

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

AUDIT REPORT

OF

TOWN OF CONVERSE

MIAMI COUNTY, INDIANA

January 1, 2009 to December 31, 2010



**FILED**  
06/15/2011



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Roop Karen Wortinger	01-01-08 to 03-11-11 03-12-11 to 12-31-11
President of the Town Council	Joseph Lenon	01-01-09 to 12-31-11
Superintendent of Utilities	Ed Asher	01-01-09 to 12-31-11



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE TOWN OF CONVERSE, MIAMI COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Converse (Town), for the years ended December 31, 2009 and 2010. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over reporting. Accordingly, we express no such opinion. 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 1, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town for the years ended December 31, 2009 and 2010, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated May 11, 2011, 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 integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's 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, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's financial statements. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statements. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the financial statements and, accordingly, we express no opinion on them.

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

STATE BOARD OF ACCOUNTS

May 11, 2011



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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 CONVERSE, MIAMI COUNTY, INDIANA

We have audited the financial statements of the Town of Converse (Town), for the years ended December 31, 2009 and 2010, and have issued our report thereon dated May 11, 2011. 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 opinion 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 to be material weaknesses.

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

Compliance and Other Matters

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

The Town's response to the findings 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, the 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 11, 2011

FINANCIAL STATEMENT(S)

TOWN OF CONVERSE  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2009

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
General Fund	\$ 239,797	\$ 260,175	\$ 251,614	\$ 248,358
Mvh	152,069	119,996	84,405	187,660
Local Roads & Streets	2,014	5,149	-	7,163
Park	125,927	52,659	29,253	149,333
Aviation	277,221	44,155	40,552	280,824
Law Enforcement/Cont Ed	2,920	816	40	3,696
Rb Gambling Rev. Sharing	16,333	12,818	-	29,151
Park Donation I	5	-	-	5
Park - Donation Ii	21,131	5,000	-	26,131
Rainy Day Fund	5,769	9,213	-	14,982
Law Enforcement Grant	57	-	-	57
Festival Fund	7	-	-	7
Converse Junction Trail	23,027	-	-	23,027
Cci Fund	19,651	3,486	-	23,137
Loit-Public Safety	-	22,308	-	22,308
Redevelopment Capital	221,060	152,206	13,388	359,878
Co Econ Dev Inc Tax	87,758	22,078	41,717	68,119
Payroll Fund	2,555	264,279	263,654	3,180
Levy Excess	6,764	-	-	6,764
Storm Water	-	5,676	-	5,676
Sanitation	34,599	45,183	39,277	40,505
Wastewater Operating	490,862	386,068	327,281	549,649
Wastewater Bond/Int Tran	22,921	118,575	141,496	-
Wastewater Improvement	65,428	12,000	-	77,428
Wastewater Bond Reserve	156,956	-	-	156,956
Water Operating	51,806	323,457	309,622	65,641
Waterworks Depreciation	41,417	12,000	27,687	25,730
Waterworks Deposits	17,794	2,400	836	19,358
Water Tower Project	-	491,900	491,900	-
Waterworks Bond Reserve	-	52,102	52,102	-
Waterworks Cash Reserve	30,000	-	-	30,000
Water Tower Escrow	-	18,578	18,578	-
Water Construction	-	739,792	669,110	70,682
Water Line Project	-	8,100	6,100	2,000
Totals	<u>\$ 2,115,848</u>	<u>\$ 3,190,169</u>	<u>\$ 2,808,612</u>	<u>\$ 2,497,405</u>

The notes to the financial statement(s) are an integral part of this statement.

