

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

AUDIT REPORT

OF

TOWN OF OAKTOWN

KNOX COUNTY, INDIANA

January 1, 2005 to December 31, 2006



FILED

09/12/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
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.....	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis	7, 11
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds.....	8, 12
Proprietary Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Funds.....	9, 13
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Funds	10, 14
Notes to Financial Statements	15-22
Required Supplementary Information:	
Schedule of Funding Progress	23
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds.....	24, 26
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Private-Purpose Trust Funds	25, 27
Supplemental Audit of Federal Awards:	
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	30-31
Schedule of Expenditures of Federal Awards.....	32
Notes to Schedule of Expenditures of Federal Awards	33
Schedule of Findings and Questioned Costs.....	34
Auditee Prepared Schedule:	
Summary Schedule of Prior Audit Findings.....	35
Exit Conference.....	36

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Carol A. Beaman	01-01-04 to 12-31-07
President of the Town Council	Sherman Loudermilk	01-01-05 to 12-31-07
Superintendent of Utilities	Robert Bolenbaugh	01-01-05 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE TOWN OF OAKTOWN, KNOX 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 Oaktown (Town), as of and for the years ended December 31, 2005 and 2006, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated July 17, 2007, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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 Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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, 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.

STATE BOARD OF ACCOUNTS

July 17, 2007



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

TO: THE OFFICIALS OF THE TOWN OF OAKTOWN, KNOX 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 Oaktown (Town), as of and for the years ended December 31, 2005 and 2006, which collectively comprise the Town's basic financial statements and have issued our report thereon dated July 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

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

July 17, 2007

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

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 99,006	\$ 9,819	\$ -	\$ 53,789	\$ (35,398)	\$ -	\$ (35,398)
Public safety	26,317	-	3,110	-	(23,207)	-	(23,207)
Highways and streets	23,173	-	22,836	-	(337)	-	(337)
Sanitation	21,673	28,504	-	-	6,831	-	6,831
Total governmental activities	170,169	38,323	25,946	53,789	(52,111)	-	(52,111)
Business-type activities:							
Water	156,003	170,098	-	-	-	14,095	14,095
Wastewater	158,487	180,103	-	-	-	21,616	21,616
Total business-type activities	314,490	350,201	-	-	-	35,711	35,711
Total primary government	\$ 484,659	\$ 388,524	\$ 25,946	\$ 53,789	(52,111)	35,711	(16,400)
General receipts:							
Property taxes					61,071	-	61,071
Other local sources					16,375	-	16,375
Unrestricted investment earnings					421	4,296	4,717
Total general receipts					77,867	4,296	82,163
Change in net assets					25,756	40,007	65,763
Net assets - beginning					40,839	282,454	323,293
Net assets - ending					\$ 66,595	\$ 322,461	\$ 389,056
<u>Assets</u>							
Cash and investments					\$ 21,824	\$ 49,053	\$ 70,877
Restricted assets:							
Cash and investments					44,771	273,408	318,179
Total assets					\$ 66,595	\$ 322,461	\$ 389,056
<u>Net Assets</u>							
Restricted for:							
General government					\$ 22,245	\$ -	\$ 22,245
Highways and streets					20,756	-	20,756
Public safety					1,770	-	1,770
Debt services					-	48,973	48,973
Other purposes					-	224,435	224,435
Unrestricted					21,824	49,053	70,877
Total net assets					\$ 66,595	\$ 322,461	\$ 389,056

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

TOWN OF OAKTOWN
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	Other Governmental Funds	Totals
Receipts:			
Taxes	\$ 41,337	\$ 19,734	\$ 61,071
Intergovernmental	9,727	81,248	90,975
Charges for services	32,722	-	32,722
Other	8,601	2,556	11,157
	<u>92,387</u>	<u>103,538</u>	<u>195,925</u>
Total receipts			
Disbursements:			
General government	52,969	46,037	99,006
Public safety	7,817	18,500	26,317
Highways and streets	-	19,373	19,373
Sanitation	21,673	-	21,673
Capital outlay:			
Highways and streets	-	3,800	3,800
	<u>82,459</u>	<u>87,710</u>	<u>170,169</u>
Total disbursements			
Excess of receipts over disbursements	<u>9,928</u>	<u>15,828</u>	<u>25,756</u>
Other financing sources (uses):			
Transfers in	2,400	-	2,400
Transfers out	-	(2,400)	(2,400)
	<u>2,400</u>	<u>(2,400)</u>	<u>-</u>
Total other financing sources (uses)			
Excess of receipts and other financing sources over disbursements and other financing uses	12,328	13,428	25,756
Cash and investment fund balance - beginning	<u>9,496</u>	<u>31,343</u>	<u>40,839</u>
Cash and investment fund balance - ending	<u>\$ 21,824</u>	<u>\$ 44,771</u>	<u>\$ 66,595</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 21,824	\$ -	\$ 21,824
Restricted assets:			
Cash and investments	-	44,771	44,771
Total cash and investment assets - December 31	<u>\$ 21,824</u>	<u>\$ 44,771</u>	<u>\$ 66,595</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
General government	\$ -	\$ 22,245	\$ 22,245
Highways and streets	-	20,756	20,756
Public safety	-	1,770	1,770
Unrestricted	<u>21,824</u>	<u>-</u>	<u>21,824</u>
Total cash and investment fund balance - December 31	<u>\$ 21,824</u>	<u>\$ 44,771</u>	<u>\$ 66,595</u>

