>	<u>214,270</u>	<u>(143,078)</u>
General receipts:							
Property taxes					256,999	-	256,999
Other local sources					-	15,902	15,902
Bonds and loans					75,000	30,000	105,000
Grants and contributions not restricted to specific programs					78,903	-	78,903
Unrestricted investment earnings					611	4,076	4,687
Total general receipts					<u>411,513</u>	<u>49,978</u>	<u>461,491</u>
Change in net assets					54,165	264,248	318,413
Net assets - beginning					170,397	432,016	602,413
Net assets - ending					<u>\$ 224,562</u>	<u>\$ 696,264</u>	<u>\$ 920,826</u>
<u>Assets</u>							
Cash and investments					\$ 224,562	\$ 323,640	\$ 548,202
Restricted assets:							
Cash and investments					<u>-</u>	<u>372,624</u>	<u>372,624</u>
Total assets					<u>\$ 224,562</u>	<u>\$ 696,264</u>	<u>\$ 920,826</u>
<u>Net Assets</u>							
Restricted for:							
Debt service					\$ -	\$ 265,836	\$ 265,836
Other purposes					-	106,788	106,788
Unrestricted					<u>224,562</u>	<u>323,640</u>	<u>548,202</u>
Total net assets					<u>\$ 224,562</u>	<u>\$ 696,264</u>	<u>\$ 920,826</u>

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

TOWN OF INGALLS
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2005

	General	Motor Vehicle Highway	Fire Department Equipment	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 230,534	\$ -	\$ -	\$ 26,465	\$ 256,999
Licenses and permits	8,340	-	-	18,256	26,596
Intergovernmental	499,047	36,785	101,560	16,899	654,291
Charges for services	13,225	-	5,049	28,825	47,099
Fines and forfeits	-	-	-	570	570
Other	8,110	-	20,943	2,520	31,573
	<u>759,256</u>	<u>36,785</u>	<u>127,552</u>	<u>93,535</u>	<u>1,017,128</u>
Disbursements:					
General government	611,845	-	-	16,322	628,167
Public safety	131,052	-	125,883	35,114	292,049
Highways and streets	-	40,214	-	7,351	47,565
Sanitation	-	-	-	7,700	7,700
Culture and recreation	-	-	-	18,045	18,045
Debt service:					
Principal	22,985	-	-	-	22,985
Interest	4,807	-	-	-	4,807
Capital outlay:					
Highways and streets	-	8,150	-	8,495	16,645
	<u>770,689</u>	<u>48,364</u>	<u>125,883</u>	<u>93,027</u>	<u>1,037,963</u>
Excess (deficiency) of receipts over disbursements	<u>(11,433)</u>	<u>(11,579)</u>	<u>1,669</u>	<u>508</u>	<u>(20,835)</u>
Other financing sources					
Interfund loans	75,000	-	-	-	75,000
Excess (deficiency) of receipts and other financing sources over disbursements	63,567	(11,579)	1,669	508	54,165
Cash and investment fund balance - beginning	63,798	16,591	(77)	90,085	170,397
Cash and investment fund balance - ending	<u>\$ 127,365</u>	<u>\$ 5,012</u>	<u>\$ 1,592</u>	<u>\$ 90,593</u>	<u>\$ 224,562</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	<u>\$ 127,365</u>	<u>\$ 5,012</u>	<u>\$ 1,592</u>	<u>\$ 90,593</u>	<u>\$ 224,562</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Unrestricted	<u>\$ 127,365</u>	<u>\$ 5,012</u>	<u>\$ 1,592</u>	<u>\$ 90,593</u>	<u>\$ 224,562</u>

