

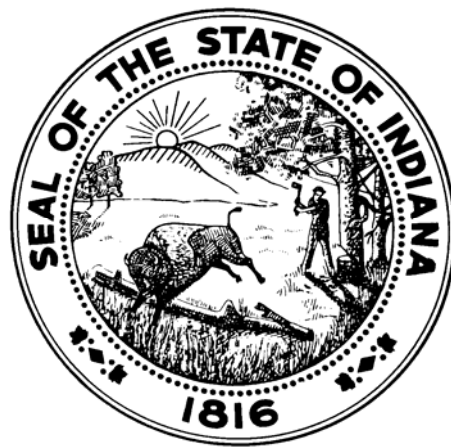
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

TOWN OF PIERCETON

KOSCIUSKO COUNTY, INDIANA



FILED

09/28/2006

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Janet L. Castle	01-01-04 to 12-31-07
President of the Town Council	Jerry F. Kreger	01-01-05 to 12-31-06
Superintendent of Utilities	Chip Hill	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pierceton (Town), as of and for the year ended December 31, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2005, and the respective cash receipts and cash disbursements during the year 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 16, 2006, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, as listed in the table of contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Combining Schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

August 16, 2006



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

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

We have audited the financial statements of the Town of Pierceton (Town), as of and for the year ended December 31, 2005, and have issued our report thereon dated August 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

August 16, 2006

TOWN OF PIERCETON
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	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 138,122	\$ 13,478	\$ -	\$ (124,644)	\$ -	\$ (124,644)
Public safety	220,560	2,087	-	(218,473)	-	(218,473)
Highways and streets	67,440	-	-	(67,440)	-	(67,440)
Culture and recreation	12,023	10,883	-	(1,140)	-	(1,140)
Urban redevelopment and housing	139,692	-	139,692	-	-	-
Principal on debt	10,187	-	-	(10,187)	-	(10,187)
Interest on long-term debt	1,058	-	-	(1,058)	-	(1,058)
Total governmental activities	<u>589,082</u>	<u>26,448</u>	<u>139,692</u>	<u>(422,942)</u>	<u>-</u>	<u>(422,942)</u>
Business-type activities:						
Water	240,179	210,496	-	-	(29,683)	(29,683)
Wastewater	<u>1,784,828</u>	<u>357,071</u>	<u>500,000</u>	<u>-</u>	<u>(927,757)</u>	<u>(927,757)</u>
Total business-type activities	<u>2,025,007</u>	<u>567,567</u>	<u>500,000</u>	<u>-</u>	<u>(957,440)</u>	<u>(957,440)</u>
Total primary government	<u>\$ 2,614,089</u>	<u>\$ 594,015</u>	<u>\$ 639,692</u>	<u>(422,942)</u>	<u>(957,440)</u>	<u>(1,380,382)</u>
General receipts:						
Property taxes				155,631	-	155,631
Interest income				26,090	-	26,090
Other				<u>365,071</u>	<u>-</u>	<u>365,071</u>
Total general receipts				<u>546,792</u>	<u>-</u>	<u>546,792</u>
Change in net assets				123,850	(957,440)	(833,590)
Net assets - beginning				<u>1,176,224</u>	<u>1,674,098</u>	<u>2,850,322</u>
Net assets - ending				<u>\$ 1,300,074</u>	<u>\$ 716,658</u>	<u>\$ 2,016,732</u>
<u>Assets</u>						
Cash and investments				\$ 32,115	\$ 115,788	\$ 147,903
Restricted assets:						
Cash and investments				<u>1,267,959</u>	<u>600,870</u>	<u>1,868,829</u>
Total assets				<u>\$ 1,300,074</u>	<u>\$ 716,658</u>	<u>\$ 2,016,732</u>
<u>Net Assets</u>						
Restricted for:						
Debt service				\$ 32,115	\$ 187,962	\$ 220,077
Other purposes				-	412,908	412,908
Unrestricted				<u>1,267,959</u>	<u>115,788</u>	<u>1,383,747</u>
Total net assets				<u>\$ 1,300,074</u>	<u>\$ 716,658</u>	<u>\$ 2,016,732</u>