TOWN OF CONVERSE  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2010

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General Fund	\$ 248,358	\$ 247,982	\$ 267,135	\$ 229,205
MVH	187,660	95,927	82,222	201,365
Local Roads & Streets	7,163	5,313	5,141	7,335
Park	149,333	35,931	29,174	156,090
Aviation	280,824	93,503	62,844	311,483
Law Enforcement/Cont Ed	3,696	915	675	3,936
Riverboat Gambling Revenue Sharing	29,151	7,115	-	36,266
Park Donation I	5	-	-	5
Park Donation II	26,131	5,000	-	31,131
Rainy Day Fund	14,982	7,669	-	22,651
Law Enforcement Grant	57	-	-	57
Festival Fund	7	-	-	7
Converse Junction Trail	23,027	18,150	19,650	21,527
Cumulative Capital Improvement	23,137	3,329	5,000	21,466
LOIT - Public Safety	22,308	23,167	-	45,475
Redevelopment Capital	359,878	122,936	63,954	418,860
County Economic Development Income Tax	68,119	22,163	35,333	54,949
Payroll Fund	3,180	273,767	274,072	2,875
Levy Excess	6,764	-	-	6,764
Storm Water	5,676	11,518	-	17,194
Sanitation	40,505	45,782	44,409	41,878
Wastewater Operating	549,649	375,829	344,928	580,550
Wastewater Bond/Int Tran	-	141,418	141,418	-
Wastewater Improvement	77,428	12,000	-	89,428
Wastewater Bond Reserve	156,956	-	-	156,956
Water Operating	65,641	267,607	270,735	62,513
Water - Bond/Interest	-	22,500	22,500	-
Waterworks Depreciation	25,730	12,000	30,145	7,585
Waterworks Deposits	19,358	1,040	2,758	17,640
Waterworks Bond Reserve	-	54,000	50,201	3,799
Waterworks Cash Reserve	30,000	-	-	30,000
Water Construction	70,682	52,222	47,688	75,216
Water Line Project	2,000	-	-	2,000
Totals	<u>\$ 2,497,405</u>	<u>\$ 1,958,783</u>	<u>\$ 1,799,982</u>	<u>\$ 2,656,206</u>

The notes to the financial statement(s) are an integral part of this statement.

TOWN OF CONVERSE  
NOTES TO FINANCIAL STATEMENT(S)

**Note 1. 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 some or all of 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, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement(s) present(s) the financial information for the Town (primary government), and does not include financial information for any of the Town's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the Town (primary government).

*B. Basis of Accounting*

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

*C. Cash and Investments*

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

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

TOWN OF CONVERSE  
NOTES TO FINANCIAL STATEMENT(S)  
(Continued)

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

TOWN OF CONVERSE  
NOTES TO FINANCIAL STATEMENT(S)  
(Continued)

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

*F. Interfund Transfers*

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

TOWN OF CONVERSE  
NOTES TO FINANCIAL STATEMENT(S)  
(Continued)

**Note 4. Deposits and Investments**

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

State statutes authorize the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

**Note 5. Risk Management**

The Town may be 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.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the Town by recording as a disbursement and replacement items purchased.

**Note 6. Pension Plan(s)**

*A. Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is 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 this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent 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. That report may be obtained by contacting:

TOWN OF CONVERSE  
NOTES TO FINANCIAL STATEMENT(S)  
(Continued)

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

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

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 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

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*

The contribution requirements of plan members and the Town are established by the Board of Trustees of PERF.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town of Converse's Annual Report(s) can be found on the Indiana Transparency Portal website: [www.in.gov/itp/annual\\_reports/](http://www.in.gov/itp/annual_reports/).

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2009

	General Fund	Mvh	Local Roads & Streets	Park	Aviation	Law Enforcement/Cont Ed	Rb Gambling Rev. Sharing
Cash and investments - beginning	\$ 239,797	\$ 152,069	\$ 2,014	\$ 125,927	\$ 277,221	\$ 2,920	\$ 16,333
Receipts:							
Taxes	146,842	79,368	-	41,267	-	-	-
Licenses and permits	1,039	-	-	-	-	-	-
Intergovernmental	82,175	39,303	5,149	5,104	-	-	12,818
Charges for services	3,200	-	-	3,978	38,752	768	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	26,919	1,325	-	2,310	5,403	48	-
Total receipts	260,175	119,996	5,149	52,659	44,155	816	12,818
Disbursements:							
Personal services	132,573	21,459	-	8,741	2,800	-	-
Supplies	6,732	18,100	-	-	1,547	-	-
Other services and charges	100,161	38,045	-	15,522	10,882	40	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	11,875	6,801	-	4,990	25,323	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	273	-	-	-	-	-	-
Total disbursements	251,614	84,405	-	29,253	40,552	40	-
Excess (deficiency) of receipts over disbursements	8,561	35,591	5,149	23,406	3,603	776	12,818
Cash and investments - ending	\$ 248,358	\$ 187,660	\$ 7,163	\$ 149,333	\$ 280,824	\$ 3,696	\$ 29,151

