

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

AUDIT REPORT

OF

TOWN OF EAST GERMANTOWN

WAYNE COUNTY, INDIANA

January 1, 2005 to December 31, 2006



FILED
10/17/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Saundra A. Tusing	01-01-05 to 12-31-07
President of the Town Council	David Shank	01-01-05 to 06-30-05
	Philip McQueen	07-01-05 to 12-31-05
	Steve Mills	01-01-06 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 EAST GERMANTOWN, WAYNE 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 East Germantown (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 4, 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 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 required parts 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

September 4, 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 EAST GERMANTOWN, WAYNE 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 East Germantown (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 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 4, 2007

TOWN OF EAST GERMANTOWN
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	Totals
Primary government:							
Governmental activities:							
General government	\$ 12,896	\$ 1,471	\$ 8,399	\$ 751	\$ (2,275)	\$ -	\$ (2,275)
Highways and streets	7,018	-	15,847	-	8,829	-	8,829
Sanitation	4,073	-	-	-	(4,073)	-	(4,073)
Economic development	46,111	-	46,111	-	-	-	-
Total governmental activities	70,098	1,471	70,357	751	2,481	-	2,481
Business-type activities:							
Wastewater	1,878,119	29,442	-	1,206,000	-	(642,677)	(642,677)
Total primary government	\$ 1,948,217	\$ 30,913	\$ 70,357	\$ 1,206,751	2,481	(642,677)	(640,196)
General receipts:							
Property taxes					15,000	-	15,000
Bonds and loans					-	661,000	661,000
Unrestricted investment earnings					4,749	-	4,749
Refunds and reimbursements					18,406	-	18,406
Total general receipts					38,155	661,000	699,155
Change in net assets					40,636	18,323	58,959
Net assets - beginning					196,435	-	196,435
Net assets - ending					\$ 237,071	\$ 18,323	\$ 255,394
<u>Assets</u>							
Cash and investments					\$ 237,046	\$ 16,616	\$ 253,662
Restricted assets:							
Cash and investments					25	1,707	1,732
Total assets					\$ 237,071	\$ 18,323	\$ 255,394
<u>Net Assets</u>							
Restricted for:							
Culture and recreation					\$ 25	\$ -	\$ 25
Construction					-	1,707	1,707
Unrestricted					237,046	16,616	253,662
Total net assets					\$ 237,071	\$ 18,323	\$ 255,394

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

TOWN OF EAST GERMANTOWN
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 Street	Indiana Housing Finance Authority	EDIT	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 15,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,000
Licenses and permits	105	-	-	-	-	-	105
Intergovernmental	6,868	9,141	2,653	46,111	4,053	2,283	71,109
Other	21,625	-	-	-	2,895	-	24,520
Total receipts	43,598	9,141	2,653	46,111	6,948	2,283	110,734
Disbursements:							
General government	12,896	-	-	-	-	-	12,896
Highways and streets	-	7,018	-	-	-	-	7,018
Sanitation	4,073	-	-	-	-	-	4,073
Urban redevelopment and housing	-	-	-	46,111	-	-	46,111
Total disbursements	16,969	7,018	-	46,111	-	-	70,098
Excess of receipts over disbursements	26,629	2,123	2,653	-	6,948	2,283	40,636
Cash and investment fund balance - beginning	18,431	27,368	38,789	-	87,942	23,905	196,435
Cash and investment fund balance - ending	\$ 45,060	\$ 29,491	\$ 41,442	\$ -	\$ 94,890	\$ 26,188	\$ 237,071
Cash and Investment Assets - December 31							
Cash and investments	\$ 45,060	\$ 29,491	\$ 41,442	\$ -	\$ 94,890	\$ 26,163	\$ 237,046
Restricted assets:							
Cash and investments	-	-	-	-	-	25	25
Total cash and investment assets - December 31	\$ 45,060	\$ 29,491	\$ 41,442	\$ -	\$ 94,890	\$ 26,188	\$ 237,071
Cash and Investment Fund Balance - December 31							
Restricted for:							
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25	\$ 25
Unrestricted	45,060	29,491	41,442	-	94,890	26,163	237,046
Total cash and investment fund balance - December 31	\$ 45,060	\$ 29,491	\$ 41,442	\$ -	\$ 94,890	\$ 26,188	\$ 237,071

