

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

ANNUAL FINANCIAL REPORT

2005

CITY OF CONNERSVILLE

FAYETTE COUNTY, INDIANA



FILED
12/18/2006

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Julie A. Greeson	01-01-04 to 12-31-07
Mayor	Max A. Ellison	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Max A. Ellison	01-01-04 to 12-31-07
President of the Common Council	Mark Brockman	01-01-05 to 12-31-06
Director of Utilities	Harold J. Ellison	01-01-05 to 12-31-06
Utility Office Manager	Karen L. Lore	01-01-05 to 12-31-06



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

TO: THE OFFICIALS OF THE CITY OF CONNERSVILLE, FAYETTE 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 City of Connersville (City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 City 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 City as of December 31, 2005, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated November 27, 2006, on our consideration of the City'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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City 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.

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

The Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities as listed in the table of contents, are not required parts of the basic financial statements but are 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 City 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 City's basic financial statements. The Combining Schedules, as listed in the table of contents, are presented for additional analysis and are not a required part of the basic financial statements. The Combining Schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

November 27, 2006



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

TO: THE OFFICIALS OF THE CITY OF CONNERSVILLE, FAYETTE COUNTY, INDIANA

We have audited the financial statements of the City of Connersville (City), as of and for the year ended December 31, 2005, and have issued our report thereon dated November 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

November 27, 2006

CITY OF CONNERSVILLE
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	\$ 1,812,579	\$ 391,263	\$ 72,933	\$ 157,895	\$ (1,190,488)	\$ -	\$ (1,190,488)
Public safety	6,340,258	540,670	58,120	306,595	(5,434,873)	-	(5,434,873)
Highways and streets	1,252,903	29,554	-	-	(1,223,349)	-	(1,223,349)
Sanitation	1,207,513	405,200	-	40,327	(761,986)	-	(761,986)
Health and welfare	49,408	-	-	-	(49,408)	-	(49,408)
Culture and recreation	2,171,676	124,098	-	-	(2,047,578)	-	(2,047,578)
Economic development	142,267	2,018	-	-	(140,249)	-	(140,249)
Retirements and pensions	525,149	-	-	-	(525,149)	-	(525,149)
Interest on long-term debt	112,563	-	-	-	(112,563)	-	(112,563)
Total governmental activities	13,614,316	1,492,803	131,053	504,817	(11,485,643)	-	(11,485,643)
Business-type activities:							
Water	3,037,087	2,629,046	-	-	-	(408,041)	(408,041)
Wastewater	2,948,900	2,888,834	-	-	-	(60,066)	(60,066)
Storm water	513,513	859,886	-	-	-	346,373	346,373
Rotary fund	47,848	46,647	-	-	-	(1,201)	(1,201)
Total business-type activities	6,547,348	6,424,413	-	-	-	(122,935)	(122,935)
Total primary government	\$ 20,161,664	\$ 7,917,216	\$ 131,053	\$ 504,817	(11,485,643)	(122,935)	(11,608,578)
General receipts:							
Property taxes					8,122,809	-	8,122,809
Other local sources					3,189,315	-	3,189,315
Bonds and loans					-	4,013,875	4,013,875
Grants and contributions not restricted to specific programs					113,850	-	113,850
Unrestricted investment earnings					152,745	227,064	379,809
Transfers					2,500	(2,500)	-
Total general receipts and transfers					11,581,219	4,238,439	15,819,658
Change in net assets					95,576	4,115,504	4,211,080
Net assets - beginning					6,332,651	3,958,011	10,290,662
Net assets - ending					\$ 6,428,227	\$ 8,073,515	\$ 14,501,742
Assets							
Cash and investments					\$ 3,531,861	\$ 2,760,922	\$ 6,292,783
Restricted assets:							
Cash and investments					2,896,366	5,312,593	8,208,959
Total assets					\$ 6,428,227	\$ 8,073,515	\$ 14,501,742
Net Assets							
Restricted for:							
General government					\$ 1,085,498	\$ -	\$ 1,085,498
Public safety					98,260	-	98,260
Highways and streets					801,625	-	801,625
Culture and recreation					452,195	-	452,195
Economic development					444,711	-	444,711
Debt service					14,077	1,040,360	1,054,437
Construction					-	4,061,228	4,061,228
Customer deposits					-	183,282	183,282
Sanitation					-	27,723	27,723
Unrestricted					3,531,861	2,760,922	6,292,783
Total net assets					\$ 6,428,227	\$ 8,073,515	\$ 14,501,742

