

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

AUDIT REPORT

OF

TOWN OF MOUNT ETNA

HUNTINGTON COUNTY, INDIANA

January 1, 2008 to December 31, 2009



**FILED**  
06/09/2010



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Erica L. Dorsett	01-01-08 to 12-31-11
President of the Town Council	Ronald G. Hamblen	01-01-08 to 12-31-10



**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](http://www.in.gov/sboa)

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

TO: THE OFFICIALS OF THE TOWN OF MOUNT ETNA, HUNTINGTON 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 Mount Etna (Town), as of and for the years ended December 31, 2008 and 2009, 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, 2008 and 2009, 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 May 24, 2010, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. 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,

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

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 required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

May 24, 2010



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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 MOUNT ETNA, HUNTINGTON 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 Mount Etna (Town), as of and for the years ended December 31, 2008 and 2009, which collectively comprise the Town's basic financial statements and have issued our report thereon dated May 24, 2010. 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

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. We consider the deficiencies described in item 2009-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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.

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)

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. However, of the significant deficiencies described above, we consider item 2009-1 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated May 24, 2010.

The Town's response to the finding identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

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

May 24, 2010

TOWN OF MOUNT ETNA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2008

Functions/Programs	Program Receipts			Net (Disbursements) Receipts and Changes in Net Assets		Totals
	Disbursements	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary government:						
Governmental activities:						
General government	\$ 10,512	\$ -	\$ -	\$ (10,512)	\$ -	\$ (10,512)
Public safety	668	-	-	(668)	-	(668)
Highways and streets	3,130	-	-	(3,130)	-	(3,130)
Total governmental activities	14,310	-	-	(14,310)	-	(14,310)
Business-type activities:						
Wastewater	1,226,412	43,063	363,859	-	(819,490)	(819,490)
Total primary government	<u>\$ 1,240,722</u>	<u>\$ 43,063</u>	<u>\$ 363,859</u>	<u>(14,310)</u>	<u>(819,490)</u>	<u>(833,800)</u>
General receipts:						
Property taxes				3,144	-	3,144
Other local sources				7,796	-	7,796
Bonds and loans				-	827,000	827,000
Grants and contributions not restricted to specific programs				4,862	-	4,862
Unrestricted investment earnings				255	114	369
Total general receipts				16,057	827,114	843,171
Change in net assets				1,747	7,624	9,371
Net assets - beginning				42,531	53,367	95,898
Net assets - ending				<u>\$ 44,278</u>	<u>\$ 60,991</u>	<u>\$ 105,269</u>
<u>Assets</u>						
Cash and investments				\$ 44,278	\$ 34,440	\$ 78,718
Restricted assets:						
Cash and investments				-	26,551	26,551
Total assets				<u>\$ 44,278</u>	<u>\$ 60,991</u>	<u>\$ 105,269</u>
<u>Net Assets</u>						
Restricted for:						
Debt service				\$ -	\$ 23,299	\$ 23,299
Other purposes				-	3,252	3,252
Unrestricted				44,278	34,440	78,718
Total net assets				<u>\$ 44,278</u>	<u>\$ 60,991</u>	<u>\$ 105,269</u>