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

TOWN OF INGALLS
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2005

	Water Utility
Operating receipts:	
Metered water receipts	\$ 789,338
Fire protection receipts	6,000
Other water revenue	<u>178,021</u>
Total operating receipts	<u>973,359</u>
Operating disbursements:	
Salaries and wages	77,654
Employee pensions and benefits	10,346
Purchased power	3,237
Chemicals	5,795
Material and supplies	49,202
Contractual services	323,158
Rents	2,220
Transportation disbursements	4,714
Insurance disbursements	5,074
Miscellaneous disbursements	<u>61,731</u>
Total operating disbursements	<u>543,131</u>
Excess of operating receipts over operating disbursements	<u>430,228</u>
Nonoperating receipts (disbursements):	
Interfund loans	(75,000)
Interest and investment receipts	4,076
Miscellaneous receipts	15,902
Debt service of principal	(96,000)
Interest and investment disbursement	(56,955)
Miscellaneous disbursements	<u>(3,222)</u>
Total nonoperating receipts (disbursements)	<u>(211,199)</u>
Excess of receipts over disbursements and nonoperating receipts (disbursements)	219,029
Capital contributions	<u>45,219</u>
Excess of receipts and contributions over disbursements	264,248
Cash and investment fund balance - beginning	<u>432,016</u>
Cash and investment fund balance - ending	<u><u>\$ 696,264</u></u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 323,640
Restricted assets:	
Cash and investments	<u>372,624</u>
Total cash and investment assets - December 31	<u><u>\$ 696,264</u></u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 265,836
Other purposes	106,788
Unrestricted	<u>323,640</u>
Total cash and investment fund balance - December 31	<u><u>\$ 696,264</u></u>

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

TOWN OF INGALLS
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2005

	Agency Funds
Additions:	
Agency fund additions	\$ 224,843
Deductions:	
Agency fund deductions	224,124
Excess of total additions over total deductions	719
Cash and investment fund balance - beginning	557
Cash and investment fund balance - ending	\$ 1,276

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

TOWN OF INGALLS
NOTES TO FINANCIAL STATEMENTS

I. 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 the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, and water.

The Town's financial reporting entity is composed of the following:

Primary Government

In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis display information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The motor vehicle highway fund is used to account for receipts from state motor vehicle highway distributions. The principal use of this fund is the construction and maintenance of street and alleys.

The fire department equipment fund is used to account for receipts from grants, donations, and other various sources that are to be used for the purpose of purchasing equipment for the fire department.

TOWN OF INGALLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Town reports the following major proprietary fund:

The water utility fund accounts for the operation of the water distribution system.

Additionally, the Town reports the following fund type:

Agency funds account for assets held by the Town as an agent for payroll related withholdings and serve as control of accounts for certain cash transactions during the time they are a liability to the Town.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, 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 cash and investment 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. Investment transactions are not presented on the financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Town and Water Utility. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The Town does not have any internal service funds.

TOWN OF INGALLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the Town's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

TOWN OF INGALLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds).

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

On or before August 31, the fiscal officer of the Town submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the Town receives approval of the Indiana Department of Local Government Finance.

TOWN OF INGALLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Town's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. Detailed Notes on All Funds

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision.

IV. Other Information

A. Risk Management

The Town is 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; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Job Related Illnesses or Injuries to Employees

During 1995, the Town joined with other governmental entities in the Indiana Public Employee's Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for several member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Subsequent Events

On April 25, 2006, the Town was approved to borrow a maximum of \$600,000 from the State Revolving Loan Fund for the construction of a new water tower.

C. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on June 18, 2001.