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

CITY OF CONNERSVILLE
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	Park Pool Construction	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 6,623,699	\$ -	\$ 1,499,110	\$ 8,122,809
Licenses and permits	125	-	-	125
Intergovernmental	2,038,458	-	1,700,136	3,738,594
Charges for services	1,189,964	-	302,839	1,492,803
Fines and forfeits	-	-	7	7
Other	162,135	134,910	56,009	353,054
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total receipts	<u>10,014,381</u>	<u>134,910</u>	<u>3,558,101</u>	<u>13,707,392</u>
Disbursements:				
General government	991,704	-	424,135	1,415,839
Public safety	6,000,872	-	339,386	6,340,258
Highways and streets	24,783	-	1,140,431	1,165,214
Sanitation	1,207,513	-	-	1,207,513
Health and welfare	49,408	-	-	49,408
Culture and recreation	10,000	-	612,634	622,634
Economic development	32,267	-	110,000	142,267
Retirements and pensions	525,149	-	-	525,149
Debt service:				
Principal	-	-	80,000	80,000
Interest	-	-	112,563	112,563
Capital outlay:				
General government	-	-	134,054	134,054
Highways and streets	-	-	87,689	87,689
Culture and recreation	-	1,469,042	-	1,469,042
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>8,841,696</u>	<u>1,469,042</u>	<u>3,040,892</u>	<u>13,351,630</u>
Excess (deficiency) of receipts over disbursements	<u>1,172,685</u>	<u>(1,334,132)</u>	<u>517,209</u>	<u>355,762</u>
Other financing sources (uses)				
Transfers in	2,666	-	34,340	37,006
Transfers out	-	-	(34,506)	(34,506)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>2,666</u>	<u>-</u>	<u>(166)</u>	<u>2,500</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>1,175,351</u>	<u>(1,334,132)</u>	<u>517,043</u>	<u>358,262</u>
Cash and investment fund balance - beginning	<u>1,728,549</u>	<u>1,445,000</u>	<u>2,243,306</u>	<u>5,416,855</u>
Cash and investment fund balance - ending	<u>\$ 2,903,900</u>	<u>\$ 110,868</u>	<u>\$ 2,760,349</u>	<u>\$ 5,775,117</u>
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because:				
Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.				
				<u>653,110</u>
Net assets of governmental activities				<u>\$ 6,428,227</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 2,903,900	\$ -	\$ 627,961	\$ 3,531,861
Restricted assets:				
Cash and investments	-	110,868	2,132,388	2,243,256
Total cash and investment assets - December 31	<u>\$ 2,903,900</u>	<u>\$ 110,868</u>	<u>\$ 2,760,349</u>	<u>\$ 5,775,117</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
General government	\$ -	\$ -	\$ 419,344	\$ 419,344
Public safety	-	-	98,260	98,260
Highways and streets	-	-	801,625	801,625
Culture and recreation	-	110,868	354,371	465,239
Economic development	-	-	444,711	444,711
Debt service	-	-	14,077	14,077
Unrestricted	<u>2,903,900</u>	<u>-</u>	<u>627,961</u>	<u>3,531,861</u>
Total cash and investment fund balance - December 31	<u>\$ 2,903,900</u>	<u>\$ 110,868</u>	<u>\$ 2,760,349</u>	<u>\$ 5,775,117</u>