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

TOWN OF MOUNT ETNA  
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, 2008

	General	Motor Vehicle Highway	Local Road and Street	Economic Development Income Tax	Other Governmental Funds	Totals
Receipts:						
Taxes	\$ 3,144	\$ -	\$ -	\$ -	\$ -	\$ 3,144
Intergovernmental	3,246	3,032	905	4,633	637	12,453
Other	460	-	-	-	-	460
Total receipts	<u>6,850</u>	<u>3,032</u>	<u>905</u>	<u>4,633</u>	<u>637</u>	<u>16,057</u>
Disbursements:						
General government	9,912	-	-	-	600	10,512
Public safety	-	-	-	-	668	668
Highways and streets	-	2,950	180	-	-	3,130
Total disbursements	<u>9,912</u>	<u>2,950</u>	<u>180</u>	<u>-</u>	<u>1,268</u>	<u>14,310</u>
Excess (deficiency) of receipts over disbursements	<u>(3,062)</u>	<u>82</u>	<u>725</u>	<u>4,633</u>	<u>(631)</u>	<u>1,747</u>
Other financing sources (uses):						
Transfers in	5,455	-	-	-	600	6,055
Transfers out	(600)	-	-	(4,658)	(797)	(6,055)
Total other financing sources (uses)	<u>4,855</u>	<u>-</u>	<u>-</u>	<u>(4,658)</u>	<u>(197)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,793	82	725	(25)	(828)	1,747
Cash and investment fund balance - beginning	<u>5,772</u>	<u>5,905</u>	<u>8,553</u>	<u>18,871</u>	<u>3,430</u>	<u>42,531</u>
Cash and investment fund balance - ending	<u>\$ 7,565</u>	<u>\$ 5,987</u>	<u>\$ 9,278</u>	<u>\$ 18,846</u>	<u>\$ 2,602</u>	<u>\$ 44,278</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	<u>\$ 7,565</u>	<u>\$ 5,987</u>	<u>\$ 9,278</u>	<u>\$ 18,846</u>	<u>\$ 2,602</u>	<u>\$ 44,278</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Unrestricted	<u>\$ 7,565</u>	<u>\$ 5,987</u>	<u>\$ 9,278</u>	<u>\$ 18,846</u>	<u>\$ 2,602</u>	<u>\$ 44,278</u>

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

TOWN OF MOUNT ETNA  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUND  
As of and for the Year Ended December 31, 2008

	Wastewater Utility
Operating receipts:	
Flat rate receipts	\$ 43,063
Operating disbursements:	
Operations and maintenance	8,812
Customer accounts	174
Administration and general	7,400
Sludge removal and chemicals	1,370
Material and supplies	2,251
Contractual services	9,698
Regulatory commission disbursements	800
Miscellaneous disbursements	745
Total operating disbursements	31,250
Excess of operating receipts over operating disbursements	11,813
Nonoperating receipts (disbursements):	
Bond and loan proceeds	827,000
Interest and investment receipts	114
Capital improvements	(1,190,809)
Debt service of principal	(1,000)
Debt service of interest	(3,353)
Total nonoperating receipts (disbursements)	(368,048)
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(356,235)
Capital contributions	363,859
Excess of receipts and contributions over disbursements	7,624
Cash and investment fund balance - beginning	53,367
Cash and investment fund balance - ending	\$ 60,991
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 34,440
Restricted assets:	
Cash and investments	26,551
Total cash and investment assets - December 31	\$ 60,991
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 23,299
Other purposes	3,252
Unrestricted	34,440
Total cash and investment fund balance - December 31	\$ 60,991

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

TOWN OF MOUNT ETNA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2009

Functions/Programs	Program Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Disbursements	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:						
Governmental activities:						
General government	\$ 9,258	\$ -	\$ -	\$ (9,258)	\$ -	\$ (9,258)
Public safety	725	-	-	(725)	-	(725)
Highways and streets	3,376	-	-	(3,376)	-	(3,376)
Total governmental activities	<u>13,359</u>	<u>-</u>	<u>-</u>	<u>(13,359)</u>	<u>-</u>	<u>(13,359)</u>
Business-type activities:						
Wastewater	<u>607,627</u>	<u>86,230</u>	<u>552,346</u>	<u>-</u>	<u>30,949</u>	<u>30,949</u>
Total primary government	<u>\$ 620,986</u>	<u>\$ 86,230</u>	<u>\$ 552,346</u>	<u>(13,359)</u>	<u>30,949</u>	<u>17,590</u>
General receipts:						
Property taxes				45	-	45
Other local sources				7,176	-	7,176
Grants and contributions not restricted to specific programs				4,724	-	4,724
Unrestricted investment earnings				134	172	306
Total general receipts				<u>12,079</u>	<u>172</u>	<u>12,251</u>
Change in net assets				(1,280)	31,121	29,841
Net assets - beginning				<u>44,278</u>	<u>60,991</u>	<u>105,269</u>
Net assets - ending				<u>\$ 42,998</u>	<u>\$ 92,112</u>	<u>\$ 135,110</u>
<u>Assets</u>						
Cash and investments				\$ 42,998	\$ 39,469	\$ 82,467
Restricted assets:						
Cash and investments				-	52,643	52,643
Total assets				<u>\$ 42,998</u>	<u>\$ 92,112</u>	<u>\$ 135,110</u>
<u>Net Assets</u>						
Restricted for:						
Debt service				\$ -	\$ 34,784	\$ 34,784
Other purposes				-	17,859	17,859
Unrestricted				<u>42,998</u>	<u>39,469</u>	<u>82,467</u>
Total net assets				<u>\$ 42,998</u>	<u>\$ 92,112</u>	<u>\$ 135,110</u>

