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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

TOWN OF DANVILLE

HENDRICKS COUNTY, INDIANA

FILED

10/30/2006

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SCHEDULE OF OFFICIALS

Office	Official	Term
Clerk-Treasurer	Pauletta Frye	01-01-05 to 12-31-07
President of the Town Council	Myron Anderson	01-01-05 to 12-31-06
Superintendent of Utilities	James Russell	01-01-05 to 12-31-06

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 DANVILLE, HENDRICKS COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Danville (Town), as of and for the year ended December 31, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town 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 September 6, 2006, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Funding Progress, 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 Town has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, Schedule of Capital Assets, and Schedule of Debt 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. The Schedule of Capital Assets and Schedule of Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

September 6, 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 TOWN OF DANVILLE, HENDRICKS COUNTY, INDIANA

We have audited the financial statements of the Town of Danville (Town), as of and for the year ended December 31, 2005, and have issued our report thereon dated September 6, 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 Town'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 Town'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.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the Town on September 25, 2006. These material instances of noncompliance were subsequently communicated to management in a separate letter.

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

September 6, 2006

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

		Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
					Primary Government		
Functions/Programs	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	$ 5,079,842	$ 66,172	$ 999,896	$ -	$ (4,013,774)	$ -	$ (4,013,774)
Public safety	1,552,205	90,667	139,190	-	(1,322,348)	-	(1,322,348)
Highways and streets	433,678	1,380	420,545	-	(11,753)	-	(11,753)
Sanitation	905	-	-	-	(905)	-	(905)
Economic development	76,585	1,121,532	392,790	25,941	1,463,678	-	1,463,678
Culture and recreation	259,190	170,521	20,567	-	(68,102)	-	(68,102)
Interest on long-term debt	100,473	-	-	-	(100,473)	-	(100,473)
Total governmental activities	7,502,878	1,450,272	1,972,988	25,941	(4,053,677)	-	(4,053,677)
Business-type activities:							
Water	3,681,994	1,541,958	-	-	-	(2,140,036)	(2,140,036)
Wastewater	6,571,911	1,938,382	-	-	-	(4,633,529)	(4,633,529)
Total business-type activities	10,253,905	3,480,340	-	-	-	(6,773,565)	(6,773,565)
Total primary government	$ 17,756,783	$ 4,930,612	$ 1,972,988	$ 25,941	(4,053,677)	(6,773,565)	(10,827,242)
General receipts:							
Property taxes					2,266,890	-	2,266,890
Other local sources					484,902	-	484,902
Bonds and loans					-	10,230,233	10,230,233
Unrestricted investment earnings					391,546	75,687	467,233
Total general receipts, special items, and transfers					3,143,338	10,305,920	13,449,258
Change in net assets					(910,339)	3,532,355	2,622,016
Net assets - beginning					7,548,777	3,088,805	10,637,582
Net assets - ending					$ 6,638,438	$ 6,621,160	$ 13,259,598
Assets							
Cash and investments					$ 1,209,212	$ 1,037,822	$ 2,247,034
Restricted assets:							
Cash and investments					5,429,226	5,583,338	11,012,564
Total assets					$ 6,638,438	$ 6,621,160	$ 13,259,598
Net Assets							
Restricted for:							
Culture and recreation					$ 31,179	$ -	$ 31,179
Debt service					334,571	268,982	603,553
Other purposes					5,063,476	5,314,356	10,377,832
Unrestricted					1,209,212	1,037,822	2,247,034
Total net assets					$ 6,638,438	$ 6,621,160	$ 13,259,598