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

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

	Water Utility	Wastewater Utility	Storm Water Utility	Rotary Fund	Total	Internal Service Fund
Operating receipts:						
Metered water receipts:						
Residential	\$ 1,402,176	\$ 1,768,320	\$ -	\$ -	\$ 3,170,496	\$ -
Commercial	396,437	498,449	-	-	894,886	-
Industrial	500,962	544,192	-	-	1,045,154	-
Storm water revenue	-	-	857,862	-	857,862	-
Fuel sales	-	-	-	45,418	45,418	-
Fire protection receipts	151,978	-	-	-	151,978	-
Other receipts	177,493	77,873	2,024	1,229	258,619	-
Insurance proceeds	-	-	-	-	-	2,048,220
Total operating receipts	2,629,046	2,888,834	859,886	46,647	6,424,413	2,048,220
Operating disbursements:						
Cost of sales and services	-	-	-	40,508	40,508	-
Salaries and wages	943,582	1,453,316	410,549	-	2,807,447	-
Purchased power	117,556	120,597	-	-	238,153	-
Chemicals	11,260	9,425	-	-	20,685	-
Rents	871	695	-	-	1,566	-
Office expense	269,200	223,267	45,311	-	537,778	-
Material and supplies	205,053	160,499	16,989	-	382,541	-
Contractual services	90,761	315,966	23,237	-	429,964	-
Transportation disbursements	23,908	65,022	4,717	-	93,647	-
Insurance disbursements	55,911	76,753	11,825	-	144,489	2,310,906
Construction costs	767,028	15,140	-	-	782,168	-
Miscellaneous disbursements	16,826	16,872	885	7,340	41,923	-
Total operating disbursements	2,501,956	2,457,552	513,513	47,848	5,520,869	2,310,906
Excess (deficiency) of operating receipts over operating disbursements	127,090	431,282	346,373	(1,201)	903,544	(262,686)
Nonoperating receipts (disbursements):						
Bond proceeds	4,013,875	-	-	-	4,013,875	-
Interest and investment receipts	148,068	58,741	20,255	-	227,064	-
Debt service of principal	(210,000)	(250,000)	-	-	(460,000)	-
Interest and investment disbursement	(325,131)	(241,348)	-	-	(566,479)	-
Total nonoperating receipts (disbursements)	3,626,812	(432,607)	20,255	-	3,214,460	-
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	3,753,902	(1,325)	366,628	(1,201)	4,118,004	(262,686)
Transfers out	-	-	-	(2,500)	(2,500)	-
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	3,753,902	(1,325)	366,628	(3,701)	4,115,504	(262,686)
Cash and investment fund balance - beginning	644,810	2,607,813	660,021	45,367	3,958,011	915,796
Cash and investment fund balance - ending	\$ 4,398,712	\$ 2,606,488	\$ 1,026,649	\$ 41,666	\$ 8,073,515	\$ 653,110
Cash and Investment Assets - December 31						
Cash and investments	\$ 512,012	\$ 1,180,595	\$ 1,026,649	\$ 41,666	\$ 2,760,922	\$ -
Restricted assets:						
Cash and investments	3,886,700	1,425,893	-	-	5,312,593	653,110
Total cash and investment assets - December 31	\$ 4,398,712	\$ 2,606,488	\$ 1,026,649	\$ 41,666	\$ 8,073,515	\$ 653,110
Cash and Investment Fund Balance - December 31						
Restricted for:						
Debt service	\$ 387,759	\$ 652,601	\$ -	\$ -	\$ 1,040,360	\$ -
Construction	3,376,104	685,124	-	-	4,061,228	-
Customer deposits	122,837	60,445	-	-	183,282	-
Sanitation	-	27,723	-	-	27,723	-
Restricted for other purposes	-	-	-	-	-	653,110
Unrestricted	512,012	1,180,595	1,026,649	41,666	2,760,922	-
Total cash and investment fund balance - December 31	\$ 4,398,712	\$ 2,606,488	\$ 1,026,649	\$ 41,666	\$ 8,073,515	\$ 653,110

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

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

	Pension Trust Funds	Private-Purpose Trust Funds	Agency Funds
Additions:			
Contributions:			
Employer	\$ 483,014	\$ -	\$ -
Plan members	3,584	-	-
State	1,009,484	-	-
Other	-	50,196	-
	1,496,082	50,196	-
Total contributions			
	1,496,082	50,196	-
Investment earnings:			
Interest	-	4,081	-
	-	4,081	-
Agency fund additions	-	-	13,550,709
	-	-	13,550,709
Total additions	1,496,082	54,277	13,550,709
Deductions:			
Benefits	1,561,826	35,000	-
Refunds of contributions	-	5,000	-
Administrative and general	-	11,195	-
Agency fund deductions	-	-	13,550,709
	1,561,826	51,195	13,550,709
Total deductions			
	1,561,826	51,195	13,550,709
Excess (deficiency) of total additions over total deductions	(65,744)	3,082	-
Cash and investment fund balance - beginning	1,208,776	159,359	-
Cash and investment fund balance - ending	\$ 1,143,032	\$ 162,441	\$ -

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

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, municipal airport and urban redevelopment.

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

Primary Government: City of Connerville

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

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis display information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City 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 park pool construction fund accounts for the financial transactions regarding the construction of the new city pool, as per bond ordinance.

The City reports the following major proprietary funds:

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

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The storm water utility fund accounts for the operation of the storm water collection system.

The rotary fund accounts for the operation of the fuel sales at the city owned airport.

Additionally, the City reports the following fund types:

The internal service fund accounts for health insurance provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 firefighters' pension, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the benefactors of the individual trust agreements.

Agency funds account for assets held by the City as an agent for payroll and payroll withholding funds and serve as a control of accounts for certain cash transactions during the time they are a liability to the City.

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 City 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 City 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 government's water, wastewater and storm water functions and various other functions of the government. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

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

3. Long-Term Debt

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

4. Equity Classification

Government-Wide Statements

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

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

It is the City'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.

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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 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 – Cash and Investment Basis.

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.

CITY OF CONNERSVILLE
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

On or before August 31, the fiscal officer of the City 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 City receives approval of the Indiana Department of Local Government Finance.

The City'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

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 year ended December 31, 2005, were as follows:

Transfer From	Transfer To	2005
Rotary Fund	Other Governmental	\$ 2,500
Other Governmental	General Fund	2,666
Other Governmental	Other Governmental	31,840
Total		\$ 37,006

The City typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the General Fund to the debt service fund for current-year debt service requirements.

IV. Other Information

A. Risk Management

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

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The risks of torts, theft of, damage to, and destruction of assets; and errors and omissions 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 reductions in insurance by major risk category of risk.