TOWN OF INGALLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2004

	Local Road and Street	Park and Recreation	Law Enforcement Continuing Education	Food and Beverage Grant	Criminal Justice Institute II	Police Equipment	Building Permits	Cumulative Capital Improvements	Cumulative Capital Development	Totals
Receipts:										
Taxes	\$ -	\$ 17,231	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,499	\$ 25,730
Licenses and permits	-	-	234	-	-	-	27,210	-	-	27,444
Intergovernmental	13,326	82	-	-	500	5,000	-	4,358	-	23,266
Charges for services	-	-	176	-	-	-	-	-	-	176
Fines and forfeits	-	-	-	-	-	5,470	-	-	-	5,470
Other	-	5,332	-	-	-	2,923	-	-	-	8,255
Total receipts	13,326	22,645	410	-	500	13,393	27,210	4,358	8,499	90,341
Disbursements:										
General government	-	-	-	-	-	-	-	6,164	2,815	8,979
Public safety	-	-	1,528	-	1,000	4,364	6,935	-	-	13,827
Highways and streets	5,717	-	-	-	-	-	-	-	-	5,717
Culture and recreation	-	12,707	-	-	-	-	-	-	-	12,707
Total disbursements	5,717	12,707	1,528	-	1,000	4,364	6,935	6,164	2,815	41,230
Excess (deficiency) of receipts over disbursements	7,609	9,938	(1,118)	-	(500)	9,029	20,275	(1,806)	5,684	49,111
Other financing uses										
Interfund loans	(15,000)	-	-	-	-	-	-	-	-	(15,000)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(7,391)	9,938	(1,118)	-	(500)	9,029	20,275	(1,806)	5,684	34,111
Cash and investment fund balance - beginning	16,784	13,898	2,306	231	504	(2,738)	-	11,590	13,399	55,974
Cash and investment fund balance - ending	\$ 9,393	\$ 23,836	\$ 1,188	\$ 231	\$ 4	\$ 6,291	\$ 20,275	\$ 9,784	\$ 19,083	\$ 90,085
Cash and Investment Assets - December 31										
Cash and investments	\$ 9,393	\$ 23,836	\$ 1,188	\$ 231	\$ 4	\$ 6,291	\$ 20,275	\$ 9,784	\$ 19,083	\$ 90,085
Cash and Investment Fund Balance - December 31										
Unrestricted	\$ 9,393	\$ 23,836	\$ 1,188	\$ 231	\$ 4	\$ 6,291	\$ 20,275	\$ 9,784	\$ 19,083	\$ 90,085

TOWN OF INGALLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005

	Local Road and Street	Park and Recreation	Law Enforcement Continuing Education	Food and Beverage Grant	Criminal Justice Institute II	Police Equipment	Building Permits	Cumulative Capital Improvements	Cumulative Capital Development	Storm Water	Totals
Receipts:											
Taxes	\$ -	\$ 20,918	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,547	\$ -	\$ 26,465
Licenses and permits	-	-	430	-	-	-	17,826	-	-	-	18,256
Intergovernmental	13,223	52	-	-	-	-	-	3,611	13	-	16,899
Charges for services	-	-	160	-	-	-	-	-	-	28,665	28,825
Fines and forfeits	-	-	-	-	-	570	-	-	-	-	570
Other	-	1,312	-	-	-	1,138	-	-	70	-	2,520
Total receipts	13,223	22,282	590	-	-	1,708	17,826	3,611	5,630	28,665	93,535
Disbursements:											
General government	-	-	-	-	-	-	-	2,674	13,648	-	16,322
Public safety	-	-	527	-	-	2,082	32,505	-	-	-	35,114
Highways and streets	7,351	-	-	-	-	-	-	-	-	-	7,351
Sanitation	-	-	-	-	-	-	-	-	-	7,700	7,700
Culture and recreation	-	18,045	-	-	-	-	-	-	-	-	18,045
Capital outlay: Highways and streets	8,495	-	-	-	-	-	-	-	-	-	8,495
Total disbursements	15,846	18,045	527	-	-	2,082	32,505	2,674	13,648	7,700	93,027
Excess (deficiency) of receipts over disbursements	(2,623)	4,237	63	-	-	(374)	(14,679)	937	(8,018)	20,965	508
Cash and investment fund balance - beginning	9,393	23,836	1,188	231	4	6,291	20,275	9,784	19,083	-	90,085
Cash and investment fund balance - ending	\$ 6,770	\$ 28,073	\$ 1,251	\$ 231	\$ 4	\$ 5,917	\$ 5,596	\$ 10,721	\$ 11,065	\$ 20,965	\$ 90,593
Cash and Investment Assets - December 31											
Cash and investments	\$ 6,770	\$ 28,073	\$ 1,251	\$ 231	\$ 4	\$ 5,917	\$ 5,596	\$ 10,721	\$ 11,065	\$ 20,965	\$ 90,593
Cash and Investment Fund Balance - December 31											
Unrestricted	\$ 6,770	\$ 28,073	\$ 1,251	\$ 231	\$ 4	\$ 5,917	\$ 5,596	\$ 10,721	\$ 11,065	\$ 20,965	\$ 90,593

TOWN OF INGALLS
AUDIT RESULTS AND COMMENTS

CASH CHANGE FUND SHORTAGE

A shortage of \$57.19 was noted in the cash change fund as counted on June 14, 2006.