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

TOWN OF DANVILLE
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	Economic Development Income Tax	Community Host	Community Host Future	Park Bonds	Other Governmental Funds	Totals
Receipts:							
Taxes	$1,396,200	$ 258,861	$ -	$ -	$ 308,570	$ 303,259	$ 2,266,890
Licenses and permits	58,987	-	-	-	-	680	59,667
Intergovernmental	934,069	272,949	119,842	-	20,567	589,788	1,937,215
Charges for services	619,582	-	934,032	187,500	-	2,649	1,743,763
Fines and forfeits	12,109	-	-	-	-	9,113	21,222
Other	63,149	26,943	31,171	23,187	6,234	413,098	563,782
Total receipts	3,084,096	558,753	1,085,045	210,687	335,371	1,318,587	6,592,539
Disbursements:							
General government	1,639,033	-	-	-	-	108,869	1,747,902
Public safety	1,461,007	-	-	-	-	91,198	1,552,205
Highways and streets	55,665	-	-	-	-	378,013	433,678
Sanitation	-	-	-	-	-	905	905
Health and welfare	-	-	-	-	-	76,585	76,585
Culture and recreation	77,012	-	-	-	-	42,178	119,190
Debt service:							
Principal	-	-	-	-	140,000	162,000	302,000
Interest	-	-	-	-	68,638	31,835	100,473
Capital outlay:							
Special assessments	-	115,606	1,059,817	-	1,567,667	426,850	3,169,940
Total disbursements	3,232,717	115,606	1,059,817	-	1,776,305	1,318,433	7,502,878
Excess (deficiency) of receipts over disbursements	(148,621)	443,147	25,228	210,687	(1,440,934)	154	(910,339)
Other financing sources (uses)							
Transfers in	-	1,952	-	-	-	-	1,952
Transfers out	-	-	-	-	-	(1,952)	(1,952)
Total other financing sources (uses)	-	1,952	-	-	-	(1,952)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(148,621)	445,099	25,228	210,687	(1,440,934)	(1,798)	(910,339)
Cash and investment fund balance - beginning	1,085,120	1,355,019	1,673,607	771,741	1,613,951	1,049,339	7,548,777
Cash and investment fund balance - ending	$ 936,499	$ 1,800,118	$ 1,698,835	$ 982,428	$ 173,017	$ 1,047,541	$ 6,638,438
Cash and Investment Assets - December 31							
Cash and investments	$ 936,499	$ -	$ -	$ -	$ -	$ 272,713	$ 1,209,212
Restricted assets:							
Cash and investments	-	1,800,118	1,698,835	982,428	173,017	774,828	5,429,226
Total cash and investment assets - December 31	$ 936,499	$ 1,800,118	$ 1,698,835	$ 982,428	$ 173,017	$ 1,047,541	$ 6,638,438
Cash and Investment Fund Balance - December 31							
Restricted for:							
Culture and recreation	$ -	$ -	$ -	$ -	$ -	$ 31,179	$ 31,179
Debt service	-	-	-	-	173,017	161,554	334,571
Other purposes	-	1,800,118	1,698,835	982,428	-	582,095	5,063,476
Unrestricted	936,499	-	-	-	-	272,713	1,209,212
Total cash and investment fund balance - December 31	$ 936,499	$ 1,800,118	$ 1,698,835	$ 982,428	$ 173,017	$ 1,047,541	$ 6,638,438