Medical Benefits to employees, Retirees, and Dependents

The City has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the Nonreverting Insurance Fund, an internal service fund, where assets are set aside for claim settlements. The City deposits a fixed maximum amount per month based on the number of active participants with a commercial insurance company from which health insurance claims are paid. The insurance company covers all claims exceeding that amount and any claims of more than \$60,000 annually on any one person. Amounts are paid into the fund by all insured funds and are available to make the monthly deposit and to pay administrative costs of the program. Interfund premiums are based upon the insurance coverage selected by employees paid from each fund, and are reported as quasi-external interfund transactions.

Job Related Illnesses or Injuries to Employees

During 2001, the City joined together with other governmental entities in the Indiana Public Employees Plan, a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The 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.

The policy of the City is to not purchase commercial insurance for the risks of loss related to natural disasters. Instead, the primary government records, as an expenditure any loss as the liability is incurred or replacement items are purchased.

B. Subsequent Events

The Department of Storm Water Management is in the process of a major construction project consisting of building a major trunk line and totally rebuilding West 20th Street, including the street and curbs. The project is being funded by a Federal Department of Transportation Grant in the amount of \$1,284,000 and local funds consisting of a Bond Anticipation Note in the amount of \$585,000, issued on April 25, 2006.

C. Conduit Debt Obligation

The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the primary government, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2005, there was one series of Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$4,500,000. The proceeds of the bonds were used to finance a portion of plant expansion of Custom Extrusions, Inc.

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Postemployment Benefits

The City provides postemployment health insurance and life insurance benefits as authorized by Indiana Code 5-10-8, to all police and fire employees who retire after attaining age 52 with at least 20 years of service and to all other City employees on or after attaining age 60 with at least 15 years of service. Currently, 49 retirees meet these eligibility requirements. The City provides 100% of these benefits. Disbursements for these post-employment benefits are recognized on a pay as you go basis. During the year ended December 31, 2005, expenditures of \$429,863 were recognized for postemployment benefits.

E. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the City Council on November 1, 2004.

Wastewater Utility

The current rate structure was approved by the City Council on November 1, 2004.

Department of Storm Water Management

The current rate structure was approved by the City Council on December 16, 2002.

F. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City 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 City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

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

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant under funding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>Utilities PERF</u>	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Annual required contribution	\$ 116,548	\$ 200,280	\$ 1,086,800	\$ 2,109,500
Interest on net pension obligation	(2,449)	6,080	365,700	789,400
Adjustment to annual required contribution	<u>2,791</u>	<u>(6,929)</u>	<u>(610,100)</u>	<u>(1,379,100)</u>
Annual pension cost	116,890	199,431	842,400	1,519,800
Contributions made	<u>126,184</u>	<u>175,963</u>	<u>280,693</u>	<u>270,463</u>
Increase (decrease) in net pension obligation	(9,294)	23,468	561,707	1,249,337
Net pension obligation, beginning of year	<u>(33,784)</u>	<u>83,868</u>	<u>5,417,764</u>	<u>11,695,157</u>
Net pension obligation, end of year	<u>\$ (43,078)</u>	<u>\$ 107,336</u>	<u>\$ 5,979,471</u>	<u>\$ 12,944,494</u>
Contribution rates:				
City	6.25%	10.75%	1,388%	1,360%
Plan members	3%	3%	6%	6%
Actuarial valuation date	07-01-05	07-01-05	01-01-03	01-01-04
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	40 years	30 years	30 years
Amortization period (from date)	07-01-97	07-01-97	01-01-05	01-01-05
Asset valuation method	75% of expected Actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

Actuarial Assumptions

Investment rate of return	7.25%	7.25%	6%	6%
Projected future salary increases:				
Total	5%	5%	4%	4%
Attributed to inflation	4%	4%	4%	4%
Attributed to merit/seniority	1%	1%	0%	0%
Cost-of-living adjustments	2%	2%	2.75/4%*	2.75/4%*

* 2.75% converted members; 4% nonconverted members

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 121,074	94%	\$ (28,931)
	06-30-04	110,829	104%	(33,784)
	06-30-05	116,890	114%	(43,078)
Utility PERF	06-30-03	209,731	62%	63,410
	06-30-04	181,555	89%	83,868
	06-30-05	199,431	97%	107,336
1925 Police Officers' Pension Plan	12-31-01	917,900	26%	4,817,983
	12-31-02	871,600	31%	5,417,764
	12-31-03	842,400	33%	5,979,471
1937 Firefighters' Pension Plan	12-31-02	1,603,900	16%	10,356,169
	12-31-03	1,600,500	16%	11,695,157
	12-31-04	1,519,800	18%	12,944,494

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2005, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	25	42
Terminated employees entitled to but not yet receiving benefits	-	-
Current active employees	1	2

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

CITY OF CONNERSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That 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 Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2005, 2004, and 2003, were \$519,736, \$533,798, and \$542,205, respectively, equal to the required contributions for each year.