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

TOWN OF PIERCETON
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	TIF	Housing Project	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 141,414	\$ -	\$ -	\$ 14,217	\$ 155,631
Licenses and permits	85	-	-	85	170
Intergovernmental	96,780	197,315	132,214	70,976	497,285
Charges for services	5,541	-	-	6,088	11,629
Fines and forfeits	980	-	-	120	1,100
Other	32,280	-	7,478	7,359	47,117
Total receipts	277,080	197,315	139,692	98,845	712,932
Disbursements:					
General government	132,734	263	-	5,125	138,122
Public safety	214,634	-	-	5,926	220,560
Highways and streets	-	-	-	43,082	43,082
Culture and recreation	-	-	-	12,023	12,023
Urban redevelopment and housing	-	-	139,692	-	139,692
Debt service:					
Principal	-	10,187	-	-	10,187
Interest	-	1,058	-	-	1,058
Capital outlay:					
Highways and streets	-	-	-	24,358	24,358
Total disbursements	347,368	11,508	139,692	90,514	589,082
Excess (deficiency) of revenue over disbursements	(70,288)	185,807	-	8,331	123,850
Cash and investment fund balance - beginning	185,219	590,033	-	400,972	1,176,224
Cash and investment fund balance - ending	<u>\$ 114,931</u>	<u>\$ 775,840</u>	<u>\$ -</u>	<u>\$ 409,303</u>	<u>\$ 1,300,074</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 114,931	\$ -	\$ -	\$ 279,265	\$ 394,196
Restricted assets:					
Cash and investments	-	775,840	-	130,038	905,878
Total cash and investment assets - December 31	<u>\$ 114,931</u>	<u>\$ 775,840</u>	<u>\$ -</u>	<u>\$ 409,303</u>	<u>\$ 1,300,074</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Debt service	\$ -	\$ 32,115	\$ -	\$ -	\$ 32,115
Unrestricted	114,931	743,725	-	409,303	1,267,959
Total cash and investment fund balance - December 31	<u>\$ 114,931</u>	<u>\$ 775,840</u>	<u>\$ -</u>	<u>\$ 409,303</u>	<u>\$ 1,300,074</u>

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

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

	Water Utility	Wastewater Utility	Total
Operating receipts:			
Metered water receipts:	\$ 170,374	\$ -	\$ 170,374
Sales tax	9,440	-	9,440
Fire protection receipts	23,964	-	23,964
Penalties	603	7,188	7,791
Measured wastewater receipts	-	294,990	294,990
Trash collection fees	-	26,815	26,815
Customer deposits	3,185	-	3,185
Other	1,194	1,040	2,234
	<u>208,760</u>	<u>330,033</u>	<u>538,793</u>
Total operating receipts			
Operating disbursements:			
Equipment and capital improvements	36,331	1,418,632	1,454,963
Salaries and wages	80,462	81,133	161,595
Employee pensions and benefits	20,794	20,395	41,189
Purchased power	14,310	33,854	48,164
Trash collection	-	28,594	28,594
Material and supplies	10,799	4,669	15,468
Water/sewer	940	4,474	5,414
Contractual services	1,469	1,258	2,727
Customer deposit refunds	2,755	-	2,755
Rents	2,754	2,500	5,254
Telephone	4,215	2,444	6,659
Transportation	2,891	1,196	4,087
Insurance	9,151	8,578	17,729
Utility regulatory tax	2,400	-	2,400
Sales tax	9,427	-	9,427
Repairs	763	2,794	3,557
Office supplies	1,530	1,267	2,797
Postage	1,276	1,091	2,367
Permits	-	4,400	4,400
Miscellaneous	4,389	2,113	6,502
	<u>206,656</u>	<u>1,619,392</u>	<u>1,826,048</u>
Total operating disbursements			
Excess (deficiency) of operating receipts over operating disbursements	<u>2,104</u>	<u>(1,289,359)</u>	<u>(1,287,255)</u>
Nonoperating receipts (disbursements):			
HUD grant	-	500,000	500,000
Interest and investment receipts	1,736	27,038	28,774
Grant consultant	-	(25,500)	(25,500)
Bond issue costs	-	(16,244)	(16,244)
Debt service of principal	(20,000)	(55,000)	(75,000)
Interest on debt	(13,273)	(68,463)	(81,736)
Miscellaneous disbursements	(250)	(229)	(479)
	<u>(31,787)</u>	<u>361,602</u>	<u>329,815</u>
Total nonoperating receipts (disbursements)			
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(29,683)	(927,757)	(957,440)
Cash and investment fund balance - beginning	<u>184,412</u>	<u>1,489,686</u>	<u>1,674,098</u>
Cash and investment fund balance - ending	<u>\$ 154,729</u>	<u>\$ 561,929</u>	<u>\$ 716,658</u>
Cash and Investment Assets - December 31			
Cash and investments	\$ 15,503	\$ 100,285	\$ 115,788
Restricted assets:			
Cash and investments	<u>139,226</u>	<u>461,644</u>	<u>600,870</u>
Total cash and investment assets - December 31	<u>\$ 154,729</u>	<u>\$ 561,929</u>	<u>\$ 716,658</u>
Cash and Investment Fund Balance - December 31			
Restricted for:			
Debt service	\$ 124,341	\$ 63,621	\$ 187,962
Other purposes	14,885	398,023	412,908
Unrestricted	<u>15,503</u>	<u>100,285</u>	<u>115,788</u>
Total cash and investment fund balance - December 31	<u>\$ 154,729</u>	<u>\$ 561,929</u>	<u>\$ 716,658</u>

