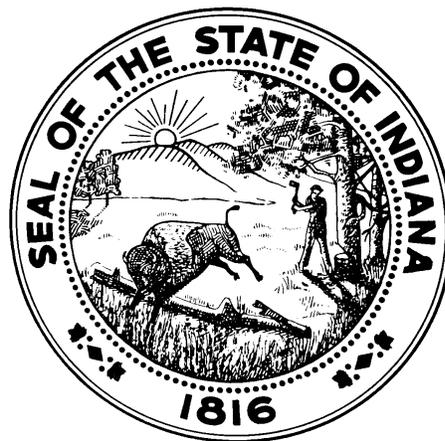


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
TOWN OF PATRIOT
SWITZERLAND COUNTY, INDIANA
January 1, 2006 to December 31, 2007



FILED
09/15/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Pamela Hutchinson Linda Fisk	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Town Council	James L. Caudill Cindy Kerr James L. Caudill	01-01-06 to 12-31-07 01-01-08 to 06-03-08 06-04-08 to 12-31-08
Superintendent of Utilities	Sherry L. Ogden	01-01-06 to 12-31-08



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 FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TOWN OF PATRIOT, SWITZERLAND 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 Patriot (Town), as of and for the years ended December 31, 2006 and 2007, 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, 2006 and 2007, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated August 19, 2008, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, as listed in the Table of Contents 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 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

August 19, 2008



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

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 PATRIOT, SWITZERLAND 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 Patriot (Town), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated July 15, 2008. 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.

We noted certain matters that we reported to management in a separate letter dated August 19, 2008.

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

August 19, 2008

TOWN OF PATRIOT
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	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 101,085	\$ 12,000	\$ 3,403	\$ 722	\$ (84,960)	\$ -	\$ (84,960)
Public safety	18,017	-	-	-	(18,017)	-	(18,017)
Sanitation	8,008	-	-	-	(8,008)	-	(8,008)
Highways and streets	1,788	-	8,464	-	6,676	-	6,676
Culture and recreation	23,832	1,180	-	-	(22,652)	-	(22,652)
Total governmental activities	152,730	13,180	11,867	722	(126,961)	-	(126,961)
Business-type activities:							
Water	1,300,629	2,001,582	-	-	-	700,953	700,953
Wastewater	32,862	30,825	-	-	-	(2,037)	(2,037)
Total business-type activities	1,333,491	2,032,407	-	-	-	698,916	698,916
Total primary government	\$ 1,486,221	\$ 2,045,587	\$ 11,867	\$ 722	(126,961)	698,916	571,955
General receipts:							
Property taxes					5,779	-	5,779
Riverboat revenue sharing					401,166	-	401,166
Bonds and loans					-	142,965	142,965
Grants and contributions not restricted to specific programs					1,371	-	1,371
Unrestricted investment earnings					10,401	23,064	33,465
Interfund loans					63,175	(63,175)	-
Total general receipts					481,892	102,854	584,746
Change in net assets					354,931	801,770	1,156,701
Net assets - beginning					344,784	814,037	1,158,821
Net assets - ending					\$ 699,715	\$ 1,615,807	\$ 2,315,522
<u>Assets</u>							
Cash and investments					\$ 665,046	\$ 332,604	\$ 997,650
Restricted assets:							
Cash and investments					34,669	1,283,203	1,317,872
Total assets					\$ 699,715	\$ 1,615,807	\$ 2,315,522
<u>Net Assets</u>							
Restricted for:							
Highways and streets					\$ 34,669	\$ -	\$ 34,669
Capital outlay					-	385,324	385,324
Debt service					-	897,879	897,879
Unrestricted					665,046	332,604	997,650
Total net assets					\$ 699,715	\$ 1,615,807	\$ 2,315,522