CITY OF CONNERSVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund - Governmental Employees

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 995,840	\$ 1,233,937	\$ (238,097)	81%	\$ 1,908,937	(12%)
07-01-04	1,062,326	1,376,524	(314,198)	77%	1,820,995	(17%)
07-01-05	1,162,903	1,738,648	(575,745)	67%	2,080,688	(28%)

Utilities' Public Employees' Retirement Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,382,208	\$ 2,943,592	\$ (1,561,384)	47%	\$ 1,475,716	(106%)
07-01-04	1,478,782	3,148,766	(1,669,984)	47%	1,550,987	(108%)
07-01-05	1,618,743	3,302,056	(1,683,313)	49%	1,698,240	(99%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 400,021	\$ 9,485,900	\$ (9,085,879)	4%	\$ 334,900	(2,713%)
01-01-00	422,378	10,129,700	(9,707,322)	4%	208,100	(4,665%)
01-01-01	562,683	10,385,300	(9,822,617)	5%	108,400	(9,061%)
01-01-02	600,507	10,048,400	(9,447,893)	6%	74,200	(12,733%)
01-01-03	730,151	8,340,000	(7,609,849)	9%	228,700	(3,327%)
01-01-04	578,246	10,047,700	(9,469,454)	6%	78,300	(12,094%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-00	\$ 514,892	\$ 17,743,500	\$ (17,228,608)	3%	\$ 480,600	(3,585%)
01-01-01	573,617	18,105,800	(17,532,183)	3%	429,200	(4,085%)
01-01-02	668,657	18,363,400	(17,694,743)	4%	220,500	(8,025%)
01-01-03	854,561	16,847,200	(15,992,639)	5%	528,300	(3,027%)
01-01-04	753,561	17,984,200	(17,230,639)	4%	232,600	(7,408%)
01-01-05	608,219	16,700,400	(16,092,181)	4%	155,100	(10,375%)

CITY OF CONNERSVILLE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan			
Year		Annual Required Contribution	Percentage of ARC Contributed
Ending		(ARC)	City
12-31-98	\$	1,170,100	14%
12-31-99		972,800	19%
12-31-00		1,032,600	21%
12-31-01		1,069,300	23%
12-31-02		1,067,300	25%
12-31-03		1,086,800	26%

1937 Firefighters' Pension Plan			
Year		Annual Required Contribution	Percentage of ARC Contributed
Ending		(ARC)	City
12-31-99	\$	1,747,400	8%
12-31-00		1,838,000	9%
12-31-01		1,920,700	10%
12-31-02		1,969,800	13%
12-31-03		2,067,700	13%
12-31-04		2,109,500	13%

CITY OF CONNERSVILLE
 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	Law Enforcement Continuing Education	Park and Recreation	Restricted Donation	Cable Education	Aviation Commission
Receipts:							
Taxes	\$ 604,685	\$ -	\$ -	\$ 604,352	\$ -	\$ -	\$ 176,645
Intergovernmental	499,306	208,718	-	33,111	-	-	9,696
Charges for services	29,554	-	1,929	58,994	-	123,873	22,435
Fines and forfeits	-	-	-	-	-	-	-
Other	7,787	-	7,885	1,045	6,300	830	17,290
Total receipts	<u>1,141,332</u>	<u>208,718</u>	<u>9,814</u>	<u>697,502</u>	<u>6,300</u>	<u>124,703</u>	<u>226,066</u>
Disbursements:							
General government	-	-	-	-	13,460	125,253	176,843
Public safety	-	-	7,022	-	-	-	-
Highways and streets	1,023,801	116,630	-	-	-	-	-
Culture and recreation	-	-	-	581,404	-	-	-
Economic development	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Total disbursements	<u>1,023,801</u>	<u>116,630</u>	<u>7,022</u>	<u>581,404</u>	<u>13,460</u>	<u>125,253</u>	<u>176,843</u>
Excess (deficiency) of receipts over disbursements	<u>117,531</u>	<u>92,088</u>	<u>2,792</u>	<u>116,098</u>	<u>(7,160)</u>	<u>(550)</u>	<u>49,223</u>
Other financing sources (uses)							
Transfers in	-	-	-	-	-	-	2,500
Transfers out	(2,666)	-	-	(31,840)	-	-	-
Total other financing sources (uses)	<u>(2,666)</u>	<u>-</u>	<u>-</u>	<u>(31,840)</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>114,865</u>	<u>92,088</u>	<u>2,792</u>	<u>84,258</u>	<u>(7,160)</u>	<u>(550)</u>	<u>51,723</u>
Cash and investment fund balance - beginning	<u>296,442</u>	<u>298,230</u>	<u>3,376</u>	<u>244,874</u>	<u>20,204</u>	<u>149,713</u>	<u>243,653</u>
Cash and investment fund balance - ending	<u>\$ 411,307</u>	<u>\$ 390,318</u>	<u>\$ 6,168</u>	<u>\$ 329,132</u>	<u>\$ 13,044</u>	<u>\$ 149,163</u>	<u>\$ 295,376</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 149,163	\$ -
Restricted assets:							
Cash and investments	411,307	390,318	6,168	329,132	13,044	-	295,376
Total cash and investment assets - December 31	<u>\$ 411,307</u>	<u>\$ 390,318</u>	<u>\$ 6,168</u>	<u>\$ 329,132</u>	<u>\$ 13,044</u>	<u>\$ 149,163</u>	<u>\$ 295,376</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ 13,044	\$ -	\$ 295,376
Public safety	-	-	6,168	-	-	-	-
Highways and streets	411,307	390,318	-	-	-	-	-
Culture and recreation	-	-	-	329,132	-	-	-
Economic development	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	149,163	-
Total cash and investment fund balance - December 31	<u>\$ 411,307</u>	<u>\$ 390,318</u>	<u>\$ 6,168</u>	<u>\$ 329,132</u>	<u>\$ 13,044</u>	<u>\$ 149,163</u>	<u>\$ 295,376</u>

