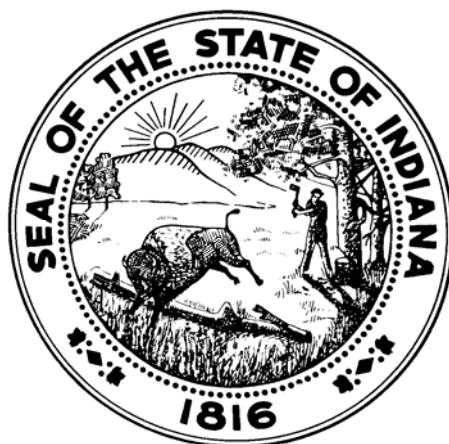


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF

WATER UTILITY  
TOWN OF HAMILTON  
STEBEN COUNTY, INDIANA

January 1, 2005 to December 31, 2006



**FILED**  
08/07/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen R. Grieser	01-01-04 to 12-31-07
President of the Town Council	Keith Platter III Randall E. Hile	01-01-05 to 12-31-06 01-01-07 to 12-31-07
Superintendent	Justin Stouder	01-01-05 to 12-31-07



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Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER UTILITY, TOWN OF HAMILTON, STEUBEN COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water Utility, a department of the Town of Hamilton, as of and for the years ended December 31, 2005, and 2006. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion 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. 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 opinion.

As discussed in Note I, the financial statements of the Water Utility, Town of Hamilton, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the Town that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the Town of Hamilton as of December 31, 2005, and 2006, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with 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 financial position of the business-type activities for the Water Utility, as of December 31, 2005, and 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Utility's management has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

June 26, 2007

HAMILTON WATER UTILITY  
STATEMENT OF NET ASSETS  
December 31, 2005 And 2006

	2005	2006
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 50,818	\$ 63,141
Accounts receivable	4,259	4,785
Interfund receivables:		
Interfund services provided and used	-	5,088
Prepaid items	1,190	917
Total current assets	56,267	73,931
Noncurrent assets:		
Restricted cash:		
Bond and interest cash	58,809	58,552
Debt service reserve cash	69,060	77,940
Improvement cash	140,888	25,236
Customer deposits cash	5,200	5,000
Total restricted assets	273,957	166,728
Deferred charges	55,886	53,959
Capital assets:		
Land, improvements to land and construction in progress	149,962	149,962
Other capital assets (net of accumulated depreciation)	4,588,193	4,692,173
Total capital assets	4,738,155	4,842,135
Total noncurrent assets	5,067,998	5,062,822
Total assets	5,124,265	5,136,753
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	1,994	1,846
Wages payable	1,713	1,333
Interfund payables:		
Interfund services provided and used	-	304
Advance payments on accounts	2,340	3,035
Current liabilities payable from restricted assets:		
Contract payable	-	743
Customer deposits	5,200	5,000
Revenue bonds payable	31,000	32,000
Accrued interest payable	43,314	42,559
Total current liabilities	85,561	86,820
Noncurrent liabilities:		
Revenue bonds payable	1,746,000	1,714,000
Total liabilities	1,831,561	1,800,820
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,973,727	3,107,535
Restricted for debt service	127,869	136,492
Restricted for other purposes	140,888	24,493
Unrestricted	50,220	67,413
Total net assets	\$ 3,292,704	\$ 3,335,933

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

HAMILTON WATER UTILITY  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Years Ended December 31, 2005 And 2006

	2005	2006
Operating revenues:		
Metered water revenue	\$ 293,208	\$ 337,182
Fire protection revenue	72,807	77,085
Tap fees	20,781	31,256
Other water revenue	6,842	6,604
 Total operating revenues	 393,638	 452,127
 Operating expenses:		
Salaries and wages	103,243	104,745
Employee pensions and benefits	23,658	23,271
Purchased power	12,164	12,026
Chemicals	1,298	719
Materials and supplies	24,741	18,029
Contractual services	14,722	10,218
Transportation expenses	7,856	5,192
Insurance expense	10,002	8,151
Payment in lieu of taxes	11,011	11,000
Depreciation	117,242	114,152
Miscellaneous expenses	16,090	22,551
 Total operating expenses	 342,027	 330,054
 Operating income	 51,611	 122,073
 Nonoperating revenues (expenses):		
Interest and investment revenue	4,785	8,957
Interest expense	(87,596)	(85,874)
Miscellaneous expense	(23,145)	(1,927)
 Total nonoperating expenses	 (105,956)	 (78,844)
 Income (loss)	 (54,345)	 43,229
 Total net assets - beginning	 3,347,049	 3,292,704
 Total net assets - ending	 \$ 3,292,704	 \$ 3,335,933