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

TOWN OF PATRIOT
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	Riverboat	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 5,779	\$ -	\$ -	\$ 5,779
Intergovernmental	4,524	401,166	9,185	414,875
Charges for services	13,130	50	-	13,180
Other	250	10,401	-	10,651
	<u>23,683</u>	<u>411,617</u>	<u>9,185</u>	<u>444,485</u>
Total receipts				
Disbursements:				
General government	8,020	93,065	-	101,085
Public safety	5,700	12,317	-	18,017
Sanitation	8,008	-	-	8,008
Highways and streets	-	-	1,788	1,788
Culture and recreation	1,409	22,423	-	23,832
	<u>23,137</u>	<u>127,805</u>	<u>1,788</u>	<u>152,730</u>
Total disbursements				
Excess of receipts over disbursements	<u>546</u>	<u>283,812</u>	<u>7,397</u>	<u>291,755</u>
Other financing sources (uses):				
Interfund loan repayment	-	63,175	-	63,175
Transfers in	1,716	-	-	1,716
Transfers out	-	-	(1,716)	(1,716)
	<u>1,716</u>	<u>63,175</u>	<u>(1,716)</u>	<u>63,175</u>
Total other financing sources (uses)				
Excess of receipts and other financing sources over disbursements and other financing uses	2,262	346,987	5,681	354,930
Cash and investment fund balance - beginning	<u>4,815</u>	<u>301,382</u>	<u>38,588</u>	<u>344,785</u>
Cash and investment fund balance - ending	<u>\$ 7,077</u>	<u>\$ 648,369</u>	<u>\$ 44,269</u>	<u>\$ 699,715</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 7,077	\$ 648,369	\$ 9,600	\$ 665,046
Restricted assets:				
Cash and investments	-	-	34,669	34,669
Total cash and investment assets - December 31	<u>\$ 7,077</u>	<u>\$ 648,369</u>	<u>\$ 44,269</u>	<u>\$ 699,715</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Highways and streets	\$ -	\$ -	\$ 34,669	\$ 34,669
Unrestricted	<u>7,077</u>	<u>648,369</u>	<u>9,600</u>	<u>665,046</u>
Total cash and investment fund balance - December 31	<u>\$ 7,077</u>	<u>\$ 648,369</u>	<u>\$ 44,269</u>	<u>\$ 699,715</u>

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

TOWN OF PATRIOT
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

	Water Utility	Wastewater Utility	Totals
Operating receipts:			
Metered water receipts:	\$ 1,909,177	\$ -	\$ 1,909,177
Residential sales	-	30,825	30,825
Other water receipts	44,487	-	44,487
Other	47,918	-	47,918
	<u>2,001,582</u>	<u>30,825</u>	<u>2,032,407</u>
Total operating receipts			
Operating disbursements:			
Equipment and capital improvements	189,711	-	189,711
Salaries and wages	292,453	-	292,453
Employee pensions and benefits	93,026	-	93,026
Purchased power	111,729	8,869	120,598
Chemicals	11,957	1,360	13,317
Material and supplies	92,506	9,285	101,791
Contractual services	61,362	200	61,562
Rents	12,000	-	12,000
Transportation disbursements	13,915	-	13,915
Insurance disbursements	23,534	-	23,534
Miscellaneous disbursements	55,495	1,888	57,383
	<u>957,688</u>	<u>21,602</u>	<u>979,290</u>
Total operating disbursements			
Excess of operating receipts over operating disbursements	<u>1,043,894</u>	<u>9,223</u>	<u>1,053,117</u>
Nonoperating receipts (disbursements):			
Bond proceeds	142,965	-	142,965
Interest and investment receipts	23,010	54	23,064
Debt service of principal	(137,350)	(3,000)	(140,350)
Debt service of interest	(205,591)	(8,260)	(213,851)
Interfund loan repayment	(63,175)	-	(63,175)
	<u>(240,141)</u>	<u>(11,206)</u>	<u>(251,347)</u>
Total nonoperating disbursements			
Excess (deficiency) of receipts over (under) disbursements and nonoperating receipts (disbursements)	803,753	(1,983)	801,770
Cash and investment fund balance - beginning	<u>789,320</u>	<u>24,717</u>	<u>814,037</u>
Cash and investment fund balance - ending	<u>\$ 1,593,073</u>	<u>\$ 22,734</u>	<u>\$ 1,615,807</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 325,269	\$ 7,335	\$ 332,604
Restricted assets:			
Cash and investments	<u>1,267,804</u>	<u>15,399</u>	<u>1,283,203</u>
Total cash and investment assets - December 31	<u>\$ 1,593,073</u>	<u>\$ 22,734</u>	<u>\$ 1,615,807</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 882,480	\$ 15,399	\$ 897,879
Capital acquisition	385,324	-	385,324
Unrestricted	<u>325,269</u>	<u>7,335</u>	<u>332,604</u>
Total cash and investment fund balance - December 31	<u>\$ 1,593,073</u>	<u>\$ 22,734</u>	<u>\$ 1,615,807</u>