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

	Park Donation I	Park - Donation II	Rainy Day Fund	Law Enforcement Grant	Festival Fund	Converse Junction Trail	Cci Fund
Cash and investments - beginning	\$ 5	\$ 21,131	\$ 5,769	\$ 57	\$ 7	\$ 23,027	\$ 19,651
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	9,213	-	-	-	3,486
Charges for services	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	5,000	-	-	-	-	-
Total receipts	-	5,000	9,213	-	-	-	3,486
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	-	-	-	-	-	-	-
Excess (deficiency) of receipts over disbursements	-	5,000	9,213	-	-	-	3,486
Cash and investments - ending	\$ 5	\$ 26,131	\$ 14,982	\$ 57	\$ 7	\$ 23,027	\$ 23,137

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

	Loit-Public Safety	Redevelopment Capital	Co Econ Dev Inc Tax	Payroll Fund	Levy Excess	Storm Water	Sanitation
Cash and investments - beginning	\$ -	\$ 221,060	\$ 87,758	\$ 2,555	\$ 6,764	\$ -	\$ 34,599
Receipts:							
Taxes	-	151,843	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	22,308	340	22,078	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	59	44,194
Penalties	-	-	-	-	-	-	-
Other receipts	-	23	-	264,279	-	5,617	989
Total receipts	<u>22,308</u>	<u>152,206</u>	<u>22,078</u>	<u>264,279</u>	<u>-</u>	<u>5,676</u>	<u>45,183</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	41,717	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	39,196
Other disbursements	-	13,388	-	263,654	-	-	81
Total disbursements	<u>-</u>	<u>13,388</u>	<u>41,717</u>	<u>263,654</u>	<u>-</u>	<u>-</u>	<u>39,277</u>
Excess (deficiency) of receipts over disbursements	<u>22,308</u>	<u>138,818</u>	<u>(19,639)</u>	<u>625</u>	<u>-</u>	<u>5,676</u>	<u>5,906</u>
Cash and investments - ending	<u>\$ 22,308</u>	<u>\$ 359,878</u>	<u>\$ 68,119</u>	<u>\$ 3,180</u>	<u>\$ 6,764</u>	<u>\$ 5,676</u>	<u>\$ 40,505</u>

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

	Wastewater Operating	Wastewater Bond/Int Tran	Wastewater Improvement	Wastewater Bond Reserve	Water Operating	Waterworks Depreciation	Waterworks Deposits
Cash and investments - beginning	\$ 490,862	\$ 22,921	\$ 65,428	\$ 156,956	\$ 51,806	\$ 41,417	\$ 17,794
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Utility fees	-	-	-	-	8,880	-	-
Penalties	7,749	-	-	-	2,258	-	-
Other receipts	378,319	118,575	12,000	-	312,319	12,000	2,400
Total receipts	386,068	118,575	12,000	-	323,457	12,000	2,400
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	141,496	-	-	5,254	-	-
Capital outlay	19,949	-	-	-	16,731	-	-
Utility operating expenses	161,563	-	-	-	191,601	27,687	836
Other disbursements	145,769	-	-	-	96,036	-	-
Total disbursements	327,281	141,496	-	-	309,622	27,687	836
Excess (deficiency) of receipts over disbursements	58,787	(22,921)	12,000	-	13,835	(15,687)	1,564
Cash and investments - ending	\$ 549,649	\$ -	\$ 77,428	\$ 156,956	\$ 65,641	\$ 25,730	\$ 19,358