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

TOWN OF EAST GERMANTOWN
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

	<u>Wastewater Utility</u>
Operating receipts:	
Unmetered water receipts	\$ 28,417
Other	<u>1,025</u>
Total operating receipts	<u>29,442</u>
Operating disbursements:	
Equipment and capital improvements	1,865,294
Operations and maintenance	3,142
Administration and general	100
Salaries and wages	<u>2,700</u>
Total operating disbursements	<u>1,871,236</u>
Deficiency of operating receipts over operating disbursements	<u>(1,841,794)</u>
Nonoperating receipts (disbursements):	
Bond proceeds	661,000
Interest paid on debt	<u>(6,883)</u>
Total nonoperating receipts (disbursements)	<u>654,117</u>
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(1,187,677)
Capital contributions	<u>1,206,000</u>
Excess of receipts, contributions and transfers in over disbursements and transfers out	18,323
Cash and investment fund balance - beginning	<u>-</u>
Cash and investment fund balance - ending	<u>\$ 18,323</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 16,616
Restricted assets:	
Cash and investments	<u>1,707</u>
Total cash and investment assets - December 31	<u>\$ 18,323</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Construction	\$ 1,707
Unrestricted	<u>16,616</u>
Total cash and investment fund balance - December 31	<u>\$ 18,323</u>

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

TOWN OF EAST GERMANTOWN
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	\$ -
Deductions:	
Agency fund deductions	-
Excess of total additions over total deductions	-
Cash and investment fund balance - beginning	248
Cash and investment fund balance - ending	\$ 248

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

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

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		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 18,612	\$ 1,727	\$ 8,292	\$ 868	\$ (7,725)	\$ -	\$ (7,725)
Highways and streets	45,489	-	14,701	-	(30,788)	-	(30,788)
Sanitation	4,205	-	-	-	(4,205)	-	(4,205)
Economic development	26,881	-	26,881	-	-	-	-
Total governmental activities	95,187	1,727	49,874	868	(42,718)	-	(42,718)
Business-type activities:							
Wastewater	222,592	85,476	-	164,500	-	27,384	27,384
Total primary government	\$ 317,779	\$ 87,203	\$ 49,874	\$ 165,368	(42,718)	27,384	(15,334)
General receipts:							
Property taxes					10,225	-	10,225
Unrestricted investment earnings					6,623	-	6,623
Total general receipts					16,848	-	16,848
Change in net assets					(25,870)	27,384	1,514
Net assets - beginning					237,071	18,323	255,394
Net assets - ending					\$ 211,201	\$ 45,707	\$ 256,908
<u>Assets</u>							
Cash and investments					\$ 211,176	\$ 44,209	\$ 255,385
Restricted assets:							
Cash and investments					25	1,498	1,523
Total assets					\$ 211,201	\$ 45,707	\$ 256,908
<u>Net Assets</u>							
Restricted for:							
Culture and recreation					\$ 25	\$ -	\$ 25
Construction					-	1,498	1,498
Unrestricted					211,176	44,209	255,385
Total net assets					\$ 211,201	\$ 45,707	\$ 256,908

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

TOWN OF EAST GERMANTOWN
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 Street	Indiana Housing Finance Authority	EDIT	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 10,225	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,225
Licenses and permits	230	-	-	-	-	-	230
Intergovernmental	6,763	7,469	2,545	26,881	4,687	2,397	50,742
Other	3,540	-	-	-	4,580	-	8,120
Total receipts	20,758	7,469	2,545	26,881	9,267	2,397	69,317
Disbursements:							
General government	18,612	-	-	-	-	-	18,612
Highways and streets	2,717	11,364	22,000	-	9,408	-	45,489
Sanitation	4,205	-	-	-	-	-	4,205
Urban redevelopment and housing	-	-	-	26,881	-	-	26,881
Total disbursements	25,534	11,364	22,000	26,881	9,408	-	95,187
Excess (deficiency) of receipts over disbursements	(4,776)	(3,895)	(19,455)	-	(141)	2,397	(25,870)
Cash and investment fund balance - beginning	45,060	29,491	41,442	-	94,890	26,188	237,071
Cash and investment fund balance - ending	\$ 40,284	\$ 25,596	\$ 21,987	\$ -	\$ 94,749	\$ 28,585	\$ 211,201
Cash and Investment Assets - December 31							
Cash and investments	\$ 40,284	\$ 25,596	\$ 21,987	\$ -	\$ 94,749	\$ 28,560	\$ 211,176
Restricted assets:							
Cash and investments	-	-	-	-	-	25	25
Total cash and investment assets - December 31	\$ 40,284	\$ 25,596	\$ 21,987	\$ -	\$ 94,749	\$ 28,585	\$ 211,201
Cash and Investment Fund Balance - December 31							
Restricted for:							
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25	\$ 25
Unrestricted	40,284	25,596	21,987	-	94,749	28,560	211,176
Total cash and investment fund balance - December 31	\$ 40,284	\$ 25,596	\$ 21,987	\$ -	\$ 94,749	\$ 28,585	\$ 211,201

