

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

AUDIT REPORT

OF

TOWN OF STAUNTON

CLAY COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED
12/06/2006

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Catherine Mienheartt	01-01-04 to 12-31-07
President of the Town Council	Andrew Kirchner	01-01-04 to 12-31-06
Superintendent of Water Utility	Jacob Raubach	01-01-04 to 12-31-06
Superintendent of Wastewater Utility	William Cultice Shirley Jolly	01-01-04 to 09-30-05 10-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE TOWN OF STAUNTON, CLAY 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 Staunton (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 October 30, 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.

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.

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

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, Schedule of Capital Assets, and Schedule of Long-Term Debt 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. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 30, 2006



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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 STAUNTON, CLAY COUNTY, INDIANA

We have audited the financial statements of the Town of Staunton (Town), as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated October 30, 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.

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

October 30, 2006

TOWN OF STAUNTON
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		Total
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 32,295	\$ 992	\$ 3,465	\$ -	\$ (27,838)	\$ -	\$ (27,838)
Public safety	276	125	-	-	(151)	-	(151)
Highways and streets	16,937	-	28,918	-	11,981	-	11,981
Economic development	-	-	-	2,053	2,053	-	2,053
Total governmental activities	49,508	1,117	32,383	2,053	(13,955)	-	(13,955)
Business-type activities:							
Water	235,599	190,579	-	-	-	(45,020)	(45,020)
Wastewater	206,135	95,032	-	-	-	(111,103)	(111,103)
Total business-type activities	441,734	285,611	-	-	-	(156,123)	(156,123)
Total primary government	\$ 491,242	\$ 286,728	\$ 32,383	\$ 2,053	(13,955)	(156,123)	(170,078)
General receipts:							
Property taxes					20,190	-	20,190
Intergovernmental					15,561	-	15,561
Bonds and loans					-	400,000	400,000
Unrestricted investment earnings					-	1,231	1,231
Miscellaneous					466	-	466
Total general receipts					36,217	401,231	437,448
Change in net assets					22,262	245,108	267,370
Net assets - beginning					68,669	267,990	336,659
Net assets - ending					\$ 90,931	\$ 513,098	\$ 604,029
<u>Assets</u>							
Cash and investments					\$ 90,931	\$ 97,244	\$ 188,175
Restricted assets:							
Cash and investments					-	415,854	415,854
Total assets					\$ 90,931	\$ 513,098	\$ 604,029
<u>Net Assets</u>							
Restricted for:							
Debt service					\$ -	\$ 50,239	\$ 50,239
Other purposes					-	365,615	365,615
Unrestricted					90,931	97,244	188,175
Total net assets					\$ 90,931	\$ 513,098	\$ 604,029

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

TOWN OF STAUNTON
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	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 20,190	\$ -	\$ -	\$ 20,190
Licenses and permits	25	-	100	125
Intergovernmental	15,561	25,383	9,053	49,997
Charges for services	992	-	-	992
Other	463	-	3	466
	<u>37,231</u>	<u>25,383</u>	<u>9,156</u>	<u>71,770</u>
Total receipts				
Disbursements:				
General government	32,295	-	-	32,295
Public safety	-	-	276	276
Highways and streets	-	15,508	1,429	16,937
	<u>32,295</u>	<u>15,508</u>	<u>1,705</u>	<u>49,508</u>
Total disbursements				
Excess of receipts over disbursements	<u>4,936</u>	<u>9,875</u>	<u>7,451</u>	<u>22,262</u>
Other financing sources (uses):				
Transfers in	2,000	-	-	2,000
Transfers out	-	-	(2,000)	(2,000)
	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>	<u>-</u>
Total other financing sources (uses)				
Excess of receipts and other financing sources over disbursements and other financing uses	6,936	9,875	5,451	22,262
Cash and investment fund balance - beginning	<u>22,661</u>	<u>21,053</u>	<u>24,955</u>	<u>68,669</u>
Cash and investment fund balance - ending	<u>\$ 29,597</u>	<u>\$ 30,928</u>	<u>\$ 30,406</u>	<u>90,931</u>
Net assets of governmental activities				<u>\$ 90,931</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	<u>\$ 29,597</u>	<u>\$ 30,928</u>	<u>\$ 30,406</u>	<u>\$ 90,931</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Unrestricted	<u>\$ 29,597</u>	<u>\$ 30,928</u>	<u>\$ 30,406</u>	<u>\$ 90,931</u>