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

HAMILTON WATER UTILITY  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
As Of And For The Years Ended December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 393,635	\$ 452,296
Payments to suppliers and contractors	(109,727)	(100,232)
Payments to employees	(102,455)	(105,125)
Payment in lieu of taxes	(11,011)	(11,000)
Interfund services used	-	(4,784)
	<u>170,442</u>	<u>231,155</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(40,850)	(217,389)
Principal paid on capital debt	(29,000)	(31,000)
Interest paid on capital debt	(87,745)	(86,629)
	<u>(157,595)</u>	<u>(335,018)</u>
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Interest received	4,785	8,957
	<u>4,785</u>	<u>8,957</u>
Net increase (decrease) in cash and cash equivalents	17,632	(94,906)
Cash and cash equivalents, January 1	<u>307,143</u>	<u>324,775</u>
Cash and cash equivalents, December 31	<u>\$ 324,775</u>	<u>\$ 229,869</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 51,611	\$ 122,073
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	117,242	114,152
(Increase) decrease in assets:		
Accounts receivable	79	(526)
Interfund services provided or used	-	(5,088)
Prepaid items	138	273
Increase (decrease) in liabilities:		
Accounts payable	77	(148)
Advance payments on accounts	(82)	695
Interfund payables	-	304
Taxes payable	(61)	-
Wages payable	788	(380)
Customer deposits	650	(200)
	<u>118,831</u>	<u>109,082</u>
Total adjustments		
Net cash provided by operating activities	<u>\$ 170,442</u>	<u>\$ 231,155</u>
Noncash investing, capital and financing activities:		
Acquisition of capital assets on account	\$ -	\$ 743
Purchase of equipment with trade-in	15,570	-

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

WATER UTILITY  
TOWN OF HAMILTON  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utility and are not intended to present fairly the position of the Town of Hamilton (Town).

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained on the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when cash is received and expenses are recognized when cash is disbursed.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The activity has been classified Class B, requiring full accrual accounting records, by the National Association of Regulatory Utility Commissioners. However, the Utility continues to maintain Class C (cash basis) accounts.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utility's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utility to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

WATER UTILITY  
TOWN OF HAMILTON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Restricted Assets

Certain resources set aside for the repayment of revenue bonds, major improvements, and customer deposits are classified as restricted assets on the statement of net assets balance sheet because they may be used only for debt service, improvements, or customer deposits.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

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

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 1,000	Straight-line	10 to 75 years
Machinery and equipment	1,000	Straight-line	5 to 20 years
Water collection systems	1,000	Straight-line	5 to 100 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized by the Utility during the years 2005 and 2006.

WATER UTILITY  
TOWN OF HAMILTON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 7 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is not paid to employees upon termination or retirement.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. Any unused vacation leave is paid to employees through paid time-off upon termination or retirement.
- c. Personal Leave – Utility employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick, and personal leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the years ended December 31, 2005 and 2006, was as follows:

WATER UTILITY  
TOWN OF HAMILTON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2005:				
Capital assets, not being depreciated:				
Land	\$ 149,962	\$ -	\$ -	\$ 149,962
Capital assets, being depreciated:				
Improvements other than buildings	2,250,326	30,947	40,875	2,240,398
Buildings	2,772,890	-	-	2,772,890
Machinery and equipment	<u>580,953</u>	<u>25,473</u>	<u>18,191</u>	<u>588,235</u>
Totals	<u>5,604,169</u>	<u>56,420</u>	<u>59,066</u>	<u>5,601,523</u>
Less accumulated depreciation for:				
Improvements other than buildings	575,728	37,655	4,087	609,296
Buildings	119,179	55,802	-	174,981
Machinery and equipment	<u>223,459</u>	<u>23,785</u>	<u>18,191</u>	<u>229,053</u>
Totals	<u>918,366</u>	<u>117,242</u>	<u>22,278</u>	<u>1,013,330</u>
Total capital assets, being depreciated, net	<u>4,685,803</u>	<u>(60,822)</u>	<u>36,788</u>	<u>4,588,193</u>
Total capital assets, net	<u>\$ 4,835,765</u>	<u>\$ (60,822)</u>	<u>\$ 36,788</u>	<u>\$ 4,738,155</u>
2006:				
Capital assets, not being depreciated:				
Land	\$ 149,962	\$ -	\$ -	\$ 149,962
Capital assets, being depreciated:				
Improvements other than buildings	2,240,398	215,763	1,500	2,454,661
Buildings	2,772,890	-	-	2,772,890
Machinery and equipment	<u>588,235</u>	<u>2,369</u>	<u>-</u>	<u>590,604</u>
Totals	<u>5,601,523</u>	<u>218,132</u>	<u>1,500</u>	<u>5,818,155</u>
Less accumulated depreciation for:				
Improvements other than buildings	609,296	38,077	1,500	645,873
Buildings	174,981	55,803	-	230,784
Machinery and equipment	<u>229,053</u>	<u>20,272</u>	<u>-</u>	<u>249,325</u>
Totals	<u>1,013,330</u>	<u>114,152</u>	<u>1,500</u>	<u>1,125,982</u>
Total capital assets, being depreciated, net	<u>4,588,193</u>	<u>103,980</u>	<u>-</u>	<u>4,692,173</u>
Total capital assets, net	<u>\$ 4,738,155</u>	<u>\$ 103,980</u>	<u>\$ -</u>	<u>\$ 4,842,135</u>