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

TOWN OF EAST GERMANTOWN
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	\$ 76,853
Other	8,623
Total operating receipts	85,476
Operating disbursements:	
Equipment and capital improvements	164,709
Operations and maintenance	16,174
Administration and general	6,118
Salaries and wages	6,192
Total operating disbursements	193,193
Deficiency of operating receipts over operating disbursements	(107,717)
Nonoperating disbursements:	
Interest paid on debt	(29,399)
Total nonoperating disbursements	(29,399)
Deficiency of receipts over disbursements and nonoperating disbursements	(137,116)
Capital contributions	164,500
Excess of receipts and contributions over disbursements	27,384
Cash and investment fund balance - beginning	18,323
Cash and investment fund balance - ending	\$ 45,707
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 44,209
Restricted assets:	
Cash and investments	1,498
Total cash and investment assets - December 31	\$ 45,707
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Construction	\$ 1,498
Unrestricted	44,209
Total cash and investment fund balance - December 31	\$ 45,707

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

TOWN OF EAST GERMANTOWN
STATEMENT OF ADDITIONS, DEDUCTIONS, AND
CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2006

	Agency Funds
Additions:	
Agency fund additions	\$ 5,422
Deductions:	
Agency fund deductions	5,005
Excess of total additions over total deductions	417
Cash and investment fund balance - beginning	248
Cash and investment fund balance - ending	\$ 665

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

TOWN OF EAST GERMANTOWN
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: highways and streets, general administrative services, wastewater utility services, and urban redevelopment and housing.

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

Primary Government: Town of East Germantown

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 fund is a street maintenance fund. It accounts for financial resources used to repair and maintain Town streets.

The local road and street fund is a street repair and maintenance fund. It accounts for the financial resources to repair and maintain Town streets.

The Indiana housing finance authority fund is a grant fund. It accounts for grants used to improve housing conditions for qualifying Town residents.

The EDIT (economic development income tax) fund is used to account for the Town's share of economic development income tax. It is used for improvements benefiting Town residents, such as street improvements.

TOWN OF EAST GERMANTOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Town reports the following major proprietary fund:

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

Additionally, the Town reports the following fund type:

Agency funds account for assets held by the Town as an agent for payroll taxes withheld.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

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

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

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

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

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.

TOWN OF EAST GERMANTOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Capital Assets

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

3. Long-Term Debt

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

4. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit 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.

TOWN OF EAST GERMANTOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

1. 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.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit(s) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

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.

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.

TOWN OF EAST GERMANTOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

III. Detailed Notes on All Funds

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2006, 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.

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.

B. Rate Structure – Enterprise Fund

Wastewater Utility

The current rate structure was approved by the Town Council on December 8, 2004.

TOWN OF EAST GERMANTOWN
 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

	Rainy Day Fund	Riverboat Revenue	Christmas Donation Fund	Levy Excess	Cumulative Capital Improvement	Cumulative Capital Development	Totals
Receipts:							
Intergovernmental	\$ -	\$ 1,532	\$ -	\$ -	\$ 751	\$ -	\$ 2,283
Excess of receipts over disbursements	-	1,532	-	-	751	-	2,283
Cash and investment fund balance - beginning	1,992	1,532	25	135	17,644	2,577	23,905
Cash and investment fund balance - ending	<u>\$ 1,992</u>	<u>\$ 3,064</u>	<u>\$ 25</u>	<u>\$ 135</u>	<u>\$ 18,395</u>	<u>\$ 2,577</u>	<u>\$ 26,188</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 1,992	\$ 3,064	\$ -	\$ 135	\$ 18,395	\$ 2,577	\$ 26,163
Restricted assets:							
Cash and investments	-	-	25	-	-	-	25
Total cash and investment assets - December 31	<u>\$ 1,992</u>	<u>\$ 3,064</u>	<u>\$ 25</u>	<u>\$ 135</u>	<u>\$ 18,395</u>	<u>\$ 2,577</u>	<u>\$ 26,188</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Culture and recreation	\$ -	\$ -	\$ 25	\$ -	\$ -	\$ -	\$ 25
Unrestricted	1,992	3,064	-	135	18,395	2,577	26,163
Total cash and investment fund balance - December 31	<u>\$ 1,992</u>	<u>\$ 3,064</u>	<u>\$ 25</u>	<u>\$ 135</u>	<u>\$ 18,395</u>	<u>\$ 2,577</u>	<u>\$ 26,188</u>