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

	Water Tower Project	Waterworks Bond Reserve	Waterworks Cash Reserve	Water Tower Escrow	Water Construction	Water Line Project	Totals
Cash and investments - beginning	\$ -	\$ -	\$ 30,000	\$ -	\$ -	\$ -	\$ 2,115,848
Receipts:							
Taxes	-	-	-	-	-	-	419,320
Licenses and permits	-	-	-	-	-	-	1,039
Intergovernmental	-	-	-	-	-	-	201,974
Charges for services	-	-	-	-	-	-	46,698
Utility fees	-	-	-	-	-	-	53,133
Penalties	-	-	-	-	-	-	10,007
Other receipts	491,900	52,102	-	18,578	739,792	8,100	2,457,998
Total receipts	491,900	52,102	-	18,578	739,792	8,100	3,190,169
Disbursements:							
Personal services	-	-	-	-	-	-	165,573
Supplies	-	-	-	-	-	-	26,379
Other services and charges	-	-	-	-	-	-	164,650
Debt service - principal and interest	-	52,102	-	-	-	-	198,852
Capital outlay	-	-	-	-	-	-	127,386
Utility operating expenses	491,900	-	-	18,578	-	6,100	937,461
Other disbursements	-	-	-	-	669,110	-	1,188,311
Total disbursements	491,900	52,102	-	18,578	669,110	6,100	2,808,612
Excess (deficiency) of receipts over disbursements	-	-	-	-	70,682	2,000	381,557
Cash and investments - ending	\$ -	\$ -	\$ 30,000	\$ -	\$ 70,682	\$ 2,000	\$ 2,497,405

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010

	General Fund	MVH	Local Roads & Streets	Park	Aviation	Law Enforcement/Cont Ed
Cash and investments - beginning	\$ 248,358	\$ 187,660	\$ 7,163	\$ 149,333	\$ 280,824	\$ 3,696
Receipts:						
Taxes	144,985	58,086	-	29,385	-	-
Licenses and permits	229	-	-	-	-	-
Intergovernmental	75,862	36,589	5,313	3,516	-	-
Charges for services	3,185	-	-	2,880	39,552	778
Other receipts	23,721	1,252	-	150	53,951	137
Total receipts	<u>247,982</u>	<u>95,927</u>	<u>5,313</u>	<u>35,931</u>	<u>93,503</u>	<u>915</u>
Disbursements:						
Personal services	138,564	22,575	-	8,616	3,110	-
Supplies	6,919	21,136	-	-	467	-
Other services and charges	121,652	33,533	5,141	19,462	8,970	675
Capital outlay	-	4,978	-	1,096	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	50,297	-
Total disbursements	<u>267,135</u>	<u>82,222</u>	<u>5,141</u>	<u>29,174</u>	<u>62,844</u>	<u>675</u>
Excess (deficiency) of receipts over disbursements	<u>(19,153)</u>	<u>13,705</u>	<u>172</u>	<u>6,757</u>	<u>30,659</u>	<u>240</u>
Cash and investments - ending	<u>\$ 229,205</u>	<u>\$ 201,365</u>	<u>\$ 7,335</u>	<u>\$ 156,090</u>	<u>\$ 311,483</u>	<u>\$ 3,936</u>

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Riverboat Gambling Rev. Sharing	Park Donation I	Park Donation II	Rainy Day Fund	Law Enforcement Grant	Festival Fund
Cash and investments - beginning	\$ 29,151	\$ 5	\$ 26,131	\$ 14,982	\$ 57	\$ 7
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	7,115	-	-	7,669	-	-
Charges for services	-	-	-	-	-	-
Other receipts	-	-	5,000	-	-	-
Total receipts	<u>7,115</u>	<u>-</u>	<u>5,000</u>	<u>7,669</u>	<u>-</u>	<u>-</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>7,115</u>	<u>-</u>	<u>5,000</u>	<u>7,669</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 36,266</u>	<u>\$ 5</u>	<u>\$ 31,131</u>	<u>\$ 22,651</u>	<u>\$ 57</u>	<u>\$ 7</u>

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Converse Junction Trail	Cumulative Capital Improvement Fund	LOIT - Public Safety	Redevelopment Capital	County Economic Development Income Tax	Payroll Fund
Cash and investments - beginning	\$ 23,027	\$ 23,137	\$ 22,308	\$ 359,878	\$ 68,119	\$ 3,180
Receipts:						
Taxes	18,150	-	-	122,936	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	3,329	23,167	-	22,163	-
Charges for services	-	-	-	-	-	-
Other receipts	-	-	-	-	-	273,767
Total receipts	<u>18,150</u>	<u>3,329</u>	<u>23,167</u>	<u>122,936</u>	<u>22,163</u>	<u>273,767</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	19,650	-	-	-	-	-
Capital outlay	-	5,000	-	-	35,333	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	63,954	-	274,072
Total disbursements	<u>19,650</u>	<u>5,000</u>	<u>-</u>	<u>63,954</u>	<u>35,333</u>	<u>274,072</u>
Excess (deficiency) of receipts over disbursements	<u>(1,500)</u>	<u>(1,671)</u>	<u>23,167</u>	<u>58,982</u>	<u>(13,170)</u>	<u>(305)</u>
Cash and investments - ending	<u>\$ 21,527</u>	<u>\$ 21,466</u>	<u>\$ 45,475</u>	<u>\$ 418,860</u>	<u>\$ 54,949</u>	<u>\$ 2,875</u>