WATER UTILITY  
TOWN OF HAMILTON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2006, is as follows:

Due To	Due From		
	Garbage Collection Fund	Water Utility	Total
Water Utility	\$ 5,088	\$ -	\$ 5,088
Garbage Collection Fund	-	304	304
Totals	\$ 5,088	\$ 304	\$ 5,392

Interfund balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, and payments between funds are made.

D. Long-Term Liabilities

Revenue Bonds

The Utility issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
\$1,785,000 2001 Waterworks Revenue Bonds, plant expansion project	5%	\$ 1,746,000

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2007	\$ 32,000	\$ 85,117
2008	34,000	83,557
2009	36,000	81,900
2010	37,000	80,145
2011	39,000	78,341
2012-2016	226,000	361,238
2017-2021	287,000	300,446
2022-2026	364,000	223,373
2027-2031	462,000	125,483
2032-2034	229,000	17,745
Totals	\$ 1,746,000	\$ 1,437,345

WATER UTILITY  
TOWN OF HAMILTON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2005 and 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2005:					
Revenue bonds payable:					
Water Utility	\$ 1,779,000	\$ -	\$ 2,000	\$ 1,777,000	\$ 31,000
2006:					
Revenue bonds payable:					
Water Utility	\$ 1,777,000	\$ -	\$ 31,000	\$ 1,746,000	\$ 32,000

E. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	2006
Bond and interest	\$ 58,552
Debt service reserve	77,940
Improvement	25,236
Customer deposits	5,000
Total restricted assets	<u>\$ 166,728</u>

III. Other Information

A. Risk Management

The Utility 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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk. Risk financing is not utilized for the other risks of loss.

WATER UTILITY  
TOWN OF HAMILTON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Job Related Illnesses or Injuries to Employees

During 1994, the Utility joined together with other governmental entities to form the Indiana Public Employers Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for 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 Utility 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. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Rate Structure

Water Utility

The current rate structure was approved by the Utility on December 5, 2005. The Utility has 892 customers.

C. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town, including the Utility, contributes 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 Utility 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

WATER UTILITY  
TOWN OF HAMILTON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utility's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the Town and the Utility is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the Town as a whole, and is not presented as an asset/liability of the proprietary fund.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 13,774
Interest on net pension obligation	(4,600)
Adjustment to annual required contribution	5,242
Annual pension cost	14,416
Contributions made	15,837
Decrease in net pension obligation	(1,421)
Net pension obligation, beginning of year	(63,448)
Net pension obligation, end of year	\$ (64,869)
Contribution rates:	
Utility	5%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

WATER UTILITY  
TOWN OF HAMILTON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 7,591	210%	\$ (54,265)
	06-30-05	7,077	230%	(63,448)
	06-30-06	14,416	110%	(64,869)

HAMILTON WATER UTILITY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

PERF Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 107,335	\$ 67,917	\$ 39,418	158%	\$ 230,958	17%
07-01-05	120,289	109,459	10,830	110%	329,909	3%
07-01-06	98,136	131,163	(33,027)	75%	365,684	(9%)

WATER UTILITY  
TOWN OF HAMILTON  
EXIT CONFERENCE

The contents of this report were discussed on June 26, 2007, with Karen R. Grieser, Clerk-Treasurer; and Randall E. Hile, President of the Town Council. Our audit disclosed no material items that warrant comment at this time.