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

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

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
Operating receipts:			
Metered water receipts:			
Residential	\$ 132,742	\$ -	\$ 132,742
Fire protection receipts	33,857	-	33,857
Other water receipts	1,200	-	1,200
Measured revenue:			
Residential	-	180,103	180,103
Other	2,299	-	2,299
	<u>170,098</u>	<u>180,103</u>	<u>350,201</u>
 Total operating receipts			
Operating disbursements:			
Other	12,769	-	12,769
Salaries and wages	30,885	13,789	44,674
Employee pensions and benefits	6,291	2,283	8,574
Purchased water	56,551	-	56,551
Purchased wastewater treatment	-	55,333	55,333
Material and supplies	7,035	16,576	23,611
Contractual services	13,946	7,622	21,568
Transportation disbursements	1,648	-	1,648
Insurance disbursements	3,153	2,632	5,785
Miscellaneous disbursements	3,525	879	4,404
	<u>135,803</u>	<u>99,114</u>	<u>234,917</u>
 Total operating disbursements			
Excess of operating receipts over operating disbursements	<u>34,295</u>	<u>80,989</u>	<u>115,284</u>
 Nonoperating receipts (disbursements):			
Interest and investment receipts	3,395	901	4,296
Debt service of principal	(6,000)	(13,300)	(19,300)
Interest and investment disbursement	(14,200)	(46,073)	(60,273)
	<u>(16,805)</u>	<u>(58,472)</u>	<u>(75,277)</u>
 Total nonoperating disbursements			
Excess of receipts over disbursements and nonoperating receipts	17,490	22,517	40,007
Transfers in	29,314	75,049	104,363
Transfers out	(29,314)	(75,049)	(104,363)
Excess of receipts and transfers in over disbursements and transfers out	17,490	22,517	40,007
Cash and investment fund balance - beginning	<u>184,644</u>	<u>97,810</u>	<u>282,454</u>
Cash and investment fund balance - ending	<u>\$ 202,134</u>	<u>\$ 120,327</u>	<u>\$ 322,461</u>
 <u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 38,429	\$ 10,624	\$ 49,053
Restricted assets:			
Cash and investments	<u>163,705</u>	<u>109,703</u>	<u>273,408</u>
Total cash and investment assets - December 31	<u>\$ 202,134</u>	<u>\$ 120,327</u>	<u>\$ 322,461</u>
 <u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 25,077	\$ 23,896	\$ 48,973
Other purposes	138,628	85,807	224,435
Unrestricted	<u>38,429</u>	<u>10,624</u>	<u>49,053</u>
Total cash and investment fund balance - December 31	<u>\$ 202,134</u>	<u>\$ 120,327</u>	<u>\$ 322,461</u>

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

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

	Private-Purpose Trust Funds	Agency Fund
Additions:		
Contributions:		
Other	\$ 11,225	\$ -
Agency fund additions	-	78,112
Total additions	11,225	78,112
Deductions:		
Administrative and general	1,271	-
Culture and recreation	6,798	-
Agency fund deductions	-	78,428
Total deductions	8,069	78,428
Excess (deficiency) of total additions over total deductions	3,156	(316)
Cash and investment fund balance - beginning	5,436	425
Cash and investment fund balance - ending	\$ 8,592	\$ 109