TOWN OF EAST GERMANTOWN
 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, 2006

	Rainy Day Fund	Riverboat Revenue	Christmas Donation Fund	Levy Excess	Cumulative Capital Improvement	Cumulative Capital Development	Totals
Receipts:							
Intergovernmental	\$ -	\$ 1,529	\$ -	\$ -	\$ 868	\$ -	\$ 2,397
Excess of receipts over disbursements	-	1,529	-	-	868	-	2,397
Cash and investment fund balance - beginning	1,992	3,064	25	135	18,395	2,577	26,188
Cash and investment fund balance - ending	<u>\$ 1,992</u>	<u>\$ 4,593</u>	<u>\$ 25</u>	<u>\$ 135</u>	<u>\$ 19,263</u>	<u>\$ 2,577</u>	<u>\$ 28,585</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 1,992	\$ 4,593	\$ -	\$ 135	\$ 19,263	\$ 2,577	\$ 28,560
Restricted assets:							
Cash and investments	-	-	25	-	-	-	25
Total cash and investment assets - December 31	<u>\$ 1,992</u>	<u>\$ 4,593</u>	<u>\$ 25</u>	<u>\$ 135</u>	<u>\$ 19,263</u>	<u>\$ 2,577</u>	<u>\$ 28,585</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Culture and recreation	\$ -	\$ -	\$ 25	\$ -	\$ -	\$ -	\$ 25
Unrestricted	1,992	4,593	-	135	19,263	2,577	28,560
Total cash and investment fund balance - December 31	<u>\$ 1,992</u>	<u>\$ 4,593</u>	<u>\$ 25</u>	<u>\$ 135</u>	<u>\$ 19,263</u>	<u>\$ 2,577</u>	<u>\$ 28,585</u>

**TOWN OF EAST GERMANTOWN
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

For The Year Ended December 31, 2006

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>
Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Construction in progress	\$ 1,814,788
Machinery and equipment	<u>215,214</u>
Total Wastewater Utility capital assets	<u>2,030,002</u>
Total business-type activities capital assets	<u><u>\$ 2,030,002</u></u>

TOWN OF EAST GERMANTOWN
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Business-type Activities:		
Wastewater Utility		
Revenue bonds:		
Wastewater Utility Bonds of 2005	\$ 661,000	\$ 4,000
Total Wastewater Utility	<u>661,000</u>	<u>4,000</u>
Total business-type activities long-term debt:	<u>\$ 661,000</u>	<u>\$ 4,000</u>

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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
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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 EAST GERMANTOWN, WAYNE COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of East Germantown (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.

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)

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.

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.

Our consideration of the internal control over compliance 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 compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

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

September 4, 2007

TOWN OF EAST GERMANTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2005 and 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 12-31-05	Total Federal Awards Expended 12-31-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities East Germantown Sanitary Sewer	10.760		\$ 1,365,294	\$ 164,709
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Lieutenant Governor's Office Community Development Block Grants/State's Program	14.228			
Pass-Through Indiana Housing Finance Authority		CF-04-106	500,000	-
		HD-003-019	<u>46,111</u>	<u>-</u>
Total for federal grantor agency			<u>546,111</u>	<u>-</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-Through Indiana Department of Homeland Security Disaster Grants - Public Assistance	97.036			
		EM3197	<u>1,509</u>	<u>-</u>
Total federal awards expended			<u>\$ 1,912,914</u>	<u>\$ 164,709</u>

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

TOWN OF EAST GERMANTOWN
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 East Germantown (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, 2005 and 2006. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 661,000	\$ 661,000

TOWN OF EAST GERMANTOWN
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
14.228	Community Development Block Grants/State's Program

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF EAST GERMANTOWN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF EAST GERMANTOWN
EXIT CONFERENCE

The contents of this report were discussed on September 20, 2007, with Sandra A. Tusing, Clerk-Treasurer; and Philip McQueen, Council member. Our audit disclosed no material items that warrant comment at this time.