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

TOWN OF PATRIOT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2007

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	\$ 75,186	\$ 12,155	\$ 2,804	\$ 710	\$ (59,517)	\$ -	\$ (59,517)
Public safety	46,148	-	-	-	(46,148)	-	(46,148)
Sanitation	9,000	-	-	-	(9,000)	-	(9,000)
Highways and streets	47,262	-	8,329	-	(38,933)	-	(38,933)
Culture and recreation	105,402	1,552	1,000	-	(102,850)	-	(102,850)
Total governmental activities	282,998	13,707	12,133	710	(256,448)	-	(256,448)
Business-type activities:							
Water	1,662,198	2,045,370	-	-	-	383,172	383,172
Wastewater	37,066	31,892	-	-	-	(5,174)	(5,174)
Total business-type activities	1,699,264	2,077,262	-	-	-	377,998	377,998
Total primary government	\$ 1,982,262	\$ 2,090,969	\$ 12,133	\$ 710	(256,448)	377,998	121,550
General receipts:							
Property taxes					6,655	-	6,655
Riverboat revenue sharing					362,720	-	362,720
Grants and contributions not restricted to specific programs					1,330	-	1,330
Unrestricted investment earnings					21,408	42,952	64,360
Interfund loans					108,300	(108,300)	-
Transfers in (out)					(10,000)	10,000	-
Total general receipts and transfers					490,413	(55,348)	435,065
Change in net assets					233,965	322,650	556,615
Net assets - beginning					699,715	1,615,807	2,315,522
Net assets - ending					\$ 933,680	\$ 1,938,457	\$ 2,872,137
Assets							
Cash and investments					\$ 904,621	\$ 229,265	\$ 1,133,886
Cash with fiscal agent					-	1,168,904	1,168,904
Restricted assets:							
Cash and investments					29,059	540,288	569,347
Total assets					\$ 933,680	\$ 1,938,457	\$ 2,872,137
Net Assets							
Restricted for:							
Highways and streets					\$ 20,931	\$ -	\$ 20,931
Debt service					-	1,181,591	1,181,591
Capital outlay					8,128	527,601	535,729
Unrestricted					904,621	229,265	1,133,886
Total net assets					\$ 933,680	\$ 1,938,457	\$ 2,872,137

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

TOWN OF PATRIOT
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, 2007

	General	Riverboat	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 6,655	\$ -	\$ -	\$ 6,655
Intergovernmental	3,884	362,720	10,039	376,643
Charges for services	-	685	155	840
Other	13,117	21,408	-	34,525
Total receipts	<u>23,656</u>	<u>384,813</u>	<u>10,194</u>	<u>418,663</u>
Disbursements:				
General government	4,396	70,790	-	75,186
Public safety	11,148	35,000	-	46,148
Sanitation	9,000	-	-	9,000
Highways and streets	-	25,195	22,067	47,262
Culture and recreation	1,346	104,056	-	105,402
Total disbursements	<u>25,890</u>	<u>235,041</u>	<u>22,067</u>	<u>282,998</u>
Excess (deficiency) of receipts over (under) disbursements	(2,234)	149,772	(11,873)	135,665
Other financing sources (uses):				
Transfer out	-	(10,000)	-	(10,000)
Interfund loan repayment	-	108,300	-	108,300
Excess of other financing sources over other financing uses	<u>-</u>	<u>98,300</u>	<u>-</u>	<u>98,300</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,234)	248,072	(11,873)	233,965
Cash and investment fund balance - beginning	<u>7,077</u>	<u>648,369</u>	<u>44,269</u>	<u>699,715</u>
Cash and investment fund balance - ending	<u>\$ 4,843</u>	<u>\$ 896,441</u>	<u>\$ 32,396</u>	<u>\$ 933,680</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 4,843	\$ 896,441	\$ 11,465	\$ 912,749
Restricted assets:				
Cash and investments	-	-	20,931	20,931
Total cash and investment assets - December 31	<u>\$ 4,843</u>	<u>\$ 896,441</u>	<u>\$ 32,396</u>	<u>\$ 933,680</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Highways and streets	\$ -	\$ -	\$ 20,931	\$ 20,931
Unrestricted	4,843	896,441	11,465	912,749
Total cash and investment fund balance - December 31	<u>\$ 4,843</u>	<u>\$ 896,441</u>	<u>\$ 32,396</u>	<u>\$ 933,680</u>