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Levy Excess	Storm Water	Sanitation	Wastewater Operating	Wastewater Bond/Int Tran	Wastewater Improvement
Cash and investments - beginning	\$ 6,764	\$ 5,676	\$ 40,505	\$ 549,649	\$ -	\$ 77,428
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Other receipts	-	11,518	45,782	375,829	141,418	12,000
Total receipts	-	11,518	45,782	375,829	141,418	12,000
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	44,409	344,928	141,418	-
Other disbursements	-	-	-	-	-	-
Total disbursements	-	-	44,409	344,928	141,418	-
Excess (deficiency) of receipts over disbursements	-	11,518	1,373	30,901	-	12,000
Cash and investments - ending	<u>\$ 6,764</u>	<u>\$ 17,194</u>	<u>\$ 41,878</u>	<u>\$ 580,550</u>	<u>\$ -</u>	<u>\$ 89,428</u>

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Wastewater Bond Reserve	Water Operating	Water Bond/Interest	Waterworks Depreciation	Waterworks Deposits
Cash and investments - beginning	\$ 156,956	\$ 65,641	\$ -	\$ 25,730	\$ 19,358
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Other receipts	-	267,607	22,500	12,000	1,040
Total receipts	-	267,607	22,500	12,000	1,040
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
Utility operating expenses	-	270,735	22,500	30,145	2,758
Other disbursements	-	-	-	-	-
Total disbursements	-	270,735	22,500	30,145	2,758
Excess (deficiency) of receipts over disbursements	-	(3,128)	-	(18,145)	(1,718)
Cash and investments - ending	\$ 156,956	\$ 62,513	\$ -	\$ 7,585	\$ 17,640

TOWN OF CONVERSE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Waterworks Bond Reserve	Waterworks Cash Reserve	Water Construction	Water Line Project	Totals
Cash and investments - beginning	\$ -	\$ 30,000	\$ 70,682	\$ 2,000	\$ 2,497,405
Receipts:					
Taxes	-	-	-	-	373,542
Licenses and permits	-	-	-	-	229
Intergovernmental	-	-	-	-	184,723
Charges for services	-	-	-	-	46,395
Other receipts	54,000	-	52,222	-	1,353,894
Total receipts	54,000	-	52,222	-	1,958,783
Disbursements:					
Personal services	-	-	-	-	172,865
Supplies	-	-	-	-	28,522
Other services and charges	-	-	-	-	209,083
Capital outlay	-	-	-	-	46,407
Utility operating expenses	50,201	-	-	-	907,094
Other disbursements	-	-	47,688	-	436,011
Total disbursements	50,201	-	47,688	-	1,799,982
Excess (deficiency) of receipts over disbursements	3,799	-	4,534	-	158,801
Cash and investments - ending	\$ 3,799	\$ 30,000	\$ 75,216	\$ 2,000	\$ 2,656,206

TOWN OF CONVERSE  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2010

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type activities:		
Water Utility:		
Loans:		
Water Tower and Plant Upgrade	\$ 643,000	\$ 48,447
Wastewater Utility:		
Loans:		
Wastewater Treatment Plant Upgrade	<u>1,427,000</u>	<u>141,226</u>
Total business-type activities debt	<u>\$ 2,070,000</u>	<u>\$ 189,673</u>

TOWN OF CONVERSE  
AUDIT RESULT(S) AND COMMENT(S)

***CAPITAL ASSET RECORDS***

Neither the Town nor the Utilities maintain sufficient detailed records of capital assets. Deletions or disposals of capital assets are not recorded.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***SEGREGATION OF DUTIES***

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient due to a lack of segregation of duties. The Town has only two employees responsible for all financial activities.