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

TOWN OF STAUNTON
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	Wastewater Utility	Total
Operating receipts:			
Unmetered water receipts	\$ 1,323	\$ -	\$ 1,323
Metered water receipts:			
Residential	189,256	-	189,256
Measured receipts:			
Residential	<u>-</u>	<u>95,032</u>	<u>95,032</u>
Total operating receipts	<u>190,579</u>	<u>95,032</u>	<u>285,611</u>
Operating disbursements:			
Equipment and capital improvements	-	8,366	8,366
Water - operations and maintenance	42,000	-	42,000
Customer accounts	970	-	970
Sales disbursements	8,596	-	8,596
Administration and general	2,443	-	2,443
Salaries and wages	22,127	34,839	56,966
Purchased power	8,512	7,233	15,745
Chemicals	3,713	1,893	5,606
Material and supplies	49,831	6,675	56,506
Contractual services	53,661	144,337	197,998
Transportation disbursements	-	2,525	2,525
Insurance disbursements	2,525	-	2,525
Miscellaneous disbursements	<u>415</u>	<u>267</u>	<u>682</u>
Total operating disbursements	<u>194,793</u>	<u>206,135</u>	<u>400,928</u>
Deficiency of operating receipts under operating disbursements	<u>(4,214)</u>	<u>(111,103)</u>	<u>(115,317)</u>
Nonoperating receipts (disbursements):			
Bond proceeds	-	400,000	400,000
Interest and investment receipts	1,231	-	1,231
Debt service of principal	<u>(40,806)</u>	<u>-</u>	<u>(40,806)</u>
Total nonoperating receipts (disbursements)	<u>(39,575)</u>	<u>400,000</u>	<u>360,425</u>
Excess (deficiency) of receipts over (under) disbursements and nonoperating receipts (disbursements)	(43,789)	288,897	245,108
Cash and investment fund balance - beginning	<u>219,255</u>	<u>48,735</u>	<u>267,990</u>
Cash and investment fund balance - ending	<u>\$ 175,466</u>	<u>\$ 337,632</u>	<u>\$ 513,098</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 67,551	\$ 29,693	\$ 97,244
Restricted assets:			
Cash and investments	<u>107,915</u>	<u>307,939</u>	<u>415,854</u>
Total cash and investment assets - December 31	<u>\$ 175,466</u>	<u>\$ 337,632</u>	<u>\$ 513,098</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 27,204	\$ 23,035	\$ 50,239
Other purposes	80,711	284,904	365,615
Unrestricted	<u>67,551</u>	<u>29,693</u>	<u>97,244</u>
Total cash and investment fund balance - December 31	<u>\$ 175,466</u>	<u>\$ 337,632</u>	<u>\$ 513,098</u>

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

TOWN OF STAUNTON
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	\$ 75,706
Deductions:	
Agency fund deductions	73,029
Excess of total additions over total deductions	2,677
Cash and investment fund balance - beginning	3,609
Cash and investment fund balance - ending	\$ 6,286

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

TOWN OF STAUNTON
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	\$ 31,587	\$ 620	\$ 3,468	\$ -	\$ (27,499)	\$ -	\$ (27,499)
Public safety	-	77	-	-	77	-	77
Highways and streets	10,435	-	25,910	-	15,475	-	15,475
Economic development	782	-	-	1,700	918	-	918
Total governmental activities	42,804	697	29,378	1,700	(11,029)	-	(11,029)
Business-type activities:							
Water	198,725	166,664	-	-	-	(32,061)	(32,061)
Wastewater	1,288,584	144,160	-	82,854	-	(1,061,570)	(1,061,570)
Total business-type activities	1,487,309	310,824	-	82,854	-	(1,093,631)	(1,093,631)
Total primary government	\$ 1,530,113	\$ 311,521	\$ 29,378	\$ 84,554	(11,029)	(1,093,631)	(1,104,660)
General receipts:							
Property taxes					14,527	-	14,527
Intergovernmental					12,002	-	12,002
Bonds and loans					-	835,130	835,130
Unrestricted investment earnings					-	771	771
Miscellaneous					2,189	-	2,189
Total general receipts					28,718	835,901	864,619
Change in net assets					17,689	(257,730)	(240,041)
Net assets - beginning					90,931	513,098	604,029
Net assets - ending					\$ 108,620	\$ 255,368	\$ 363,988
<u>Assets</u>							
Cash and investments					\$ 108,620	\$ 147,061	\$ 255,681
Restricted assets:							
Cash and investments					-	108,307	108,307
Total assets					\$ 108,620	\$ 255,368	\$ 363,988
<u>Net Assets</u>							
Restricted for:							
Debt service					\$ -	\$ 62,237	\$ 62,237
Other purposes					-	46,070	46,070
Unrestricted					108,620	147,061	255,681
Total net assets					\$ 108,620	\$ 255,368	\$ 363,988

