

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

AUDIT REPORT
OF
TOWN OF SIDNEY
KOSCIUSKO COUNTY, INDIANA
January 1, 2005 to December 31, 2006



FILED
09/28/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lana D. Wolfe	01-01-05 to 12-31-07
President of the Town Council	Kenneth M. Koontz	01-01-05 to 12-31-07



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 SIDNEY, KOSCIUSKO 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 Sidney (Town), as of and for the years ended December 31, 2005 and 2006, 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, 2005 and 2006, 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 September 20, 2007, 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

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

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 Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has 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 it.

STATE BOARD OF ACCOUNTS

September 20, 2007



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF SIDNEY, KOSCIUSKO COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sidney (Town), as of and for the years ended December 31, 2005 and 2006, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 20, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Town's management, Town Council, 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

September 20, 2007

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

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipt and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government:				
Governmental activities:				
General government	\$ 14,658	\$ 1	\$ -	\$ (14,657)
Highways and streets	<u>50</u>	<u>-</u>	<u>7,127</u>	<u>7,077</u>
Total primary government	<u>\$ 14,708</u>	<u>\$ 1</u>	<u>\$ 7,127</u>	<u>(7,580)</u>
General receipts:				
Property taxes				18,831
Intergovernmental				10,003
Unrestricted investment earnings				<u>1,214</u>
Total general receipts				<u>30,048</u>
Change in net assets				22,468
Net assets - beginning				<u>160,000</u>
Net assets - ending				<u>\$ 182,468</u>
 <u>Assets</u>				
Cash and investments				\$ 136,970
Restricted assets:				
Cash and investments				<u>45,498</u>
Total assets				<u>\$ 182,468</u>
 <u>Net Assets</u>				
Restricted for:				
Capital projects				\$ 45,498
Unrestricted				<u>136,970</u>
Total net assets				<u>\$ 182,468</u>

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

TOWN OF SIDNEY
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	Local Road and Streets	Cumulative Capital Improvement	Economic Development Income Tax	Totals
Receipts:						
Taxes	\$ 18,831	\$ -	\$ -	\$ -	\$ -	\$ 18,831
Licenses and permits	1	-	-	-	-	1
Intergovernmental	5,023	5,282	1,845	520	4,461	17,131
Other	1,161	-	-	52	-	1,213
Total receipts	25,016	5,282	1,845	572	4,461	37,176
Disbursements:						
General government	14,658	-	-	-	-	14,658
Highways and streets	-	-	50	-	-	50
Total disbursements	14,658	-	50	-	-	14,708
Excess of receipts over disbursements	10,358	5,282	1,795	572	4,461	22,468
Cash and investment fund balance - beginning	33,323	56,340	29,872	13,944	26,521	160,000
Cash and investment fund balance - ending	<u>\$ 43,681</u>	<u>\$ 61,622</u>	<u>\$ 31,667</u>	<u>\$ 14,516</u>	<u>\$ 30,982</u>	<u>\$ 182,468</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ 43,681	\$ 61,622	\$ 31,667	\$ -	\$ -	\$ 136,970
Restricted assets:						
Cash and investments	-	-	-	14,516	30,982	45,498
Total cash and investment assets - December 31	<u>\$ 43,681</u>	<u>\$ 61,622</u>	<u>\$ 31,667</u>	<u>\$ 14,516</u>	<u>\$ 30,982</u>	<u>\$ 182,468</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Capital projects	\$ -	\$ -	\$ -	\$ 14,516	\$ 30,982	\$ 45,498
Unrestricted	43,681	61,622	31,667	-	-	136,970
Total cash and investment fund balance - December 31	<u>\$ 43,681</u>	<u>\$ 61,622</u>	<u>\$ 31,667</u>	<u>\$ 14,516</u>	<u>\$ 30,982</u>	<u>\$ 182,468</u>

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

TOWN OF SIDNEY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2006

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 18,653	\$ 2	\$ -	\$ -	\$ (18,651)	\$ -	\$ (18,651)
Highways and streets	-	-	8,136	-	8,136	-	8,136
Economic development	14,480	-	-	-	(14,480)	-	(14,480)
Total governmental activities	33,133	2	8,136	-	(24,995)	-	(24,995)
Business-type activities:							
Wastewater	909,521	11,544	-	954,395	-	56,418	56,418
Total primary government	<u>\$ 942,654</u>	<u>\$ 11,546</u>	<u>\$ 8,136</u>	<u>\$ 954,395</u>	<u>(24,995)</u>	<u>56,418</u>	<u>31,423</u>
General receipts:							
Property taxes					11,400	-	11,400
Intergovernmental					22,093	-	22,093
Unrestricted investment earnings					939	-	939
Transfers					(72,128)	72,128	-
Total general receipts and transfers					(37,696)	72,128	34,432
Change in net assets					(62,691)	128,546	65,855
Net assets - beginning					182,468	-	182,468
Net assets - ending					<u>\$ 119,777</u>	<u>\$ 128,546</u>	<u>\$ 248,323</u>
<u>Assets</u>							
Cash and investments					\$ 72,822	\$ 11,571	\$ 84,393
Cash and investments					46,955	116,975	163,930
Total assets					<u>\$ 119,777</u>	<u>\$ 128,546</u>	<u>\$ 248,323</u>
<u>Net Assets</u>							
Restricted for:							
Capital projects					\$ 46,955	\$ 116,975	\$ 163,930
Unrestricted					72,822	11,571	84,393
Total net assets					<u>\$ 119,777</u>	<u>\$ 128,546</u>	<u>\$ 248,323</u>