CITY OF CONNERSVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Cemetery	Parking Ordinance	Tax Abatement	R.U.F.F. Drug	Park Restricted Donation	Drug Coalition
Receipts:						
Taxes	\$ 22,760	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,301	-	-	53,000	-	-
Charges for services	-	-	950	-	-	-
Fines and forfeits	-	7	-	-	-	-
Other	-	-	-	3,531	1,950	-
Total receipts	24,061	7	950	56,531	1,950	-
Disbursements:						
General government	12,946	-	53	-	-	-
Public safety	-	-	-	48,099	-	1,620
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	-	2,804	-
Economic development	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Total disbursements	12,946	-	53	48,099	2,804	1,620
Excess (deficiency) of receipts over disbursements	11,115	7	897	8,432	(854)	(1,620)
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	11,115	7	897	8,432	(854)	(1,620)
Cash and investment fund balance - beginning	14,324	6,144	1,742	55,169	5,146	5,286
Cash and investment fund balance - ending	25,439	6,151	2,639	63,601	4,292	3,666
Cash and Investment Assets - December 31						
Cash and investments	\$ 25,439	\$ 6,151	\$ 2,639	\$ -	\$ -	\$ 3,666
Restricted assets:						
Cash and investments	-	-	-	63,601	4,292	-
Total cash and investment assets - December 31	25,439	6,151	2,639	63,601	4,292	3,666
Cash and Investment Fund Balance - December 31						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	63,601	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	-	4,292	-
Economic development	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Unrestricted	25,439	6,151	2,639	-	-	3,666
Total cash and investment fund balance - December 31	25,439	6,151	2,639	63,601	4,292	3,666

CITY OF CONNERSVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Seminar Training	FEMA Grant Project	Riverboat Revenue	Park Nonreverting	Brownsfield Grant	Economic Development Income Tax
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	306,595	97,178	-	72,933	86,684
Charges for services	-	-	-	27,447	-	-
Fines and forfeits	-	-	-	-	-	-
Other	578	-	-	-	-	-
Total receipts	578	306,595	97,178	27,447	72,933	86,684
Disbursements:						
General government	-	-	22,647	-	72,933	-
Public safety	2,206	280,439	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	28,426	-	-
Economic development	-	-	-	-	-	110,000
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Total disbursements	2,206	280,439	22,647	28,426	72,933	110,000
Excess (deficiency) of receipts over disbursements	(1,628)	26,156	74,531	(979)	-	(23,316)
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(1,628)	26,156	74,531	(979)	-	(23,316)
Cash and investment fund balance - beginning	3,204	2,335	179,156	8,882	-	229,060
Cash and investment fund balance - ending	<u>1,576</u>	<u>28,491</u>	<u>253,687</u>	<u>7,903</u>	<u>-</u>	<u>205,744</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ 1,576	\$ -	\$ 253,687	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	-	28,491	-	7,903	-	205,744
Total cash and investment assets - December 31	<u>\$ 1,576</u>	<u>\$ 28,491</u>	<u>\$ 253,687</u>	<u>\$ 7,903</u>	<u>\$ -</u>	<u>\$ 205,744</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	28,491	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	7,903	-	-
Economic development	-	-	-	-	-	205,744
Debt service	-	-	-	-	-	-
Unrestricted	1,576	-	253,687	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 1,576</u>	<u>\$ 28,491</u>	<u>\$ 253,687</u>	<u>\$ 7,903</u>	<u>\$ -</u>	<u>\$ 205,744</u>