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

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

Functions/Programs	Disbursements	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 55,453	\$ 5,406	\$ -	\$ 5,662	\$ (44,385)	\$ -	\$ (44,385)
Public safety	20,473	-	2,899	-	(17,574)	-	(17,574)
Highways and streets	18,122	4,343	22,285	-	8,506	-	8,506
Sanitation	22,546	28,242	-	-	5,696	-	5,696
Total governmental activities	116,594	37,991	25,184	5,662	(47,757)	-	(47,757)
Business-type activities:							
Water	924,286	175,760	-	775,777	-	27,251	27,251
Wastewater	171,511	186,872	-	-	-	15,361	15,361
Total business-type activities	1,095,797	362,632	-	775,777	-	42,612	42,612
Total primary government	\$ 1,212,391	\$ 400,623	\$ 25,184	\$ 781,439	(47,757)	42,612	(5,145)
General receipts:							
Property taxes					32,962	-	32,962
Other local sources					17,426	-	17,426
Unrestricted investment earnings					736	8,128	8,864
Total general receipts					51,124	8,128	59,252
Change in net assets					3,367	50,740	54,107
Net assets - beginning					66,595	322,461	389,056
Net assets - ending					\$ 69,962	\$ 373,201	\$ 443,163
Assets							
Cash and investments					\$ 27,061	\$ 50,378	\$ 77,439
Restricted assets:							
Cash and investments					42,901	322,823	365,724
Total assets					\$ 69,962	\$ 373,201	\$ 443,163
Net Assets							
Restricted for:							
General government					\$ 9,232	\$ -	\$ 9,232
Highways and streets					31,170	-	31,170
Public safety					2,499	-	2,499
Debt service					-	68,276	68,276
Construction					-	1,625	1,625
Other purposes					-	252,922	252,922
Unrestricted					27,061	50,378	77,439
Total net assets					\$ 69,962	\$ 373,201	\$ 443,163

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

TOWN OF OAKTOWN
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	Other Governmental Funds	Totals
Receipts:			
Taxes	\$ 22,111	\$ 10,851	\$ 32,962
Intergovernmental	13,188	39,172	52,360
Charges for services	32,423	-	32,423
Other	2,216	-	2,216
	<u>69,938</u>	<u>50,023</u>	<u>119,961</u>
Total receipts			
Disbursements:			
General government	36,182	19,271	55,453
Public safety	7,973	12,500	20,473
Highways and streets	-	16,122	16,122
Sanitation	22,546	-	22,546
Capital outlay:			
Highways and streets	-	2,000	2,000
	<u>66,701</u>	<u>49,893</u>	<u>116,594</u>
Total disbursements			
Excess of receipts over disbursements	<u>3,237</u>	<u>130</u>	<u>3,367</u>
Other financing sources (uses):			
Transfers in	2,000	619	2,619
Transfers out	-	(2,619)	(2,619)
	<u>2,000</u>	<u>(2,000)</u>	<u>-</u>
Total other financing sources (uses)			
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	5,237	(1,870)	3,367
Cash and investment fund balance - beginning	<u>21,824</u>	<u>44,771</u>	<u>66,595</u>
Cash and investment fund balance - ending	<u>\$ 27,061</u>	<u>\$ 42,901</u>	<u>\$ 69,962</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 27,061	\$ -	\$ 27,061
Restricted assets:			
Cash and investments	-	42,901	42,901
Total cash and investment assets - December 31	<u>\$ 27,061</u>	<u>\$ 42,901</u>	<u>\$ 69,962</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
General government	\$ -	\$ 9,232	\$ 9,232
Highways and streets	-	31,170	31,170
Public safety	-	2,499	2,499
Unrestricted	<u>27,061</u>	<u>-</u>	<u>27,061</u>
Total cash and investment fund balance - December 31	<u>\$ 27,061</u>	<u>\$ 42,901</u>	<u>\$ 69,962</u>