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

TOWN OF SIDNEY
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, 2006

	General	Motor Vehicle Highway	Local Road and Streets	Cumulative Capital Improvement	Economic Development Income Tax	Totals
Receipts:						
Taxes	\$ 11,400	\$ -	\$ -	\$ -	\$ -	\$ 11,400
Licenses and permits	2	-	-	-	-	2
Intergovernmental	6,208	6,327	1,809	600	15,285	30,229
Other	887	-	-	52	-	939
Total receipts	18,497	6,327	1,809	652	15,285	42,570
Disbursements:						
General government	18,653	-	-	-	-	18,653
Urban redevelopment and housing	-	-	-	-	14,480	14,480
Total disbursements	18,653	-	-	-	14,480	33,133
Excess (deficiency) of receipts over disbursements	(156)	6,327	1,809	652	805	9,437
Other financing uses:						
Transfers out	(50)	(45,768)	(26,310)	-	-	(72,128)
Excess (deficiency) of receipts over disbursements and other financing uses	(206)	(39,441)	(24,501)	652	805	(62,691)
Cash and investment fund balance - beginning	43,681	61,622	31,667	14,516	30,982	182,468
Cash and investment fund balance - ending	<u>\$ 43,475</u>	<u>\$ 22,181</u>	<u>\$ 7,166</u>	<u>\$ 15,168</u>	<u>\$ 31,787</u>	<u>\$ 119,777</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ 43,475	\$ 22,181	\$ 7,166	\$ -	\$ -	\$ 72,822
Restricted assets:						
Cash and investments	-	-	-	15,168	31,787	46,955
Total cash and investment assets - December 31	<u>\$ 43,475</u>	<u>\$ 22,181</u>	<u>\$ 7,166</u>	<u>\$ 15,168</u>	<u>\$ 31,787</u>	<u>\$ 119,777</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Capital projects	\$ -	\$ -	\$ -	\$ 15,168	\$ 31,787	\$ 46,955
Unrestricted	43,475	22,181	7,166	-	-	72,822
Total cash and investment fund balance - December 31	<u>\$ 43,475</u>	<u>\$ 22,181</u>	<u>\$ 7,166</u>	<u>\$ 15,168</u>	<u>\$ 31,787</u>	<u>\$ 119,777</u>

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

TOWN OF SIDNEY
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, 2006

	Wastewater Utility
Operating receipts:	
Unmetered water receipts	\$ 11,544
Operating disbursements:	
Equipment and capital improvements	858,998
Contractual services	50,500
Miscellaneous disbursements	23
Total operating disbursements	909,521
Deficiency of operating receipts under operating disbursements	(897,977)
Capital contributions	954,395
Transfers in	72,128
Excess of receipts, contributions, and transfers in over disbursements	128,546
Cash and investment fund balance - beginning	-
Cash and investment fund balance - ending	\$ 128,546
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 11,571
Restricted assets:	
Cash and investments	116,975
Total cash and investment assets - December 31	\$ 128,546
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Capital projects	\$ 116,975
Unrestricted	11,571
Total cash and investment fund balance - December 31	\$ 128,546

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

TOWN OF SIDNEY
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, public improvements, general administrative services, wastewater, and urban redevelopment and housing.

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

Primary Government: Town of Sidney

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 displays 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 (MVH) fund is a special revenue type fund whose primary purpose is to account for state MVH distributions. This fund is used principally for the construction and maintenance of streets and alleys.

The local road and street fund is a special revenue type fund whose statutory purpose is to account for state gasoline tax distributions and their subsequent expenditure for road and street related projects.

TOWN OF SIDNEY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The cumulative capital improvement fund is a capital projects type fund that is used to account for receipts and disbursements of state cigarette tax distributions. Its money may be used to: (1) purchase land, easements, or right-of-way; (2) purchase buildings; (3) construct or improve city owned property; (4) design, develop, purchase, lease, upgrade, maintain, or repair computers and computer accessories/networks; (5) pay for the service of full-time or part-time computer maintenance employees; (6) conduct nonrecurring in-service technology training; (7) undertake Internet application development; or (8) retire general obligation bonds issued by the town for one of the purposes stated in clause (1), (2), or (3).