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

TOWN OF STAUNTON
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	MVH	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 14,527	\$ -	\$ -	\$ 14,527
Licenses and permits	-	-	50	50
Intergovernmental	12,002	22,373	8,705	43,080
Charges for services	620	-	-	620
Other	2,190	-	27	2,217
Total receipts	29,339	22,373	8,782	60,494
Disbursements:				
General government	31,588	-	-	31,588
Highways and streets	-	8,074	2,361	10,435
Capital outlay	-	-	782	782
Total disbursements	31,588	8,074	3,143	42,805
Excess (deficiency) of receipts over (under) disbursements	(2,249)	14,299	5,639	17,689
Cash and investment fund balance - beginning	29,597	30,928	30,406	90,931
Cash and investment fund balance - ending	\$ 27,348	\$ 45,227	\$ 36,045	108,620
Net assets of governmental activities				\$ 108,620
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 27,348	\$ 45,227	\$ 36,045	\$ 108,620
<u>Cash and Investment Fund Balance - December 31</u>				
Unrestricted	\$ 27,348	\$ 45,227	\$ 36,045	\$ 108,620

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

TOWN OF STAUNTON
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	Wastewater Utility	Total
Operating receipts:			
Unmetered water receipts	\$ 2,014	\$ -	\$ 2,014
Metered water receipts:			
Residential	164,650	-	164,650
Measured receipts:			
Residential	-	144,160	144,160
	<u> </u>	<u> </u>	<u> </u>
Total operating receipts	<u>166,664</u>	<u>144,160</u>	<u>310,824</u>
Operating disbursements:			
Customer accounts	2,179	-	2,179
Sales disbursements	7,772	-	7,772
Salaries and wages	19,114	42,971	62,085
Purchased power	7,938	7,685	15,623
Fuel for power production	-	147	147
Chemicals	1,532	1,698	3,230
Material and supplies	2,159	4,144	6,303
Contractual services	56,200	1,221,573	1,277,773
Insurance disbursements	4,036	4,036	8,072
Miscellaneous disbursements	3,498	3,305	6,803
	<u> </u>	<u> </u>	<u> </u>
Total operating disbursements	<u>104,428</u>	<u>1,285,559</u>	<u>1,389,987</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>62,236</u>	<u>(1,141,399)</u>	<u>(1,079,163)</u>
Nonoperating receipts (disbursements):			
Loan proceeds	-	835,130	835,130
Interest and investment receipts	771	-	771
Debt service of principal	(94,297)	-	(94,297)
Interest and investment disbursement	-	(3,025)	(3,025)
	<u> </u>	<u> </u>	<u> </u>
Total nonoperating receipts (disbursements)	<u>(93,526)</u>	<u>832,105</u>	<u>738,579</u>
Deficiency of receipts under disbursements and nonoperating receipts (disbursements)	<u>(31,290)</u>	<u>(309,294)</u>	<u>(340,584)</u>
Capital contributions	<u>-</u>	<u>82,854</u>	<u>82,854</u>
Deficiency of receipts and contributions under disbursements	<u>(31,290)</u>	<u>(226,440)</u>	<u>(257,730)</u>
Cash and investment fund balance - beginning	<u>175,466</u>	<u>337,632</u>	<u>513,098</u>
Cash and investment fund balance - ending	<u>\$ 144,176</u>	<u>\$ 111,192</u>	<u>\$ 255,368</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 73,077	\$ 73,984	\$ 147,061
Restricted assets:			
Cash and investments	<u>71,099</u>	<u>37,208</u>	<u>108,307</u>
Total cash and investment assets - December 31	<u>\$ 144,176</u>	<u>\$ 111,192</u>	<u>\$ 255,368</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 33,467	\$ 28,770	\$ 62,237
Other purposes	37,632	8,438	46,070
Unrestricted	<u>73,077</u>	<u>73,984</u>	<u>147,061</u>
Total cash and investment fund balance - December 31	<u>\$ 144,176</u>	<u>\$ 111,192</u>	<u>\$ 255,368</u>

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

TOWN OF STAUNTON
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	\$ 77,270
Deductions:	
Agency fund deductions	76,365
Excess of total additions over total deductions	905
Cash and investment fund balance - beginning	6,286
Cash and investment fund balance - ending	\$ 7,191

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

TOWN OF STAUNTON
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), highways and streets, public improvements, planning and zoning, general administrative services, water and wastewater.