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

TOWN OF PATRIOT
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, 2007

	Water Utility	Wastewater Utility	Totals
Operating receipts:			
Metered water receipts:			
Residential	\$ 1,906,706	\$ -	\$ 1,906,706
Residential sales	-	31,892	31,892
Other water revenue	39,234	-	39,234
Other	<u>99,430</u>	<u>-</u>	<u>99,430</u>
Total operating receipts	<u>2,045,370</u>	<u>31,892</u>	<u>2,077,262</u>
Operating disbursements:			
Equipment and capital improvements	212,993	-	212,993
Salaries and wages	312,917	-	312,917
Employee pensions and benefits	104,193	-	104,193
Purchased power	124,061	9,277	133,338
Chemicals	25,628	562	26,190
Material and supplies	158,016	13,347	171,363
Contractual services	37,779	775	38,554
Rents	12,000	-	12,000
Transportation disbursements	14,565	-	14,565
Insurance disbursements	17,501	-	17,501
Miscellaneous disbursements	<u>145,792</u>	<u>1,995</u>	<u>147,787</u>
Total operating disbursements	<u>1,165,445</u>	<u>25,956</u>	<u>1,191,401</u>
Excess of operating receipts over operating disbursements	<u>879,925</u>	<u>5,936</u>	<u>885,861</u>
Nonoperating receipts (disbursements):			
Bond proceeds	77,124	-	77,124
Debt service of principal	(361,535)	(3,000)	(364,535)
Debt service of interest	(212,342)	(8,110)	(220,452)
Interest and investment receipts	42,902	50	42,952
Transfer in	-	10,000	10,000
Interfund loan repayment	<u>(108,300)</u>	<u>-</u>	<u>(108,300)</u>
Total nonoperating disbursements	<u>(562,151)</u>	<u>(1,060)</u>	<u>(563,211)</u>
Excess of receipts over disbursements and nonoperating receipts (disbursements)	317,774	4,876	322,650
Cash and investment fund balance - beginning	<u>1,593,073</u>	<u>22,734</u>	<u>1,615,807</u>
Cash and investment fund balance - ending	<u>\$ 1,910,847</u>	<u>\$ 27,610</u>	<u>\$ 1,938,457</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 218,994	\$ 10,271	\$ 229,265
Cash with fiscal agent	1,168,904	-	1,168,904
Restricted assets:			
Cash and investments	<u>522,949</u>	<u>17,339</u>	<u>540,288</u>
Total cash and investment assets - December 31	<u>\$ 1,910,847</u>	<u>\$ 27,610</u>	<u>\$ 1,938,457</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 1,168,903	\$ 12,688	\$ 1,181,591
Capital acquisitions	522,950	4,651	527,601
Unrestricted	<u>218,994</u>	<u>10,271</u>	<u>229,265</u>
Total cash and investment fund balance - December 31	<u>\$ 1,910,847</u>	<u>\$ 27,610</u>	<u>\$ 1,938,457</u>

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

TOWN OF PATRIOT
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), sanitation, highways and streets, culture and recreation, public improvements, general administrative services, water, and wastewater.

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

Primary Government: Town of Patriot

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 fund of the reporting entity except for fiduciary funds. The Town has no fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange 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. The Town has no fiduciary funds. 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 riverboat fund is funded by distributions from other local governmental entities that have elected to share gaming taxes they have received. The fund may be used for the same purposes as the general fund.

The Town reports the following major proprietary funds:

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

TOWN OF PATRIOT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, and proprietary 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 of other charges between the Water and Wastewater Utilities and the Town. 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 PATRIOT
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 PATRIOT
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:

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

A. 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 PATRIOT
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.

B. Disbursements in Excess of Appropriations

For the years ended December 31, 2006 and 2007, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2006	2007
Riverboat	\$ 127,805	\$ 225,041

These disbursements were funded by cash balances in the fund.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

Investment Policies

Indiana Code 5-13-9 authorizes the Town to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Town to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the

TOWN OF PATRIOT
NOTES TO FINANCIAL STATEMENTS
(Continued)

funds held by the Town and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Town may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Town's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2006 and 2007, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2006</u>	<u>2007</u>
Riverboat Fund	Wastewater Fund	\$ -	\$ 10,000
Other governmental funds	General Fund	<u>1,716</u>	<u>-</u>
Totals		<u>\$ 1,716</u>	<u>\$ 10,000</u>

The Town typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

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

TOWN OF PATRIOT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Job Related Illnesses or Injuries to Employees

In 2006, the Town joined together with other governmental entities in the Indiana Public Employers Plan, a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers compensation claims. The Town pays an annual premium to the risk pool for its workers compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members up to \$1,000,000 per insured event.