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

TOWN OF MOUNT ETNA  
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, 2009

	General	Motor Vehicle Highway	Local Road and Street	Economic Development Income Tax	Other Governmental Funds	Totals
<b>Receipts:</b>						
Taxes	\$ 45	\$ -	\$ -	\$ -	\$ -	\$ 45
Intergovernmental	2,514	2,972	856	4,759	530	11,631
Other	403	-	-	-	-	403
<b>Total receipts</b>	<b>2,962</b>	<b>2,972</b>	<b>856</b>	<b>4,759</b>	<b>530</b>	<b>12,079</b>
<b>Disbursements:</b>						
General government	9,258	-	-	-	-	9,258
Public safety	-	-	-	-	725	725
Highways and streets	-	3,196	180	-	-	3,376
<b>Total disbursements</b>	<b>9,258</b>	<b>3,196</b>	<b>180</b>	<b>-</b>	<b>725</b>	<b>13,359</b>
Excess (deficiency) of receipts over disbursements	(6,296)	(224)	676	4,759	(195)	(1,280)
<b>Other financing sources (uses):</b>						
Transfers in	3,400	-	-	-	600	4,000
Transfers out	(600)	(2,000)	-	-	(1,400)	(4,000)
<b>Total other financing sources (uses)</b>	<b>2,800</b>	<b>(2,000)</b>	<b>-</b>	<b>-</b>	<b>(800)</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(3,496)	(2,224)	676	4,759	(995)	(1,280)
Cash and investment fund balance - beginning	7,565	5,987	9,278	18,846	2,602	44,278
Cash and investment fund balance - ending	\$ 4,069	\$ 3,763	\$ 9,954	\$ 23,605	\$ 1,607	\$ 42,998
<b>Cash and Investment Assets - December 31</b>						
Cash and investments	\$ 4,069	\$ 3,763	\$ 9,954	\$ 23,605	\$ 1,607	\$ 42,998
<b>Cash and Investment Fund Balance - December 31</b>						
Unrestricted	\$ 4,069	\$ 3,763	\$ 9,954	\$ 23,605	\$ 1,607	\$ 42,998

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

TOWN OF MOUNT ETNA  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUND  
As of and for the Year Ended December 31, 2009

	<u>Wastewater Utility</u>
Operating receipts:	
Flat rate receipts	\$ 85,905
Other	<u>325</u>
Total operating receipts	<u>86,230</u>
Operating disbursements:	
Operations and maintenance	7,848
Customer accounts	145
Administration and general	8,100
Sludge removal and chemicals	1,445
Material and supplies	2,445
Contractual services	13,713
Regulatory commission disbursements	<u>800</u>
Total operating disbursements	<u>34,496</u>
Excess of operating receipts over operating disbursements	<u>51,734</u>
Nonoperating receipts (disbursements):	
Interest and investment receipts	172
Capital improvements	(537,739)
Debt service of principal	(3,000)
Debt service of interest	<u>(32,392)</u>
Total nonoperating receipts (disbursements)	<u>(572,959)</u>
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(521,225)
Capital contributions	<u>552,346</u>
Excess of receipts and contributions over disbursements	31,121
Cash and investment fund balance - beginning	<u>60,991</u>
Cash and investment fund balance - ending	<u>\$ 92,112</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 39,469
Restricted assets:	
Cash and investments	<u>52,643</u>
Total cash and investment assets - December 31	<u>\$ 92,112</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 34,784
Other purposes	17,859
Unrestricted	<u>39,469</u>
Total cash and investment fund balance - December 31	<u>\$ 92,112</u>

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

TOWN OF MOUNT ETNA  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides the following services: highways and streets, public improvements, general administrative services, and wastewater.

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

Primary Government: Town of Mount Etna

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, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The motor vehicle highway fund (MVH) accounts for state and local monies collected for highway and street construction and improvements.

The local road and street fund is used for engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of local road and street systems.

The economic development income tax fund accounts for the Town's use of economic development income tax revenues.

TOWN OF MOUNT ETNA  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Town and its enterprise fund. 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 fund are charges to customers for sales and services. Operating disbursements for enterprise fund 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.