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

TOWN OF DANVILLE
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	Total
Operating receipts:			
Metered water receipts:			
Residential	$ 1,100,803	$ -	$ 1,100,803
Fire protection receipts	175,585	-	175,585
Other water receipts	219,240	-	219,240
Measured revenue:			
Residential	-	1,437,913	1,437,913
Commercial	-	9,016	9,016
Other	-	490,653	490,653
Total operating receipts	1,495,628	1,937,582	3,433,210
Operating disbursements:			
Salaries and wages	$ 283,315	$ 128,609	$ 411,924
Employee pensions and benefits	79,100	33,472	112,572
Purchased water	184,523	-	184,523
Purchased power	33,601	-	33,601
Chemicals	11,975	-	11,975
Material and supplies	165,643	13,939	179,582
Contractual services	2,292,186	5,745,170	8,037,356
Transportation disbursements	18,833	79	18,912
Insurance disbursements	22,936	20,345	43,281
Regulatory commission disbursements	69,117	-	69,117
Miscellaneous disbursements	182,242	113,424	295,666
Total operating disbursements	3,343,471	6,055,038	9,398,509
Deficiency of operating receipts over operating disbursements	(1,847,843)	(4,117,456)	(5,965,299)
Nonoperating receipts (disbursements):			
Bond proceeds	2,230,233	8,000,000	10,230,233
Interest and investment receipts	21,596	54,091	75,687
Miscellaneous receipts	46,330	800	47,130
Debt service of principal	(181,000)	(175,000)	(356,000)
Interest and investment disbursement	(141,211)	(341,473)	(482,684)
Miscellaneous disbursements	(16,312)	(400)	(16,712)
Total nonoperating receipts (disbursements)	1,959,636	7,538,018	9,497,654
Excess of receipts over disbursements and nonoperating receipts (disbursements)	111,793	3,420,562	3,532,355
Transfers in	633,955	956,288	1,590,243
Transfers out	(633,955)	(956,288)	(1,590,243)
Excess of receipts, contributions and transfers in over disbursements and transfers out	111,793	3,420,562	3,532,355
Cash and investment fund balance - beginning	1,731,606	1,357,199	3,088,805
Cash and investment fund balance - ending	$ 1,843,399	$ 4,777,761	$ 6,621,160
Cash and Investment Assets - December 31			
Cash and investments	$ 478,644	$ 559,178	$ 1,037,822
Restricted assets:			
Cash and investments	1,364,755	4,218,583	5,583,338
Total cash and investment assets - December 31	$ 1,843,399	$ 4,777,761	$ 6,621,160
Cash and Investment Fund Balance - December 31			
Restricted for:			
Debt service	$ 190,406	$ 78,576	$ 268,982
Other purposes	1,174,349	4,140,007	5,314,356
Unrestricted	478,644	559,178	1,037,822
Total cash and investment fund balance - December 31	$ 1,843,399	$ 4,777,761	$ 6,621,160

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

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

	Agency Funds
Additions:	
Agency fund additions	$ 3,189,930
Deductions:	
Agency fund deductions	3,192,064
Deficiency of total additions over total deductions	(2,134)
Cash and investment fund balance - beginning	8,342
Cash and investment fund balance - ending	$ 6,208

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Primary Government: Town of Danville
Blended Component Unit: Danville Municipal Development Corporation

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

Blended Component Units

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the Town's governing body or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

Component Unit	Description/Inclusion Criteria	Fund Included In
Danville Municipal Development Corporation	Although it is legally separate from the Town, the Danville Municipal Development Corporation is reported as if it were a part of the Town because it provides services entirely or almost entirely to the Town.	Redevelopment Authority

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 Town reports the following major governmental funds:

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

The economic development income tax fund is used to account for funds received from the county economic development tax and is used for the purposes designated in the capital improvement plan approved by the Town Council.

The community host fund is used to account for the revenues received from fees imposed on the disposal of nonhazardous solid waste disposal and is used for the purposes approved by the Town Council.

The community host future fund is used to account for the revenues received from fees imposed on the disposal of nonhazardous solid waste disposal and is used to accumulate funds for the future closing of the landfill.

The park bonds fund is used to account for the general obligation bond proceeds for the construction of a new park pool and the tax revenue to pay the general obligation bonds.

The Town reports the following major proprietary funds:

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

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

Additionally, the Town reports the following fund type:

Agency funds account for assets held by the Town as an employee withholdings and serve as control of accounts for certain cash transactions during the time they are a liability to the Town.

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 then when a liability is incurred. Investment transactions are not presented on the financial statements.

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the water and wastewater functions and various other functions of government. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and dis bursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The Town does not have any internal service funds.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

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

   <u>Government-Wide Statements</u>

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

   a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

   b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

   It is the Town's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

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:

1. 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.

2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

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.

On or before August 31, the fiscal officer of the Town submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the Town receives approval of the Indiana Department of Local Government Finance.