B. Electric Service Construction Agreement

On June 5, 2006, the Southeastern Indiana REMC (REMC) entered into an agreement with the Water Utility (Utility). Under terms of the agreement, the Utility initially paid \$175,000 of the REMC's \$265,000 cost to provide service to new Utility facilities. The REMC's remaining \$90,000 cost was repaid under the terms of the agreement.

The agreement provides for two repayment options. The first option is repayment through guaranteed monthly minimum bills. Each month the Utility paid a minimum bill of \$3,000 on service to the new facilities, the amount owed the REMC would be reduced by \$3,000. After 30 months of \$3,000 payments, the repayment will be complete. The second repayment option is a lump sum payment of the remaining balance after application of previous monthly minimum bills paid by the Water Utility. As of December 31, 2007, the Water Utility had an outstanding balance of \$87,000 due the REMC.

C. Major Customer- Water Utility

Belterra Casino provides approximately 20% of Water Utility revenues.

D. Rate Structure – Enterprise Funds

Water Utility

On May 6, 1999, the Town Council adopted Ordinance No. 99-5-6 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on December 20, 2005.

Wastewater Utility

The current rate structure was approved by the Town Council on October 2, 1991.

TOWN OF PATRIOT
 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

	Motor Vehicle Highway	Local Roads and Streets	Memorial Park	Town Hall	Rainy Day	July 4 Donation	Cumulative Capital Improvement	Totals
Receipts:								
Intergovernmental	\$ 7,398	\$ 1,066	\$ -	\$ -	\$ -	\$ -	\$ 721	\$ 9,185
Disbursements:								
Highways and streets	-	1,788	-	-	-	-	-	1,788
Excess (deficiency) of receipts over (under) disbursements	7,398	(722)	-	-	-	-	721	7,397
Other financing sources (uses):								
Transfers out	-	-	-	-	-	-	(1,716)	(1,716)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	7,398	(722)	-	-	-	-	(995)	5,681
Cash and investment fund balance - beginning	27,265	728	65	440	677	1,000	8,413	38,588
Cash and investment fund balance - ending	<u>\$ 34,663</u>	<u>\$ 6</u>	<u>\$ 65</u>	<u>\$ 440</u>	<u>\$ 677</u>	<u>\$ 1,000</u>	<u>\$ 7,418</u>	<u>\$ 44,269</u>
<u>Cash and Investment Assets - December 31</u>								
Cash and investments	\$ -	\$ -	\$ 65	\$ 440	\$ 677	\$ 1,000	\$ 7,418	\$ 9,600
Restricted assets:								
Cash and investments	34,663	6	-	-	-	-	-	34,669
Total cash and investment assets - December 31	<u>\$ 34,663</u>	<u>\$ 6</u>	<u>\$ 65</u>	<u>\$ 440</u>	<u>\$ 677</u>	<u>\$ 1,000</u>	<u>\$ 7,418</u>	<u>\$ 44,269</u>
<u>Cash and Investment Fund Balance - December 31</u>								
Restricted for:								
Highways and streets	\$ 34,663	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,669
Unrestricted	-	-	65	440	677	1,000	7,418	9,600
Total cash and investment fund balance - December 31	<u>\$ 34,663</u>	<u>\$ 6</u>	<u>\$ 65</u>	<u>\$ 440</u>	<u>\$ 677</u>	<u>\$ 1,000</u>	<u>\$ 7,418</u>	<u>\$ 44,269</u>