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 MVH (motor vehicle highway fund) is used to account for state motor vehicle highway distributions. It is principally used for the construction and maintenance of streets and alleys.

The Town reports the following major proprietary funds:

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

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations and collection systems.

TOWN OF STAUNTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the Town reports the following fund type:

Agency funds account for assets held by the Town as an agent for payroll and excess levy.

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.

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. The Town does not have any internal service funds.

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.

TOWN OF STAUNTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

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.

TOWN OF STAUNTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

A. 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. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

TOWN OF STAUNTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2004 and 2005 were as follows:

Transfer From	Transfer To	2004	2005
Cumulative Capital Improvement Fund	General Fund	\$ 2,000	\$ -

The Town typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the General Fund to the debt service fund for current-year debt service requirements.

C. Restatements

For the year ended December 31, 2004, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Town. The following schedule presents a summary of restated beginning balances by opinion unit. New Funds represents the inclusion of existing funds which were not presented in the prior report.

Opinion Unit	Balance as Reported December 31, 2003	New Funds	Balance as Restated January 1, 2004
Independent Auditor's Report on Financial Statements	\$ -	\$ 3,478	\$ 3,478

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; job related illnesses or injuries to employees; 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.

During 2001, the Town joined with other governmental entities to form the Indiana Public Employers Plan, a public entity risk pool currently operating as a common risk management and insurance program for 865 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 employee. The Town pays an annual premium to the risk pool for its workman's compensation coverage. 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.

TOWN OF STAUNTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Rate Structure – Enterprise Funds

Water Utility

On June 13, 1999, the Town Council withdrew from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Town Council on February 12, 1998.

Wastewater Utility

The current rate structure was approved by the Town Council on April 1, 2005.

TOWN OF STAUNTON
 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	Law Enforcement Continuing Education	Cumulative Capital Improvement	Riverboat	Totals
Receipts:					
Licenses and permits	\$ -	\$ 100	\$ -	\$ -	\$ 100
Intergovernmental	3,535	-	2,053	3,465	9,053
Other	-	3	-	-	3
Total receipts	3,535	103	2,053	3,465	9,156
Disbursements:					
Public safety	-	276	-	-	276
Highways and streets	1,429	-	-	-	1,429
Total disbursements	1,429	276	-	-	1,705
Excess (deficiency) of receipts over disbursements	2,106	(173)	2,053	3,465	7,451
Other financing uses:					
Transfers out	-	-	(2,000)	-	(2,000)
Excess (deficiency) of receipts over (under) disbursements and other financing uses	2,106	(173)	53	3,465	5,451
Cash and investment fund balance - beginning	12,342	242	8,893	3,478	24,955
Cash and investment fund balance - ending	<u>\$ 14,448</u>	<u>\$ 69</u>	<u>\$ 8,946</u>	<u>\$ 6,943</u>	<u>\$ 30,406</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	<u>\$ 14,448</u>	<u>\$ 69</u>	<u>\$ 8,946</u>	<u>\$ 6,943</u>	<u>\$ 30,406</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Unrestricted	<u>\$ 14,448</u>	<u>\$ 69</u>	<u>\$ 8,946</u>	<u>\$ 6,943</u>	<u>\$ 30,406</u>

TOWN OF STAUNTON
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2004

	Payroll	Levy Excess	Total
Additions:			
Agency fund additions	\$ 75,706	\$ -	\$ 75,706
Deductions:			
Agency fund deductions	73,029	-	73,029
Excess of total additions over total deductions	2,677	-	2,677
Cash and investment fund balance - beginning	1,254	2,355	3,609
Cash and investment fund balance - ending	\$ 3,931	\$ 2,355	\$ 6,286