When both restricted and unrestricted resources are available for use, the Town's policy is to use restricted resources first, then unrestricted resources as they are needed.

TOWN OF MOUNT ETNA  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. 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.

3. Property Taxes

Normally, property taxes levied are collected by the County Treasurer and are distributed to the Town in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which may become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

4. 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.

5. Long-Term Debt

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

6. 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."

TOWN OF MOUNT ETNA  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, and (2) 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 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.

F. Internal and Interfund 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 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.
4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

Government-Wide Financial Statements

Interfund activity, if any, is eliminated or reclassified in the government-wide financial statements. 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 loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

TOWN OF MOUNT ETNA  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the Town submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. Prior to November 1, 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

A. Deposits and Investments

1. Deposits

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

2. Investments

Statutory Authorization for Investments

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

TOWN OF MOUNT ETNA  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Town and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust have a stated final maturity of one day.

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

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Town does not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town must follow state statute and limit the stated final maturities of the investments to no more than two years. The Town does not have a formal investment policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The Town does not have a formal investment policy for credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

TOWN OF MOUNT ETNA  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Foreign Currency Risk

The Town does not have a formal policy in regards to foreign currency risk.

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2008 and 2009, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2008</u>	<u>2009</u>
General Fund	Other governmental funds	\$ 600	\$ 600
Economic Development Income Tax Fund	General Fund	4,658	-
Motor Vehicle Highway Fund	General Fund	-	1,400
Other governmental funds	General Fund	<u>797</u>	<u>2,000</u>
Totals		<u>\$ 6,055</u>	<u>\$ 4,000</u>

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

IV. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Rate Structure – Enterprise Funds

Wastewater Utility

The current rate structure was approved by the Town Council on August 12, 2008.

TOWN OF MOUNT ETNA  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Receipts Pledged

Wastewater Utility Receipts Pledged

The Town has pledged future operating receipts, net of specified operating expenditures, to repay revenue bonds issued in 1998. Proceeds from the bonds provided financing for construction of wastewater collection and treatment facilities. The bonds are payable solely from customer collections and are payable through 2036. Annual principal and interest payments are expected to require less than 10% of net receipts.

The Town has pledged future operating receipts, net of specified operating expenditures, to repay revenue bonds issued in 2008. Proceeds from the bonds provided financing for expansion of the wastewater collection system. The bonds are payable solely from customer collections and are payable through 2046. Annual principal and interest payments are expected to require less than 20% of net receipts.

TOWN OF MOUNT ETNA  
 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, 2008

	Fire Protection	Rainy Day	Cumulative Capital Improvement	Totals
Receipts:				
Intergovernmental	\$ -	\$ 280	\$ 357	\$ 637
Disbursements:				
General government	-	-	600	600
Public safety	668	-	-	668
Total disbursements	668	-	600	1,268
Excess (deficiency) of receipts over disbursements	(668)	280	(243)	(631)
Other financing sources (uses):				
Transfers in	600	-	-	600
Transfers out	-	-	(797)	(797)
Total other financing sources (uses)	600	-	(797)	(197)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(68)	280	(1,040)	(828)
Cash and investment fund balance - beginning	1,156	-	2,274	3,430
Cash and investment fund balance - ending	<u>\$ 1,088</u>	<u>\$ 280</u>	<u>\$ 1,234</u>	<u>\$ 2,602</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	<u>\$ 1,088</u>	<u>\$ 280</u>	<u>\$ 1,234</u>	<u>\$ 2,602</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Unrestricted	<u>\$ 1,088</u>	<u>\$ 280</u>	<u>\$ 1,234</u>	<u>\$ 2,602</u>

TOWN OF MOUNT ETNA  
 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, 2009