TOWN OF PATRIOT
 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, 2007

	Motor Vehicle Highway	Local Roads and Streets	Memorial Park	Town Hall	Rainy Day	July 4 Donation	Cumulative Capital Improvement	Totals
Receipts:								
Intergovernmental	\$ 7,250	\$ 1,079	\$ 1,000	\$ -	\$ -	\$ -	\$ 710	\$ 10,039
Charges for services	-	-	-	155	-	-	-	155
Total receipts	7,250	1,079	1,000	155	-	-	710	10,194
Disbursements:								
Highways and streets	21,400	667	-	-	-	-	-	22,067
Excess (deficiency) of receipts over disbursements	(14,150)	412	1,000	155	-	-	710	(11,873)
Cash and investment fund balance - beginning	34,663	6	65	440	677	1,000	7,418	44,269
Cash and investment fund balance - ending	\$ 20,513	\$ 418	\$ 1,065	\$ 595	\$ 677	\$ 1,000	\$ 8,128	\$ 32,396
<u>Cash and Investment Assets - December 31</u>								
Cash and investments	\$ -	\$ -	\$ 1,065	\$ 595	\$ 677	\$ 1,000	\$ 8,128	\$ 11,465
Restricted assets:								
Cash and investments	20,513	418	-	-	-	-	-	20,931
Total cash and investment assets - December 31	\$ 20,513	\$ 418	\$ 1,065	\$ 595	\$ 677	\$ 1,000	\$ 8,128	\$ 32,396
<u>Cash and Investment Fund Balance - December 31</u>								
Restricted for:								
Highways and streets	\$ 20,513	\$ 418	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,931
Unrestricted	-	-	1,065	595	677	1,000	8,128	11,465
Total cash and investment fund balance - December 31	\$ 20,513	\$ 418	\$ 1,065	\$ 595	\$ 677	\$ 1,000	\$ 8,128	\$ 32,396

TOWN OF PATRIOT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Water Utility		
Capital leases:		
Surge protector	\$ 9,950	\$ 11,437
Revenue bonds:		
1973 Waterworks Revenue Bonds	98,000	31,700
1987 Series A Waterworks Revenue Bonds	515,000	43,613
1987 Series B Waterworks Revenue Bonds	236,000	20,570
1996 Waterworks Revenue Bonds	2,096,000	130,700
1999 Waterworks Revenue Bonds	306,000	36,945
2006 Waterworks Revenue Bonds	5,006,696	358,249
Loan payable	<u>412,387</u>	<u>63,549</u>
Total Water Utility	<u>8,680,033</u>	<u>696,763</u>
Wastewater Utility		
Revenue bonds:		
1991 Series A Sewer Works Revenue Bonds	84,200	6,710
1991 Series B Sewer Works Revenue Bonds	<u>75,000</u>	<u>5,250</u>
Total Wastewater Utility	<u>159,200</u>	<u>11,960</u>
Total business-type activities debt:	<u>\$ 8,839,233</u>	<u>\$ 708,723</u>

TOWN OF PATRIOT
AUDIT RESULTS AND COMMENTS

CAPITAL ASSET RECORDS (Applies to the Town and Utilities)

The Town and its Utilities do not maintain sufficient detailed records of capital assets.

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)

A similar comment was reported in the prior Report B28264.

SALARY INCREASE APPROVED IN EXECUTIVE SESSION (Applies to the Town Council)

The November 21, 2006, Town Council minutes contained the following notation: "In an executive session held after the October meeting Council approved a salary increase for Deputy Clerk Linda Fisk due to increased job responsibilities. Attorney John Watson presented an ordinance to Council for their signatures."

There was no evidence presented for audit that the Town Council voted on an amended salary ordinance for the Deputy Clerk-Treasurer at a public meeting.

Indiana Code 5-14-1.5-6.1(b) states in part: "Executive sessions may be held only in the following instances:

- (1) Where authorized by federal or state statute.
- (2) For discussion. . . ."

Indiana Code 5-14-1.5-6.1(c) states: "A final action must be taken at a meeting open to the public."

COMPENSATION AND BENEFITS (Applies to the Clerk-Treasurer and the Town Council)

The following exceptions were noted in the review of employee compensation and benefits:

- (1) For the audit period, there were no annual salary ordinances for annual compensation, payment for unused sick leave, or payment of bonuses presented for audit. Instead, the approved salaries for existing employee positions were set by percentage increases approved in the annual budgets.

In addition to salaries and wages, Christmas bonuses were paid to Town and Utilities' employees.

No salary ordinance authorizing the payment of the Christmas bonuses was presented for audit.

TOWN OF PATRIOT
AUDIT RESULTS AND COMMENTS
(Continued)

Linda Fisk, Clerk-Treasurer; and James Caudill, President of the Town Council, stated that the salaries were approved in the annual budgets. Bonuses were approved based on resolutions adopted by Town Council members for previous years and were not formally adopted each year.