TOWN OF STAUNTON
 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	Law Enforcement Continuing Education	Cumulative Capital Improvement	Riverboat	Totals
Receipts:					
Licenses and permits	\$ -	\$ 50	\$ -	\$ -	\$ 50
Intergovernmental	3,537	-	1,700	3,468	8,705
Other	-	27	-	-	27
Total receipts	3,537	77	1,700	3,468	8,782
Disbursements:					
Highways and streets	2,361	-	-	-	2,361
Capital outlay	-	-	782	-	782
Total disbursements	2,361	-	782	-	3,143
Excess of receipts over disbursements	1,176	77	918	3,468	5,639
Cash and investment fund balance - beginning	14,448	69	8,946	6,943	30,406
Cash and investment fund balance - ending	<u>\$ 15,624</u>	<u>\$ 146</u>	<u>\$ 9,864</u>	<u>\$ 10,411</u>	<u>\$ 36,045</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	<u>\$ 15,624</u>	<u>\$ 146</u>	<u>\$ 9,864</u>	<u>\$ 10,411</u>	<u>\$ 36,045</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Unrestricted	<u>\$ 15,624</u>	<u>\$ 146</u>	<u>\$ 9,864</u>	<u>\$ 10,411</u>	<u>\$ 36,045</u>

TOWN OF STAUNTON
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2005

	Payroll	Levy Excess	Total
Additions:			
Agency fund additions	\$ 77,270	\$ -	\$ 77,270
Deductions:			
Agency fund deductions	76,365	-	76,365
Excess of total additions over total deductions	905	-	905
Cash and investment fund balance - beginning	3,931	2,355	6,286
Cash and investment fund balance - ending	\$ 4,836	\$ 2,355	\$ 7,191

TOWN OF STAUNTON
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2005

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 1,000
Buildings	87,968
Improvements other than buildings	<u>26,248</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 115,216</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 3,703
Buildings	250,000
Improvements other than buildings	566,629
Machinery and equipment	<u>293,836</u>
Total Water Utility capital assets	<u>1,114,168</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 8,716
Construction in progress	956,046
Buildings	278,750
Improvements other than buildings	3,860
Machinery and equipment	<u>51,969</u>
Total Wastewater Utility capital assets	<u>1,299,341</u>
Total business-type activities capital assets	<u>\$ 2,413,509</u>

TOWN OF STAUNTON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2005

The Town has entered into the following debt:

Description of Asset	Ending Balance	Due Within One Year
Business-type Activities:		
Water Utility		
Notes and loans payable:		
Water improvements	\$ 53,376	\$ 17,669
Water improvements	35,560	4,961
Total Water Utility	88,936	22,630
Wastewater Utility		
Revenue bonds:		
Wastewater improvements	932,000	10,000
Total business-type activities long-term debt	\$ 1,020,936	\$ 32,630

TOWN OF STAUNTON
AUDIT RESULTS AND COMMENTS

CERTIFIED REPORT NOT FILED

The Town did not file a certified report of compensation of officers and employees, Form 100-R, with the State Board of Accounts for the years 2004 and 2005.

Indiana Code 5-11-13-1 states in part: "Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

DELINQUENT ACCOUNTS RECEIVABLE

As stated in the prior Reports B19606 and B25072, Title 5, Chapter 50, of the Town's General Provisions established the shutoff policy for delinquent customers. The Utility did not always shut off delinquent customers as required by the provisions.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (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 46204-2769

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 STAUNTON, CLAY COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Staunton (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

October 30, 2006

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

Federal Grantor Agency/Pass-Through Entity 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 AGRICULTURE</u>				
Direct grant				
Water and Waste Disposal Systems for Rural Communities Wastewater Infrastructure Improvements Project	10.760		\$ -	\$ 826,662
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Department of Commerce				
Community Development Block Grants/Small Cities Program	14.219	CF-02-138	-	82,854
Total federal awards expended			<u>\$ -</u>	<u>\$ 909,516</u>

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

TOWN OF STAUNTON
NOTES 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 Staunton (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.

II. Loans Outstanding

The Town had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2004 and 2005. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2004	2005
Water and Waste Disposal Systems for Rural Communities	10.760	\$ -	\$ 932,000

TOWN OF STAUNTON
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
10.760	Water and Waste Disposal Systems for Rural Communities

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 STAUNTON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No items were reportable.

TOWN OF STAUNTON
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2006, with Catherine Mienheartt, Clerk-Treasurer. The official concurred with our audit findings.