The Town's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. Detailed Notes on All Funds

A. Deposits

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. 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
Other governmental	Major - Economic Development Income Tax	$ 1,952

IV. Other Information

A. Risk Management

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

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

Worker's Compensation

During 1993, the Town joined with other governmental entities in the Indiana Public Employers' Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for its member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of Worker's Compensation. The Town pays an annual premium to the risk pool for its worker's compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to $5,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the $5,000,000 limit.

B. Rate Structure – Enterprise Funds

Water Utility

On April 9, 1990, the Town Council adopted Ordinance No. 90-4 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on September 3, 2002.

Wastewater Utility

The current rate structure was approved by the Town Council on October 20, 2003.

C. Pension Plan

Agent Multiple-Employer Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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

Information to segregate the assets/liabilities and the actuarial study figures between the Town and the Utilities is not available.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	$ 98,760
Interest on net pension obligation	(6,040)
Adjustment to annual required contribution	6,883
Annual pension cost	99,603
Contributions made	122,049
Decrease in net pension obligation	(22,446)
Net pension obligation, beginning of year	(83,310)
Net pension obligation, end of year	$ (105,756)

Contribution rates:	
Town	5.25%
Plan members	3%
Actuarial valuation date	07-01-04
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected Actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	$ 83,056	94%	$ (55,864)
	06-30-04	79,460	135%	(83,310)
	06-30-05	99,603	154%	(105,756)

TOWN OF DANVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

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	$ 1,380,622	$ 1,523,733	$ (143,111)	91%	$ 1,528,756	(9%)
07-01-04	1,429,926	1,658,579	(228,653)	86%	1,801,312	(13%)
07-01-05	1,526,726	2,042,956	(516,230)	75%	1,988,539	(26%)

TOWN OF DANVILLE
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	Park and Rec Donations	Law Enforcement Continuing Education	Riverboat	Rainy Day	Police Donations	Police Grant
Receipts:								
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	680	-	-	-	-
Intergovernmental	334,569	85,975	-	-	40,470	-	-	7,476
Charges for services	1,380	-	-	1,269	-	-	-	-
Fines and forfeits	-	-	-	1,929	-	-	-	-
Other	-	-	19,212	46	-	-	13,606	-
Total receipts	335,949	85,975	19,212	3,924	40,470	-	13,606	7,476
Disbursements:								
General government	-	-	-	-	9,351	95,838	-	-
Public safety	-	-	-	3,300	-	-	10,203	7,493
Highways and streets	313,827	64,186	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-	-
Culture and recreation	-	-	17,717	-	-	-	-	-
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay:								
Special assessments	-	-	-	-	-	-	-	-
Total disbursements	313,827	64,186	17,717	3,300	9,351	95,838	10,203	7,493
Excess (deficiency) of receipts over disbursements	22,122	21,789	1,495	624	31,119	(95,838)	3,403	(17)
Other financing sources (uses)								
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	22,122	21,789	1,495	624	31,119	(95,838)	3,403	(17)
Cash and investment fund balance - beginning	263,344	62,358	6,655	3,548	59,649	272,543	3,168	3,335
Cash and investment fund balance - ending	$ 285,466	$ 84,147	$ 8,150	$ 4,172	$ 90,768	$ 176,705	$ 6,571	$ 3,318
Cash and Investment Assets - December 31								
Cash and investments	$ -	$ -	$ -	$ -	$ 90,768	$ 176,705	$ -	$ -
Restricted assets:								
Cash and investments	285,466	84,147	8,150	4,172	-	-	6,571	3,318
Total cash and investment assets - December 31	$ 285,466	$ 84,147	$ 8,150	$ 4,172	$ 90,768	$ 176,705	$ 6,571	$ 3,318
Cash and Investment Fund Balance - December 31								
Restricted for:								
Culture and recreation	$ -	$ -	$ 8,150	$ -	$ -	$ -	$ -	$ -
Debt service	-	-	-	-	-	-	-	-
Other purposes	285,466	84,147	-	4,172	-	-	6,571	3,318
Unrestricted	-	-	-	-	90,768	176,705	-	-
Total cash and investment fund balance - December 31	$ 285,466	$ 84,147	$ 8,150	$ 4,172	$ 90,768	$ 176,705	$ 6,571	$ 3,318