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

- (2) During 2007, three employees were paid for some of their unused sick leave.

The personnel policy which addresses how sick leave days will be earned and accumulated that was presented for audit did not make provision to pay employees for unused, accumulated sick leave.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

- (3) Compensation paid to all Town and Utility employees, including the Clerk-Treasurer, was paid from the Water Utility. Compensation for the Town Council was paid 29% from Town funds and 71% from Water Utility funds. In addition to Water Utility duties, the Town Officials, Utility Superintendent, and other employees performed duties related to Town and Wastewater Utility functions. There were no payments from the Town or Wastewater Utility funds to the Water Utility to cover their respective shares of payroll expenses during the audit period.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

- (4) Compensation paid to the Town Council members was not processed through the Town's payroll system; therefore, no payroll taxes were withheld. Also, their compensation was reported at year-end on Internal Revenue Service Form 1099s, instead of Internal Revenue Service Form W-2s.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF PATRIOT
AUDIT RESULTS AND COMMENTS
(Continued)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment was reported in prior Report B28264.

EXPENSES UNRELATED TO GOVERNMENTAL FUNCTIONS (Applies to the Town Council)

The following are instances of the Town Council approving payments of expenses unrelated to governmental functions:

In June 2006, the Council authorized the payment of \$1,200 for repairs to the roof of the local Masonic Lodge. According to James Caudill, President of the Town Council, the Council wanted to assist this local charitable organization.

In October 2007, the Council authorized the payment of \$500 for repairs to Foxtail Lane, a private road located within the Town limits. After the repairs were made the Town Council planned to accept it as a Town street. However, after the repairs were made, the Town Council found it did not meet proper specifications and rejected it as a Town street.

Generally, public funds may not be used to make improvements to property not owned by the governmental unit, unless permitted by statute, federal or state requirements, or safety concerns. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment was reported in prior Report B28264.

ANNUAL REPORTS (Applies to the Clerk-Treasurer)

The 2006 Annual City and Town Financial Report, Form CTAR-1 was prepared on April 30, 2007, and published on May 31, 2007. The 2007 Annual City and Town Financial Report was prepared on March 26, 2008, and was not published as of August 19, 2008.

Indiana Code 5-3-1-3(a) states: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town during the preceding calendar year."

A similar comment was reported in prior Report B28264.

APPROPRIATIONS (Applies to the Town Council)

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

TOWN OF PATRIOT
AUDIT RESULTS AND COMMENTS
(Continued)

Fund	Years	Amount
Riverboat	2006	\$ 127,805
Riverboat	2007	225,041

There were no ordinances presented for audit appropriating the Riverboat Fund disbursements for 2006 or 2007.

Indiana Code 36-5-4-2 states: "Unless a statute provides otherwise, town monies may be disbursed only after an appropriation made by ordinance of the town legislative body and record in a book kept for that purpose by the legislative body. Each appropriation must be made from the fund against which the expenses arose."

PURCHASED POWER (Applies to the Water Utility)

The Water Utility was billed for eighteen electrical accounts/service locations by the Southeastern Indiana REMC (REMC). The following items were noted in testing the payments for electrical service provided by the REMC during the period October through December 2007:

- (1) The electric service from Account 705394120 which was for an electrical meter located at the Wastewater plant was paid by the Water Utility. For these three months the Water Utility paid \$659 for the Wastewater Utility usage. There was no record presented for audit of the Wastewater Utility reimbursing the Water Utility for the REMC payments.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

- (2) The Water Utility paid \$696 in Indiana sales tax on seven electrical accounts.

Governmental units are eligible for an exemption from the state sales tax on purchases. To obtain the exemption for a Sales Tax Exemption Certificate, application should be made to the Sales Tax Division of the Department of Revenue. This certificate must be presented at the time a purchase is made to avoid paying sales tax. If sales tax is paid erroneously, a refund application may be obtained from the Sales Tax Division. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

- (3) Late charges totaling \$236 were paid to the REMC in December 2007 for not remitting the amount due by the date due for the month of November 2007.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

TOWN OF PATRIOT
AUDIT RESULTS AND COMMENTS
(Continued)

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS (Applies to the Town Council)

According to minutes of the January 20, 2004, meeting, the Town Council authorized the use of several different credit cards for fuel, office supplies and other Town related purchases; however, the Town Council has not passed an ordinance or resolution establishing a credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the Board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment was reported in prior Report B28264.