CITY OF CONNERSVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Park Bond Debt Service	Park Pool Debt Service	Cumulative Capital Improvement	Cumulative Capital Development	Airport Improvement	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ 90,668	\$ -	\$ 1,499,110
Intergovernmental	-	121,138	47,640	4,941	157,895	1,700,136
Charges for services	37,657	-	-	-	-	302,839
Fines and forfeits	-	-	-	-	-	7
Other	-	-	-	-	8,813	56,009
Total receipts	37,657	121,138	47,640	95,609	166,708	3,558,101
Disbursements:						
General government	-	-	-	-	-	424,135
Public safety	-	-	-	-	-	339,386
Highways and streets	-	-	-	-	-	1,140,431
Culture and recreation	-	-	-	-	-	612,634
Economic development	-	-	-	-	-	110,000
Debt service:						
Principal	30,000	50,000	-	-	-	80,000
Interest	41,425	71,138	-	-	-	112,563
Capital outlay:						
General government	-	-	-	-	134,054	134,054
Highways and streets	-	-	87,689	-	-	87,689
Total disbursements	71,425	121,138	87,689	-	134,054	3,040,892
Excess (deficiency) of receipts over disbursements	(33,768)	-	(40,049)	95,609	32,654	517,209
Other financing sources (uses)						
Transfers in	31,840	-	-	-	-	34,340
Transfers out	-	-	-	-	-	(34,506)
Total other financing sources (uses)	31,840	-	-	-	-	(166)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(1,928)	-	(40,049)	95,609	32,654	517,043
Cash and investment fund balance - beginning	16,005	-	225,689	143,358	91,314	2,243,306
Cash and investment fund balance - ending	<u>14,077</u>	<u>-</u>	<u>185,640</u>	<u>238,967</u>	<u>123,968</u>	<u>2,760,349</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ 185,640	\$ -	\$ -	\$ 627,961
Restricted assets:						
Cash and investments	14,077	-	-	238,967	123,968	2,132,388
Total cash and investment assets - December 31	<u>14,077</u>	<u>-</u>	<u>185,640</u>	<u>238,967</u>	<u>123,968</u>	<u>2,760,349</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ 123,968	\$ 432,388
Public safety	-	-	-	-	-	98,260
Highways and streets	-	-	-	-	-	801,625
Culture and recreation	-	-	-	-	-	341,327
Economic development	-	-	-	238,967	-	444,711
Debt service	14,077	-	-	-	-	14,077
Unrestricted	-	-	185,640	-	-	627,961
Total cash and investment fund balance - December 31	<u>14,077</u>	<u>-</u>	<u>185,640</u>	<u>238,967</u>	<u>123,968</u>	<u>2,760,349</u>

CITY OF CONNERSVILLE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2005

	<u>Police Pension</u>	<u>Fire Pension</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 290,007	\$ 193,007	\$ 483,014
Plan members	-	3,584	3,584
State	<u>376,568</u>	<u>632,916</u>	<u>1,009,484</u>
Total contributions	<u>666,575</u>	<u>829,507</u>	<u>1,496,082</u>
Deductions:			
Benefits	<u>575,332</u>	<u>986,494</u>	<u>1,561,826</u>
Excess (deficiency) of total additions over total deductions	91,243	(156,987)	(65,744)
Cash and investment fund balance - beginning	<u>600,557</u>	<u>608,219</u>	<u>1,208,776</u>
Cash and investment fund balance - ending	<u>\$ 691,800</u>	<u>\$ 451,232</u>	<u>\$ 1,143,032</u>

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

	J. E. Roberts Trust	Community Improvement Program	Indian Springs Street Trust	D.O.E. Springs Trust	Total
Additions:					
Contributions:					
Other	\$ -	\$ 46,196	\$ -	\$ 4,000	\$ 50,196
Investment earnings:					
Interest	236	3,845	-	-	4,081
Total additions	<u>236</u>	<u>50,041</u>	<u>-</u>	<u>4,000</u>	<u>54,277</u>
Deductions:					
Benefits	-	35,000	-	-	35,000
Refunds of contributions	-	-	5,000	-	5,000
Administrative and general	1,925	9,270	-	-	11,195
Total deductions	<u>1,925</u>	<u>44,270</u>	<u>5,000</u>	<u>-</u>	<u>51,195</u>
Excess (deficiency) of total additions over total deductions	(1,689)	5,771	(5,000)	4,000	3,082
Cash and investment fund balance - beginning	<u>17,689</u>	<u>136,670</u>	<u>5,000</u>	<u>-</u>	<u>159,359</u>
Cash and investment fund balance - ending	<u>\$ 16,000</u>	<u>\$ 142,441</u>	<u>\$ -</u>	<u>\$ 4,000</u>	<u>\$ 162,441</u>

CITY OF CONNERSVILLE
AUDIT RESULTS AND COMMENTS

OVERPAYMENT MADE TO CONTRACTOR - STORM WATER MANAGEMENT

The Storm Water Management Department is building a major trunk line on Eastern Avenue. The project is being funded by the issuance of bonds and a federal grant from the Indiana Department of Transportation. The Storm Water Management Department is managing the bond proceeds which are in the Construction Fund and the Grant Administrator for the City is managing the grant payments from IDOT. The engineer and project manager for the project is M. D. Wessler & Associates, Inc. The contractor for the project is J. G. Case, Inc.