	Fire Protection	Rainy Day	Cumulative Capital Improvement	Totals
Receipts:				
Intergovernmental	\$ -	\$ 193	\$ 337	\$ 530
Disbursements:				
Public safety	<u>725</u>	<u>-</u>	<u>-</u>	<u>725</u>
Excess (deficiency) of receipts over disbursements	<u>(725)</u>	<u>193</u>	<u>337</u>	<u>(195)</u>
Other financing sources (uses):				
Transfers in	600	-	-	600
Transfers out	<u>-</u>	<u>-</u>	<u>(1,400)</u>	<u>(1,400)</u>
Total other financing sources (uses)	<u>600</u>	<u>-</u>	<u>(1,400)</u>	<u>(800)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(125)	193	(1,063)	(995)
Cash and investment fund balance - beginning	<u>1,088</u>	<u>280</u>	<u>1,234</u>	<u>2,602</u>
Cash and investment fund balance - ending	<u>\$ 963</u>	<u>\$ 473</u>	<u>\$ 171</u>	<u>\$ 1,607</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	<u>\$ 963</u>	<u>\$ 473</u>	<u>\$ 171</u>	<u>\$ 1,607</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Unrestricted	<u>\$ 963</u>	<u>\$ 473</u>	<u>\$ 171</u>	<u>\$ 1,607</u>

TOWN OF MOUNT ETNA  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS  
 December 31, 2009

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.

General infrastructure assets completed in the current period will be reported. Retroactive reporting general infrastructure assets is not required.

	Ending Balance
Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 73,138.00
Buildings	44,665.00
Improvements other than buildings	2,485,636.00
Machinery and equipment	6,439.00
Total Wastewater Utility capital assets	\$ 2,609,878.00

TOWN OF MOUNT ETNA  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2009

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type activities:		
Wastewater Utility:		
Revenue bonds:		
1998 Wastewater	\$ 73,000	\$ 4,263
2008 Wastewater Series A	282,000	15,623
2008 Wastewater Series B	<u>543,000</u>	<u>25,575</u>
Totals	<u>\$ 898,000</u>	<u>\$ 45,461</u>

TOWN OF MOUNT ETNA  
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, (utility billings and collections,) disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

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 objections, 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.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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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](http://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 MOUNT ETNA, HUNTINGTON COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Mount Etna (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 its major federal program for the years ended December 31, 2008 and 2009. The Town's major federal program is 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 its major federal program 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 its major federal program for the years ended December 31, 2008 and 2009.

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.

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

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)

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.

The Town's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

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

May 24, 2010

TOWN OF MOUNT ETNA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Years Ended December 31, 2008 and 2009

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-08	Total Federal Awards Expended 12-31-09
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760			
Loan			\$ 827,000	\$ -
Grant			<u>363,809</u>	<u>485,191</u>
Total for federal grantor agency			<u>1,190,809</u>	<u>485,191</u>
Total federal awards expended			<u>\$ 1,190,809</u>	<u>\$ 485,191</u>

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

TOWN OF MOUNT ETNA  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Mount Etna (Town) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

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

TOWN OF MOUNT ETNA  
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?	yes
Significant deficiencies 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
Significant deficiencies 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 Program:

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

FEDERAL FINDING 2009-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

TOWN OF MOUNT ETNA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, (utility billings and collections,) disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

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 objections, 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.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF MOUNT ETNA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



# TOWN OF MT. ETNA, INDIANA

5900W 582S  
HUNTINGTON, IN 46750  
260-468-2703  
FAX: 260-468-2703

## CORRECTIVE ACTION PLAN

May 22, 2010

### FEDERAL FINDING 2009-1 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The Management of the Town of Mt.Etna has reviewed the Financial Statement Findings related to their audit for the years 2008 and 2009 and offer the following corrective actions.

1.Lack of Segregation Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Clerk Treasurer's office will review their office procedures and attempt to institute duties that would involve, at least on a sample basis, reviews of the work being performed by each office employees. However, the town is a very small governmental unit and management has determined that the cost associated with employing the additional staff necessary to properly segregate duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current internal control structure used by their business office.

2.Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town officials will review their office procedures and attempt to institute duties that would involve reviews of the work being performed by each of their employees. However, the town is a very small governmental unit and management has determined the cost associated with employing the additional staff necessary to properly segregate duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current internal control structure used by their business office.

3.Monitoring of Controls: Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board will perform either an ongoing or separate evaluation of their system of internal controls. However, the town is a very small governmental unit and management has determined the cost associated with employing the additional staff necessary to properly segregate duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current internal control structure used by their business office.

  
Erica Dorsett

Clerk Treasurer /Town of Mt.Etna

TOWN OF MOUNT ETNA  
EXIT CONFERENCE

The contents of this report were discussed on May 24, 2010, with Erica L. Dorsett, Clerk-Treasurer; Kenneth L. Deetz, Town Council member; and Ronald G. Hamblen, President of the Town Council. The officials concurred with our audit finding.