Indiana Code 36-1-8-2 states: "(a) The fiscal body of a political subdivision may permit any of its officers or employees having a duty to collect cash revenues to establish a cash change fund. Such a fund must be established by a warrant drawn on the appropriate fund of the political subdivision in favor of the officer or employee, in an amount determined by the fiscal body, without need for appropriation to be made for it."

"(b) The officer or employee who establishes a cash change fund shall convert the warrant to cash, shall use it to make change when collecting cash revenues, and shall account for it in the same manner as is required for other funds of the political subdivision."

"(c) The fiscal body shall require the entire cash change fund to be returned to the appropriate fund whenever there is a change in the custodian of the fund or if the fund is no longer needed."

RETIREMENT PLAN

In June 2003, the Town Council approved participation in a Savings Incentive Match Plan for Employees of Small Employers Individual Retirement Account (SIMPLE IRA) plan. Under this plan, employees may choose to make salary reduction contributions to the SIMPLE IRA rather than receiving these amounts as part of their regular compensation. In addition, the employer contributes matching or nonelective contributions on behalf of eligible employees not to exceed 3% of the employee's salary. All contributions under this plan are deposited into a SIMPLE IRA established for each eligible employee. During 2004 and 2005, the Town made matching contributions of \$3,502.70 and \$4,027.31, respectively, for the five employees participating in the plan. A similar comment appeared in the prior Audit Report B23453.

Pursuant to Indiana Code 5-10.2-2-1, a city or town has no authority to establish a local pension plan by ordinance, resolution or contract after January 1, 1995, without specific statutory authority.

In reviewing the Indiana Code, the following pension plans are available to employees of a city or town:

	<u>Indiana Code</u>
Public Employees' Retirement Fund	5-10.3
Police Pension Fund - First Class Cities (1953 Police Pension Fund)	36-8-7.5
1925 Police Pension Fund	36-8-6
1937 Firefighter's Pension Fund	36-8-7
1977 Police Officers' and Firefighters' Pension and Disability Fund	36-8-8
Municipal Utility Employees' Pension Fund	8-1.5-3-7
City Hospitals - Third Class Cities	16-23-1-25(c)
Housing Authorities	36-7-18-10(d)
Department of Redevelopment	36-7-14-12.2 (15)
Deferred Compensation	5-10-1.1

TOWN OF INGALLS
AUDIT RESULTS AND COMMENTS
(Continued)

Federally authorized individual retirement accounts and Social Security are the only other pension plans available to city and town employees. Inquiries relative to participation in the Public Employees' Retirement Fund should be directed to the Public Employees' Retirement Fund, Suite 800, Harrison Building, 143 Market Street, Indianapolis, Indiana, 46204, telephone 232-1615, area code 317. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

The Town's record of capital assets presented for audit was not reflective of the actual capital assets owned by the Town. The Utility does not maintain sufficient detailed records of capital assets. Records providing historical costs for some of the Utility's capital assets are not available, and records classifying and summarizing the Utility's capital assets are not available. Deletions or disposals of capital assets are not recorded. A similar comment appeared in the prior Audit Reports B19496 and B23453.

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

LOAN BETWEEN CITY OR TOWN FUNDS

Temporary loans of \$5,000 and \$15,000 were made in July 2004 from the Motor Vehicle Highway Fund and the Local Road and Street Fund, respectively, to the General Fund. These loans have not been repaid.

Indiana Code 36-1-8-4 concerning temporary loans states, in part: "(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs; (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and department of local government finance."