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

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

	Private-Purpose Trust Fund	Agency Fund
Additions:		
Agency fund additions	\$ -	\$ 110,070
Deductions:		
Agency fund deductions	-	110,003
Excess of total additions over total deductions	-	67
Cash and investment fund balance - beginning	11,324	5,709
Cash and investment fund balance - ending	\$ 11,324	\$ 5,776

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

TOWN OF PIERCETON
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, general administrative services, water, wastewater, and urban redevelopment and housing.

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

Primary Government: Town of Pierceton

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis display information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other 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. 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 TIF (tax incremental financing) fund accounts for expenditures for public improvement projects in the designated development district. Financing is provided by property tax proceeds in excess of those attributable to the assessed value of the property in the district before redevelopment.

The housing project fund accounts for the transactions of a federal grant used to finance urban redevelopment and housing expenditures.

TOWN OF PIERCETON
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Town reports the following major proprietary funds:

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

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

Additionally, the Town reports the following fund types:

The private-purpose trust fund reports a trust arrangement under which principal and income shall be used for maintenance costs associated with an electric clock mounted on a local business.

The agency fund accounts for assets held by the Town as an agent for employee payroll deductions that are payable to agencies.

C. Measurement Focus and Basis of Accounting

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

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

TOWN OF PIERCETON
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

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

3. Long-Term Debt

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

4. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

TOWN OF PIERCETON
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The Town does not have any internal service funds.

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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 – 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.

TOWN OF PIERCETON
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

III. Detailed Notes on All Funds

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.

IV. Other Information

A. Risk Management

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

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

Job Related Illnesses or Injuries to Employees

During 2000, the Town joined the Indiana Public Employers' Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Town pays an annual premium to the risk pool for its coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

TOWN OF PIERCETON
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Rate Structure – Enterprise Funds

Water Utility

On January 14, 1991, the Town Council adopted Ordinance No. 90-11-1 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on November 10, 1997.

Wastewater Utility

The current rate structure was approved by the Town Council on September 27, 2004.

C. Pension Plan

Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plan - Public Employees' Retirement Fund

Plan Description

Beginning January 1, 2006, the Town will contribute to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. On December 29, 2005, the Town paid PERF \$77,646 for the present value of accumulated past service of Town employees as determined by PERF's fund actuary. The fund actuary determined that the employer's cost of participation would be 7.75% of payroll effective January 1, 2006.

TOWN OF PIERCETON
 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

	Motor Vehicle Highway	Local Road and Street	Park and Recreation	Park Nonreverting Operating	Law Enforcement Continuing Education	Senior Center Donation	Donation
Receipts:							
Taxes	\$ -	\$ -	\$ 4,489	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	85	-	-
Intergovernmental	21,992	8,079	-	-	-	-	-
Charges for services	-	-	4,800	1,213	75	-	-
Fines and forfeits	-	-	-	-	120	-	-
Other	-	-	-	2,552	-	1,000	2,000
Total receipts	21,992	8,079	9,289	3,765	280	1,000	2,000
Disbursements:							
General government	-	-	-	-	-	-	2,000
Public safety	-	-	-	-	1,193	-	-
Highways and streets	43,082	-	-	-	-	-	-
Culture and recreation	-	-	8,704	3,319	-	-	-
Capital outlay: Highways and streets	-	24,358	-	-	-	-	-
Total disbursements	43,082	24,358	8,704	3,319	1,193	-	2,000
Excess (deficiency) of revenue over disbursements	(21,090)	(16,279)	585	446	(913)	1,000	-
Cash and investment fund balance - beginning	75,545	26,740	4,619	29,385	3,719	140	-
Cash and investment fund balance - ending	<u>\$ 54,455</u>	<u>\$ 10,461</u>	<u>\$ 5,204</u>	<u>\$ 29,831</u>	<u>\$ 2,806</u>	<u>\$ 1,140</u>	<u>\$ -</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	<u>\$ 54,455</u>	<u>\$ 10,461</u>	<u>\$ 5,204</u>	<u>\$ 29,831</u>	<u>\$ 2,806</u>	<u>\$ 1,140</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Unrestricted	<u>\$ 54,455</u>	<u>\$ 10,461</u>	<u>\$ 5,204</u>	<u>\$ 29,831</u>	<u>\$ 2,806</u>	<u>\$ 1,140</u>	<u>\$ -</u>