TOWN OF PATRIOT
AUDIT RESULTS AND COMMENTS
(Continued)

OPTICAL IMAGES OF WARRANTS (Applies to Town and Utilities)

The Town's designated depository did not return all the actual cancelled checks with the monthly bank statements, but instead, for some accounts, returned optical images. For some accounts only the optical images of the front sides of the checks were provided.

Indiana Code 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . "original records" . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . . "

Further, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise: and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

A similar comment was reported in prior Report B28264.

DONATIONS (Applies to the Town Council)

The Town Council authorized payment of a \$400 donation from Town funds to the Switzerland County Lions Club in 2007.

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment was reported in prior Report B28264.

OFFICIAL BOND (Applies to the Clerk-Treasurer)

The Clerk-Treasurer's bond for the term beginning January 1, 2008, was not filed in the Office of the County Recorder.

TOWN OF PATRIOT
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

A similar comment was reported in prior Report B28264.

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER (Applies to the Clerk-Treasurer)

A list of employees was not certified to the County Treasurer.

Indiana Code 6-1.1-22-14(a) states in part: "On or before June 1 and December 1 of each year . . . the disbursing officer of each political subdivision . . . shall certify the names and addresses of each person who has money due from the political subdivision to the treasurer of each county in which the political subdivision is located."

A similar comment was reported in prior Report B28264.

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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 PATRIOT, SWITZERLAND COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Patriot (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, 2006 and 2007. 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, 2006 and 2007. 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 2007-1.

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)

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 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 the entity's 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

August 19, 2008

TOWN OF PATRIOT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2006 and 2007

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	Total Federal Awards Expended 12-31-07
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Finance Authority Capitalization Grants for Drinking Water State Revolving Fund	66.468	SRF #DW10221901	<u>\$ 1,100,834</u>	<u>\$ 1,240,726</u>

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

TOWN OF PATRIOT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

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

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of Towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF PATRIOT
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?	No

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? Yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
----------------	------------------------------------

66.468	Capitalization Grants for Drinking Water State Revolving Fund
--------	---

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 PATRIOT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2007-1, EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Environmental Protection Agency
Federal Program: Capitalization Grants for Drinking Water State Revolving Funds
CFDA Number: 66.468
Federal Award No.: SRF #DW10221901
Pass Through Agency: Indiana Finance Authority

The Town does not maintain records for equipment and other property acquired with Federal monies. No system exists to provide separate identification for items acquired with Federal and non-Federal funds. Without adequate accounting records, periodic physical inventories cannot be compared to property records.

The Code of Federal Regulations 40 CFR 31.32(d) states in part:

- "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition date including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least every two years."

Failure to maintain detailed and accurate equipment and property records and to reconcile physical inventory results to such records could result in assets being lost, stolen, misappropriated, or disposed of improperly and not detected within a reasonable time.

We recommended the Town design and properly monitor procedures to ensure accurate detailed capital asset records are maintained. Inventories of property and equipment should be conducted at least every two years and reconciled to the detailed capital asset ledger. Any significant difference should be investigated and appropriate adjustments made to the records. Also, any assets acquired with Federal funds must be designated as such so that they are disposed of properly.

TOWN OF PATRIOT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

Town of Patriot, Inc.

Office of the Town Board
Patriot, Indiana 47038
(812) 594-2243

Re: Corrective Action Plan

Finding: 2007-1 Equipment and Real Property Management

Federal Agency: U.S. Environmental Protection Agency

Federal Program: Capitalization Grants for Drinking Water State Revolving Funds

CFDA Number: 66.468

Pass-Through Agency: Indiana Finance Authority

We will design and implement procedures to ensure accurate detailed capital asset records are maintained and that inventories of property and equipment are conducted at least every two years and reconciled to the detailed capital asset ledger.

Alvin Fisk
(Name)

Clerk Treasurer
(Title)

8-19-08
(Date)

James S. Caudill
(Name)

Town Board
(Title)

8-19-08
(Date)

TOWN OF PATRIOT
EXIT CONFERENCE

The contents of this report were discussed on August 19, 2008, with Linda Fisk, Clerk-Treasurer; and James L. Caudill, President of the Town Council.