TOWN OF INGALLS
AUDIT RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General	2005	<u>\$ 515,813</u>

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

LOAN FROM WATER UTILITY IN ANTICIPATION OF TAXES TO BE COLLECTED

A loan of \$5,000 was made in 2004, and a loan of \$75,000 was made in 2005 from the Water Utility to the Town General Fund in anticipation of taxes to be levied and collected. These loans were not repaid on or before 30 days after the last day for the payment of the anticipated taxes. These loans have not been repaid, as of the date of this report.

Indiana Code 8-1.5-3-12 states:

"(a) A municipality may, by ordinance of its legislative body, borrow money from a utility owned by the municipality for current purposes in anticipation of taxes levied and to be collected during the current or following year."

"(b) The board may by resolution lend money to the municipality if the utility has on hand:

- (1) A surplus of cash exceeding by at least the amount loaned the sum of all amounts required to pay the indebtedness of the utility falling due during the current calendar year and the following year;
- (2) The amount necessary to meet current expenses during the year; and
- (3) The amount necessary to pay for improvements contemplated to be made during the current calendar year minus the estimated receipts during the calendar year."

"(c) A loan may not be made for a sum in excess of fifty percent (50%) of the amount estimated to be collected from anticipated taxes. The loan:

- (1) Must be evidenced by an obligation of the municipality;
- (2) Must be signed by the executive;
- (3) Is due on or before thirty (30) days after the last day for the payment of anticipated taxes; and
- (4) May bear interest at any rate as determined by the board, payable at maturity."

TOWN OF INGALLS
AUDIT RESULTS AND COMMENTS
(Continued)

COMPENSATION AND BENEFITS

During 2005, an additional police officer was hired, the Street Commissioner's salary was increased, and the Utility Clerks' salaries were increased. The Town Council approved the hiring of the additional police officer and approved the increases to the Street Commissioner and Utility Clerk salaries; however, no amendment was made to the approved salary ordinance to reflect these changes.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SERVICE AND TIME RECORDS

Employee time, attendance, or service records were not approved by the appropriate department head. Additionally, time records were not always completed prior to payment of corresponding salaries and wages.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Town of Ingalls (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2004 and 2005. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2004 and 2005.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Town's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 22, 2006

TOWN OF INGALLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2004 and 2005

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-04	Total Federal Awards Expended 12-31-05
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Department of Commerce Community Development Block Grants/State's Program	14.228	CF-04-103	\$ -	\$ 500,000
Total for federal grantor agency			-	500,000
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster - Section 408 and 410 Programs Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		1,000	-
Total for federal grantor agency			1,000	-
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Drinking Water State Revolving Funds State Revolving Fund	66.468	DW199107 01	5,522	-
Total for federal grantor agency			5,522	-
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Direct Grant Assistance to Firefighters Grant	97.044		-	101,560
Total for federal grantor agency			-	101,560
Total federal awards expended			\$ 6,522	\$ 601,560

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF INGALLS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Ingalls (Town) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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 the Indiana Code (IC 5-11-1 et seq.), audits of Towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF INGALLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

Town of Ingalls

247 N. Meridian Street ♦ P.O. Box 277 ♦ Ingalls, Indiana 46048
Phone 317-485-4321 ♦ Fax 317-485-5293

SUMMARY SCHEDULE OF AUDIT FINDINGS

Finding Number 2003-2 and 2001-2 Internal Control Reportable Condition/Equipment and Real Property Management

Original SBA Audit Report Number: B23453 and B19496
Fiscal Year 12/31/03 and 12/31/01
Auditee Contact Person Kip Golden
Title of Contact Person Clerk-Treasurer
Phone Number (317)485-4321
Status of Finding:

After the 2002 audit of the Town of Ingalls, The Council granted me permission to get bids from accounting firms to do the Internal Control Reportable Condition/Equipment and Real Property Management for the town. The Council chose the firm of O.W. Krohn and Associates at 231 E. Main St. in Westfield, Indiana.

As of this date O.W. Krohn and Associates have been in to give work sheets to the department head. The department head have yet to hand in those work sheets.



William Kipling Golden

August 8, 2006

TOWN OF INGALLS
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2006, with William Kipling Golden, Clerk-Treasurer.