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

TOWN OF OAKTOWN
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	Total
Operating receipts:			
Metered water receipts:			
Residential	\$ 127,719	\$ -	\$ 127,719
Fire protection receipts	17,398	-	17,398
Other water revenue	23,143	-	23,143
Measured revenue:			
Residential	-	186,872	186,872
Other	7,500	-	7,500
Total operating receipts	<u>175,760</u>	<u>186,872</u>	<u>362,632</u>
Operating disbursements:			
Other	9,384	13,789	23,173
Salaries and wages	32,645	2,283	34,928
Employee pensions and benefits	6,288	-	6,288
Purchased water	47,370	-	47,370
Purchased wastewater treatment	-	55,642	55,642
Material and supplies	7,803	25,066	32,869
Contractual services	782,803	12,628	795,431
Transportation disbursements	4,282	-	4,282
Insurance disbursements	3,157	2,596	5,753
Miscellaneous disbursements	10,654	160	10,814
Total operating disbursements	<u>904,386</u>	<u>112,164</u>	<u>1,016,550</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(728,626)</u>	<u>74,708</u>	<u>(653,918)</u>
Nonoperating receipts (disbursements):			
Interest and investment receipts	5,290	2,838	8,128
Debt service of principal	(6,000)	(13,300)	(19,300)
Interest and investment disbursement	(13,900)	(46,047)	(59,947)
Total nonoperating disbursements	<u>(14,610)</u>	<u>(56,509)</u>	<u>(71,119)</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(743,236)	18,199	(725,037)
Capital contributions	775,777	-	775,777
Transfers in	50,393	75,422	125,815
Transfers out	(50,393)	(75,422)	(125,815)
Excess of receipts, contributions and transfers in over disbursements and transfers out	32,541	18,199	50,740
Cash and investment fund balance - beginning	<u>202,134</u>	<u>120,327</u>	<u>322,461</u>
Cash and investment fund balance - ending	<u>\$ 234,675</u>	<u>\$ 138,526</u>	<u>\$ 373,201</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 37,630	\$ 12,748	\$ 50,378
Restricted assets:			
Cash and investments	<u>197,045</u>	<u>125,778</u>	<u>322,823</u>
Total cash and investment assets - December 31	<u>\$ 234,675</u>	<u>\$ 138,526</u>	<u>\$ 373,201</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 43,727	\$ 24,549	\$ 68,276
Construction	1,625	-	1,625
Other purposes	151,693	101,229	252,922
Unrestricted	<u>37,630</u>	<u>12,748</u>	<u>50,378</u>
Total cash and investment fund balance - December 31	<u>\$ 234,675</u>	<u>\$ 138,526</u>	<u>\$ 373,201</u>

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

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

	<u>Private-Purpose Trust Funds</u>	<u>Agency Fund</u>
Additions:		
Contributions:		
Other	\$ 712	\$ -
Agency fund additions	<u>-</u>	<u>80,011</u>
Total additions	<u>712</u>	<u>80,011</u>
Deductions:		
Administrative and general	5,937	-
Culture and recreation	545	-
Agency fund deductions	<u>-</u>	<u>80,238</u>
Total deductions	<u>6,482</u>	<u>80,238</u>
Deficiency of total additions over total deductions	(5,770)	(227)
Cash and investment fund balance - beginning	<u>8,592</u>	<u>109</u>
Cash and investment fund balance - ending	<u>\$ 2,822</u>	<u>\$ (118)</u>

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

TOWN OF OAKTOWN
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 and wastewater.

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

Primary Government: Town of Oaktown

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other 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 fund:

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 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.

TOWN OF OAKTOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the Town reports the following fund types:

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the special park and town donations.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Town's Water and Wastewater Utilities. 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 OAKTOWN
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 OAKTOWN
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 OAKTOWN
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. Cash and Investment Balance Deficit

At December 31, 2006, the following fund reported a deficit in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2005	2006
Payroll	\$ -	\$ (118)

The cash and investment deficit arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits

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

B. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
General Fund	Other governmental	\$ -	\$ 92
Other governmental	General Fund	2,400	2,000
	Other governmental	-	527
Totals		\$ 2,400	\$ 2,619

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

TOWN OF OAKTOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Illness or Injuries to Employees

During 1990, the Town joined with other governmental entities to form the Indiana Public Employer's 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 worker's compensation claims. The Town pays an annual premium to the risk pool for its employee 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 – Enterprise Funds

Water Utility

On August 7, 1996, the Town Council adopted Ordinance No. 4-96 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on July 5, 2006.

Wastewater Utility

The current rate structure was approved by the Town Council on August 4, 2004.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town 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 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.

TOWN OF OAKTOWN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The Town'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 Utilities is not available.