The engineer submitted applications 1 and 2, totaling \$238,354, for payment to both the Storm Water Management's accounts payable department as well as to the grant administrator. As a result, the payment for the applications was paid twice to the contractor; one payment was made on August 14, 2006, from the Storm Water Construction account and the second payment was made by the City Grant Fund on September 12, 2006, both in the amount of \$238,354.

When the contractor received the overpayment they contacted the engineer and were told to keep the money and the City would reduce future payments due by the amount of the overpayment. When this situation was brought to the attention of the Storm Water Management board they made a motion not to make any further payments to the contractor until the overpayment has been refunded in full. The contractor had used the overpayment to make payroll and was unable to make the refund immediately. The contractor subsequently obtained a bank loan and made the full refund to the City on October 10, 2006.

The interest lost on the overpayment was \$1,732. This was calculated using the interest rate of 5.2023% (which is the interest rate earned on the funds in the Storm Water Construction account) times the 51 days the funds were outstanding. The Storm Water board requested M. D. Wessler pay the amount of lost interest. On November 9, 2006, M. D. Wessler remitted a check to the Storm Water Management Board in the amount of \$1,732.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF CONNERSVILLE
AUDIT RESULTS AND COMMENTS
(Codntinued)

PUBLIC WORKS PROJECT

During the Storm Water project on Eastern Avenue (as described in the prior Audit Result and Comment), the engineers, M. D. Wessler & Associates, Inc., recommended that the sanitary sewer pipes from 13th to 16th Street be replaced. The engineers stated that this needed to be done in order to get the minimum slope for the pipe size used for the storm sewers. The engineers further stated that the sanitary sewers were leaking.

The engineers submitted a change order to the Storm Water Management Board in the sum of \$110,000 to replace the sanitary sewers. However, since the sanitary sewers were not part of the original project, the replacement of the sanitary sewers could not be approved with a change order. This was a separate public works project.

On October 10, 2006, the Utility Service Board declared the replacing of the sanitary sewers between 13th and 16th Street to be an emergency. The sewers had already been replaced and the project completed prior to receiving board approval. J. G. Case Construction, Inc., the contractor who was replacing the storm sewers, was instructed by the engineers to replace the sanitary sewers. The cost of replacing the sanitary sewers was \$110,000. There were no other quotes obtained for replacing the sanitary sewers, as required by law.

The Utility Service Board violated the Public Works Law by not obtaining at least two quotes in the case of a declared emergency and the work should not have been performed prior to board approval.

Indiana Code 36-1-12-9 states: "(a) The board, upon a declaration of emergency, may contract for a public work project without advertising for bids if bids or quotes are invited from at least two (2) persons known to deal in the public work required to be done. (b) The minutes of the board must show the declaration of emergency and the names of the persons invited to bid or provide quotes."

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDIANAPOLIS, INDIANA 46204-2769

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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 CITY OF CONNERSVILLE, FAYETTE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Connersville (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. The City'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 City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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 City's compliance with those requirements.

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

Internal Control Over Compliance

The management of the City 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 City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

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

STATE BOARD OF ACCOUNTS

November 27, 2006

CITY OF CONNERSVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2005

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Economic Development Corporation Community Development Block Grants/State's Program Brownsfields Redevelopment Program	14.228	BR-01-001	\$ <u>104,728</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass-Through Indiana Criminal Justice Institute Edward Byrne Memorial Formula Grant Program	16.579	03-DB-008 04-DB-009	16,121 <u>19,146</u>
Total for program			<u>35,267</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct Grant Airport Improvement Program	20.106	AIP 3-18-0013-09	<u>88,948</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grant Assistance to Firefighters Grant	97.044	EMW-2005-FG-06206 EMW-2004-FG-17216	712,500 <u>94,099</u>
Total for program			<u>806,599</u>
Pass-Through Indiana Department of Homeland Security Disaster Grants Public Assistance	97.036		
Ice Storm and Flooding - Utilities		DR-1573	43,071
Ice Storm and Flooding - Park		DR-1573	9,392
Snow Emergency - City		EM-3197	<u>34,505</u>
Total for program			<u>86,968</u>
Total for federal grantor agency			<u>893,567</u>
Total federal awards expended			<u>\$ 1,122,510</u>

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

CITY OF CONNERSVILLE
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 City of Connersville (City) 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.

CITY OF CONNERSVILLE
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
97.044	Assistance to Firefighters Grant

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.

CITY OF CONNERSVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF CONNERSVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 27, 2006, with Max A. Ellison, Mayor; James E. Barrett, Board of Public Works and Safety member and Utility Service Board member; Robert L. Beeson, President of the Utility Service Board; Julie A. Greeson, Clerk-Treasurer; Harold J. Ellison, Director of Utilities; Karen L. Lore, Utility Office Manager; and Jolissa Bates, Grant Administrator.