TOWN OF PIERCETON
 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
 (Continued)

	DARE	Cumulative Capital Improvement	Cumulative Capital Development	County Economic Development Income Tax	Industrial Development	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ 9,728	\$ -	\$ -	\$ 14,217
Licenses and permits	-	-	-	-	-	85
Intergovernmental	-	2,155	1,839	36,911	-	70,976
Charges for services	-	-	-	-	-	6,088
Fines and forfeits	-	-	-	-	-	120
Other	1,807	-	-	-	-	7,359
Total receipts	1,807	2,155	11,567	36,911	-	98,845
Disbursements:						
General government	-	-	-	-	3,125	5,125
Public safety	1,415	3,318	-	-	-	5,926
Highways and streets	-	-	-	-	-	43,082
Culture and recreation	-	-	-	-	-	12,023
Capital outlay:						
Highways and streets	-	-	-	-	-	24,358
Total disbursements	1,415	3,318	-	-	3,125	90,514
Excess (deficiency) of revenue over disbursements	392	(1,163)	11,567	36,911	(3,125)	8,331
Cash and investment fund balance - beginning	651	31,663	64,494	135,793	28,223	400,972
Cash and investment fund balance - ending	<u>\$ 1,043</u>	<u>\$ 30,500</u>	<u>\$ 76,061</u>	<u>\$ 172,704</u>	<u>\$ 25,098</u>	<u>\$ 409,303</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	<u>\$ 1,043</u>	<u>\$ 30,500</u>	<u>\$ 76,061</u>	<u>\$ 172,704</u>	<u>\$ 25,098</u>	<u>\$ 409,303</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Unrestricted	<u>\$ 1,043</u>	<u>\$ 30,500</u>	<u>\$ 76,061</u>	<u>\$ 172,704</u>	<u>\$ 25,098</u>	<u>\$ 409,303</u>

TOWN OF PIERCETON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2005

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 98,199
Buildings	1,251,092
Improvements other than buildings	64,690
Machinery and equipment	<u>419,112</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 1,833,093</u>
<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 12,000
Buildings	191,953
Improvements other than buildings	635,281
Machinery and equipment	<u>160,191</u>
 Total Water Utility capital assets	 <u>999,425</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Construction in progress	1,537,130
Buildings	82,014
Improvements other than buildings	529,165
Machinery and equipmen	<u>1,334,001</u>
 Total Wastewater Utility capital assets	 <u>3,482,310</u>
 Total business-type activities capital assets	 <u>\$ 4,481,735</u>

TOWN OF PIERCETON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For The Year Ended December 31, 2005

	Ending Balance	Due Within One Year
Governmental Activities:		
Notes and loans payable	\$ 32,115	\$ 10,442
Business-type Activities:		
Water Utility		
Revenue bonds:	\$ 230,000	\$ 20,000
Wastewater Utility		
Revenue bonds:	1,590,000	60,000
Total business-type activities:	\$ 1,820,000	\$ 80,000

TOWN OF PIERCETON
AUDIT RESULT AND COMMENT

PAYROLL ATTENDANCE REPORTS

Several payroll attendance reports were not signed by the employee and/or supervisor.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

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

Compliance

We have audited the compliance of the Town of Pierceton (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 year ended December 31, 2005. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

August 16, 2006

TOWN OF PIERCETON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2005

Federal Grantor Agency/Pass-Through Entity <u>Program Title/Project Title</u>	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Department of Commerce Community Development Block Grants/State's Program	14.228	CF-03-122	\$ 500,000
Pass-Through Indiana Housing Finance Authority Community Development Block Grants/State's Program	14.228	HD-004-011	<u>132,214</u>
Total federal awards expended			<u>\$ 632,214</u>

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

TOWN OF PIERCETON
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 Pierceton (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.

II. Subrecipients

Of the federal expenditures presented in the schedule, the Town provided federal awards to subrecipients as follows for the year ended December 31, 2005:

Program Title	Federal CFDA Number	2005
Community Development Block Grants/State's Program	14.228	<u>\$ 132,214</u>

TOWN OF PIERCETON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

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

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF PIERCETON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF PIERCETON
EXIT CONFERENCE

The contents of this report were discussed on August 17, 2006 with Janet L. Castle, Clerk-Treasurer.
The official concurred with our audit finding.