Actuarial Information for the Above Plan

	PERF
Interest on net pension obligation	\$ (765)
Adjustment to annual required contribution	872
Annual pension cost	107
Contributions made	1,420
Decrease in net pension obligation	(1,313)
Net pension obligation, beginning of year	(10,552)
Net pension obligation, end of year	\$ (11,865)
Contribution rates:	
Town	4.5%
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

TOWN OF OAKTOWN
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	\$ 82	1,633%	\$ (9,289)
	06-30-05	94	1,444%	(10,552)
	06-30-06	107	1,511%	(11,865)

TOWN OF OAKTOWN
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 91,351	\$ 39,293	\$ 52,058	232%	\$ 24,658	211%
07-01-05	92,374	43,123	49,251	214%	33,502	147%
07-01-06	109,859	48,077	61,782	229%	33,746	183%

TOWN OF OAKTOWN
 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	Fire	Charley	Riverboat	Rainy Day	Cumulative Capital Improvement	Cumulative Capital Development	CEDIT	Totals
Receipts:										
Taxes	\$ -	\$ -	\$ 17,083	\$ -	\$ -	\$ -	\$ -	\$ 2,651	\$ -	\$ 19,734
Intergovernmental	19,266	3,570	3,110	43,500	3,992	-	1,957	440	5,413	81,248
Other	76	-	-	2,480	-	-	-	-	-	2,556
Total receipts	19,342	3,570	20,193	45,980	3,992	-	1,957	3,091	5,413	103,538
Disbursements:										
General government	-	-	-	46,037	-	-	-	-	-	46,037
Public safety	-	-	18,500	-	-	-	-	-	-	18,500
Highways and streets	19,373	-	-	-	-	-	-	-	-	19,373
Capital outlay:										
Highways and streets	-	-	-	-	-	-	-	3,800	-	3,800
Total disbursements	19,373	-	18,500	46,037	-	-	-	3,800	-	87,710
Excess (deficiency) of receipts over disbursements	(31)	3,570	1,693	(57)	3,992	-	1,957	(709)	5,413	15,828
Other financing uses:										
Transfers out	-	-	-	-	-	-	(2,400)	-	-	(2,400)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(31)	3,570	1,693	(57)	3,992	-	(443)	(709)	5,413	13,428
Cash and investment fund balance - beginning	6,669	10,548	77	57	7,994	1,509	1,686	2,236	567	31,343
Cash and investment fund balance - ending	<u>\$ 6,638</u>	<u>\$ 14,118</u>	<u>\$ 1,770</u>	<u>\$ -</u>	<u>\$ 11,986</u>	<u>\$ 1,509</u>	<u>\$ 1,243</u>	<u>\$ 1,527</u>	<u>\$ 5,980</u>	<u>\$ 44,771</u>
<u>Cash and Investment Assets - December 31</u>										
Restricted assets:										
Cash and investments	<u>\$ 6,638</u>	<u>\$ 14,118</u>	<u>\$ 1,770</u>	<u>\$ -</u>	<u>\$ 11,986</u>	<u>\$ 1,509</u>	<u>\$ 1,243</u>	<u>\$ 1,527</u>	<u>\$ 5,980</u>	<u>\$ 44,771</u>
<u>Cash and Investment Fund Balance - December 31</u>										
Restricted for:										
General government	\$ -	\$ -	\$ -	\$ -	\$ 11,986	\$ 1,509	\$ 1,243	\$ 1,527	\$ 5,980	\$ 22,245
Highways and streets	6,638	14,118	-	-	-	-	-	-	-	20,756
Public safety	-	-	1,770	-	-	-	-	-	-	1,770
Total cash and investment fund balance - December 31	<u>\$ 6,638</u>	<u>\$ 14,118</u>	<u>\$ 1,770</u>	<u>\$ -</u>	<u>\$ 11,986</u>	<u>\$ 1,509</u>	<u>\$ 1,243</u>	<u>\$ 1,527</u>	<u>\$ 5,980</u>	<u>\$ 44,771</u>

TOWN OF OAKTOWN
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For The Year Ended December 31, 2005

	<u>Special Park</u>	<u>Donation</u>	<u>Total</u>
Additions:			
Contributions:			
Other	\$ 5,506	\$ 5,719	\$ 11,225
Deductions:			
Administrative and general	-	1,271	1,271
Culture and recreation	6,798	-	6,798
Total deductions	<u>6,798</u>	<u>1,271</u>	<u>8,069</u>
Excess (deficiency) of total additions over total deductions	(1,292)	4,448	3,156
Cash and investment fund balance - beginning	<u>4,165</u>	<u>1,271</u>	<u>5,436</u>
Cash and investment fund balance - ending	<u>\$ 2,873</u>	<u>\$ 5,719</u>	<u>\$ 8,592</u>