The county economic development income tax (CEDIT) fund is a capital projects type fund. The fiscal officer of each town in a county in which the CEDIT is imposed shall establish an economic development income tax (EDIT) fund. Expenditures of this fund are used for capital improvement projects.

The Town reports the following major proprietary fund:

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

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 government's wastewater function and various other functions of the government. 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

TOWN OF SIDNEY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 equipment and capital improvement 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.

TOWN OF SIDNEY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.
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 and Net Assets – 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.

TOWN OF SIDNEY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Prior to the first required publication, 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. 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.

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2005 and 2006, were as follows:

Transfer From	Transfer To	2006
General Fund	Wastewater Utility	\$ 50
Motor Vehicle Highway Fund	Wastewater Utility	45,768
Local Road and Streets Fund	Wastewater Utility	26,310
Total		\$ 72,128

The Town used transfers to provide local contributions for the construction of the Wastewater Treatment Plant.

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; and natural disasters.

TOWN OF SIDNEY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The risks of torts; theft of, damage to, and destruction of assets; 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. Risk financing is not utilized for the other risks of loss.

B. Rate Structure – Enterprise Funds

Wastewater Utility

The current rate structure was approved by the Town Council on June 12, 2006.

TOWN OF SIDNEY
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

<u>Description of Asset</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Wastewater Utility: 2006 Rural development loan	<u>\$ 378,000</u>	<u>\$ 2,000</u>

TOWN OF SIDNEY
AUDIT RESULT AND COMMENT

CAPITAL ASSET RECORDS

The Wastewater Utility does not maintain sufficient detailed records of capital assets for its Utility Plant in Service accounts. Records providing historical costs for the Utility's capital assets are not available, and records classifying and summarizing the Utility's capital assets are incomplete. Deletions or disposals of capital assets are not recorded.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. 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)

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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 SIDNEY, KOSCIUSKO COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Sidney (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, 2005 and 2006. 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 of America; 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, 2005 and 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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 internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a Town's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2006-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan section of the report. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, 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

September 20, 2007

TOWN OF SIDNEY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2006

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Direct Grant			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ <u>731,554</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Office of Community and Rural Affairs			
Community Development Block Grant/State's Program	14.228	B04DC180001CF-05-211	<u>316,842</u>
Total federal awards expended			<u>\$ <u>1,048,396</u></u>

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

TOWN OF SIDNEY
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 Sidney (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, 2006. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2006
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 378,000</u>

TOWN OF SIDNEY
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?	yes

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
14.228	Community Development Block Grant/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.

TOWN OF SIDNEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, CAPITAL ASSET RECORDS

Federal Agency: U.S. Department of Agriculture, U.S. Department of Housing and Urban Development
Federal Program: Water and Waste Disposal Systems for Rural Communities, Community Development
Block Grant/State's Program
CFDA Numbers: 10.760, 14.228
Federal Award Numbers: B04DC180001CF-05-211
Pass-Through Entity: Indiana Office of Community and Rural Affairs

The Wastewater Utility does not maintain sufficient detailed records of capital assets for its Utility Plant in Service accounts. Records providing historical costs for the Utility's capital assets are not available, and records classifying and summarizing the Utility's capital assets are incomplete. Deletions or disposals of capital assets are not recorded.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. 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)

Failure to maintain adequate capital asset records could result in the unidentified loss or misappropriation of the capital assets.

We recommended that the Town Officials conduct an inventory of all capital assets and prepare adequate capital asset records.

TOWN OF SIDNEY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

Town of Sidney
104 N. Monroe Street
Sidney, IN 46566

Lana D. Wolfe, Clerk-Treasurer
Kenneth M. Koontz, President of Town Council
(574) 268-2111

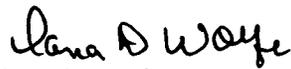
September 20, 2007

Finding Number 2006-1 CAPITAL ASSET RECORDS

Audit Year:	2005 – 2006
Auditee Contact Person:	Lana D. Wolfe
Title of Contact Person:	Clerk-Treasurer
Phone Number:	(574) 268-2111

Corrective Action

We will conduct an inventory of all capital assets and distinguish which assets were purchased with federal award funds and which assets were purchased with Town funds. Consequently, we will prepare adequate capital asset records using forms acceptable to the IN State Board of Accounts.



Lana D. Wolfe
Clerk-Treasurer

TOWN OF SIDNEY
EXIT CONFERENCE

The contents of this report were discussed on September 20, 2007, with Lana D. Wolfe, Clerk-Treasurer; and Kenneth M. Koontz, President of the Town Council. The officials concurred with our audit finding.