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

***HYDRANT RENTAL***

The Town Council has adopted water rate ordinances that require the Town to pay hydrant rental to the Water Utility. The Town of Converse owes the Water Utility hydrant rental of \$2,700 and \$10,575 for the years 2009 and 2010, respectively. The Town also owes the Water Utility hydrant rental of \$1,350 and \$1,350 for the years 2007 and 2008, respectively, for a total due the Water Utility of \$15,975.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
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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 TOWN OF CONVERSE, MIAMI COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Converse (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, 2009 and 2010. 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, 2009 and 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2.

Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of the Town's management, the Town Board, others within the entity, 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 11, 2011

TOWN OF CONVERSE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Years Ended December 31, 2009 and 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-09	Total Federal Awards Expended 12-31-10
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Department of Rural and Community Affairs CDBG - State - Administered Small Cities Program Cluster Community Development Block Grants/State Program and Non-Entitlement Grants in Hawaii	14.228	CF-108-06	\$ 498,000	\$ -
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Finance Authority Capitalization Grants for Clean Water State Revolving Fund	66.458	DW 08035201	258,193	-
Total federal awards expended			<u>\$ 756,193</u>	<u>\$ -</u>

The accompanying note(s) are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF CONVERSE  
NOTE(S) TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

***Note 1. Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Converse (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 CONVERSE  
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?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiency identified?	yes
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?	yes

Identification of Major Program:

\_\_\_\_\_ Name of Federal Program or Cluster \_\_\_\_\_

CDBG-State - Administered Small Cities Program Cluster

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**

**FINDING 2010-1 - 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:

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 occur undetected.

TOWN OF CONVERSE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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 places 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 objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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***

***FINDING 2010-2 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grant/State's Program and  
Non-Entitlement Grants in Hawaii  
CFDA Number: 14.228  
Federal Award Number and Year (or Other Identifying Number): CF-108-06  
Pass-through Entity: Indiana Department of Community and Rural Affairs

Community Development Block Grants were used to fund a number of capital purchases during the audit period. We noted significant deficiencies in the Town's internal control structure related to its capital asset records. 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 identified risks related to the identification and recording of capital assets and as a result is unable to arrive at a materially correct figure for proper note disclosure of capital assets for the Town and the Utilities.

TOWN OF CONVERSE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

24CFR 570.490(b) states in part: "The State shall establish recordkeeping requirements for units of general local government receiving CDBG funds that are sufficient to facilitate reviews and audits of such units of general local government. . . ." The Indiana Office of Community and Rural Affairs (IOCRA) assumed the state's responsibility for establishing the record keeping requirements for the State of Indiana. Section D(3) of the grant agreement from IOCRA states, "the sub-recipient shall keep inventory records, acceptable to the recipient, on all real and non-expendable property purchased under this agreement."

A failure to establish and maintain the proper controls and accounting procedures related to the maintenance of capital asset records could enable material misstatements or irregularities to go undetected.

We recommended the Town develop controls and procedures to insure the proper maintenance of a capital asset record.

TOWN OF CONVERSE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

# Town of Converse

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Corrective Action Plan

Federal Findings - 2010-1

Internal Controls Over Financial Transactions and Reporting

Federal Program: Community Development Block Grants/ State Program and Non-Entitlement Grants in Hawaii

Corrective Action Planned:

The Town of Converse and Town Council have chosen to accept the risks associated with the lack of segregation of duties associated with the internal controls over financial transactions and reporting.

Federal Findings - 2010-2

Capital Assets

Federal Program: Community Development Block Grants/ State Program and Non-Entitlement Grants in Hawaii

Corrective Action Planned:

The Clerk-Treasurer will compile the necessary capital asset detail to comply with capital asset recording requirements and take an inventory every two years. The Town Council will oversee the compilation process and verify completion of the capital asset records.

*Karen Wortzige - Clerk Treasurer*

*Joe Lumm - Town Council President*

TOWN OF CONVERSE  
EXIT CONFERENCE

The contents of this report were discussed on May 11, 2011, with Joseph Lenon, President of the Town Council, and Karen Wortinger, Clerk-Treasurer. The officials concurred with our audit findings.