TOWN OF OAKTOWN
 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 Road and Street	Fire	Riverboat	Rainy Day	Cumulative Capital Improvement	Cumulative Capital Development	CEDIT	Major Moves	Levy Excess	Totals
Receipts:											
Taxes	\$ -	\$ -	\$ 10,851	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,851
Intergovernmental	18,857	3,428	2,899	3,983	-	2,261	-	3,401	4,343	-	39,172
Total receipts	18,857	3,428	13,750	3,983	-	2,261	-	3,401	4,343	-	50,023
Disbursements:											
General government	-	-	-	11,791	1,500	-	-	5,980	-	-	19,271
Public safety	-	-	12,500	-	-	-	-	-	-	-	12,500
Highways and streets	16,122	-	-	-	-	-	-	-	-	-	16,122
Capital outlay:											
Highways and streets	-	-	-	-	-	-	2,000	-	-	-	2,000
Total disbursements	16,122	-	12,500	11,791	1,500	-	2,000	5,980	-	-	49,893
Excess (deficiency) of receipts over disbursements	2,735	3,428	1,250	(7,808)	(1,500)	2,261	(2,000)	(2,579)	4,343	-	130
Other financing sources (uses):											
Transfers in	-	-	-	-	-	-	479	-	-	140	619
Transfers out	(92)	-	(521)	-	-	(2,000)	(6)	-	-	-	(2,619)
Total other financing sources (uses)	(92)	-	(521)	-	-	(2,000)	473	-	-	140	(2,000)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	2,643	3,428	729	(7,808)	(1,500)	261	(1,527)	(2,579)	4,343	140	(1,870)
Cash and investment fund balance - beginning	6,638	14,118	1,770	11,986	1,509	1,243	1,527	5,980	-	-	44,771
Cash and investment fund balance - ending	\$ 9,281	\$ 17,546	\$ 2,499	\$ 4,178	\$ 9	\$ 1,504	\$ -	\$ 3,401	\$ 4,343	\$ 140	\$ 42,901
<u>Cash and Investment Assets - December 31</u>											
Restricted assets:											
Cash and investments	\$ 9,281	\$ 17,546	\$ 2,499	\$ 4,178	\$ 9	\$ 1,504	\$ -	\$ 3,401	\$ 4,343	\$ 140	\$ 42,901
<u>Cash and Investment Fund Balance - December 31</u>											
Restricted for:											
General government	\$ -	\$ -	\$ -	\$ 4,178	\$ 9	\$ 1,504	\$ -	\$ 3,401	\$ -	\$ 140	\$ 9,232
Highways and streets	9,281	17,546	-	-	-	-	-	-	4,343	-	31,170
Public safety	-	-	2,499	-	-	-	-	-	-	-	2,499
Total cash and investment fund balance - December 31	\$ 9,281	\$ 17,546	\$ 2,499	\$ 4,178	\$ 9	\$ 1,504	\$ -	\$ 3,401	\$ 4,343	\$ 140	\$ 42,901

TOWN OF OAKTOWN
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For The Year Ended December 31, 2006

	Special Park	Donation	Total
Additions:			
Contributions:			
Other	\$ 494	\$ 218	\$ 712
Deductions:			
Administrative and general	-	5,937	5,937
Culture and recreation	545	-	545
	545	5,937	6,482
Total deductions	545	5,937	6,482
Deficiency of total additions over total deductions	(51)	(5,719)	(5,770)
Cash and investment fund balance - beginning	2,873	5,719	8,592
Cash and investment fund balance - ending	\$ 2,822	\$ -	\$ 2,822

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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 OAKTOWN, KNOX COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Oaktown (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2005 and 2006. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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

In our opinion, the Town complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2005 and 2006.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

July 17, 2007

TOWN OF OAKTOWN
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-05	Total Federal Awards Expended 12-31-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760		\$ -	\$ 529,780
<u>U.S. HOUSING AND URBAN DEVELOPMENT</u>				
Pass- Through Indiana Department of Commerce				
Community Development Block Grants - State's Program	14.228	PL-01-062	43,500	-
Pass-Through Indiana Office of Community and Rural Affairs				
Community Development Block Grants - State's Program	14.228	CF-05-203	-	244,472
Total for federal grantor agency			43,500	244,472
Total federal awards expended			\$ 43,500	\$ 774,252

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

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

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

II. Loans Outstanding

The Town had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2005 and 2006. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
Water and Waste Disposal Systems for Rural Communities	10.760	\$ -	\$ 529,780

TOWN OF OAKTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

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 OAKTOWN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF OAKTOWN
EXIT CONFERENCE

The contents of this report were discussed on August 2, 2007, with Carol A. Beaman, Clerk-Treasurer. Our audit disclosed no material items that warrant comment at this time.