TOWN OF DANVILLE
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)

	Fire Donations	Police Block Grant	Cops in School	Parking Violations	Blanton House	Train Station	Police PFT Grant
Receipts:							
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	70,001	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	7,184	-	-	-
Other	14,477	-	-	-	20,212	7,900	-
Total receipts	14,477	-	70,001	7,184	20,212	7,900	-
Disbursements:							
General government	-	-	-	3,680	-	-	-
Public safety	14,688	-	-	-	-	-	13,000
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Health and welfare	-	-	76,585	-	-	-	-
Culture and recreation	-	-	-	-	18,261	6,200	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
Special assessments	-	-	-	-	-	-	-
Total disbursements	14,688	-	76,585	3,680	18,261	6,200	13,000
Excess (deficiency) of receipts over disbursements	(211)	-	(6,584)	3,504	1,951	1,700	(13,000)
Other financing sources (uses)							
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(211)	-	(6,584)	3,504	1,951	1,700	(13,000)
Cash and investment fund balance - beginning	2,459	270	10,413	1,736	18,878	500	58,953
Cash and investment fund balance - ending	$ 2,248	$ 270	$ 3,829	$ 5,240	$ 20,829	$ 2,200	$ 45,953
Cash and Investment Assets - December 31							
Cash and investments	$ -	$ -	$ -	$ 5,240	$ -	$ -	$ -
Restricted assets:							
Cash and investments	2,248	270	3,829	-	20,829	2,200	45,953
Total cash and investment assets - December 31	$ 2,248	$ 270	$ 3,829	$ 5,240	$ 20,829	$ 2,200	$ 45,953
Cash and Investment Fund Balance - December 31							
Restricted for:							
Culture and recreation	$ -	$ -	$ -	$ -	$ 20,829	$ 2,200	$ -
Debt service	-	-	-	-	-	-	-
Other purposes	2,248	270	3,829	-	-	-	45,953
Unrestricted	-	-	-	5,240	-	-	-
Total cash and investment fund balance - December 31	$ 2,248	$ 270	$ 3,829	$ 5,240	$ 20,829	$ 2,200	$ 45,953

TOWN OF DANVILLE
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)

	Fire PFT Grant	Waste Management Grant	Cumulative Capital Improvement	Cumulative Capital Development	GO Bonds	Redevelopment Auth	Totals
Receipts:							
Taxes	$ -	$ -	$ -	$ 91,525	$ 211,734	$ -	$ 303,259
Licenses and permits	-	-	-	-	-	-	680
Intergovernmental	-	-	19,840	6,101	25,356	-	589,788
Charges for services	-	-	-	-	-	-	2,649
Fines and forfeits	-	-	-	-	-	-	9,113
Other	33,633	-	-	-	303,953	59	413,098
Total receipts	33,633	-	19,840	97,626	541,043	59	1,318,587
Disbursements:							
General government	-	-	-	-	-	-	108,869
Public safety	42,514	-	-	-	-	-	91,198
Highways and streets	-	-	-	-	-	-	378,013
Sanitation	-	905	-	-	-	-	905
Health and welfare	-	-	-	-	-	-	76,585
Culture and recreation	-	-	-	-	-	-	42,178
Debt service:							
Principal	-	-	-	-	162,000	-	162,000
Interest	-	-	-	-	30,957	878	31,835
Capital outlay:							
Special assessments	-	-	8,818	143,754	274,278	-	426,850
Total disbursements	42,514	905	8,818	143,754	467,235	878	1,318,433
Excess (deficiency) of receipts over disbursements	(8,881)	(905)	11,022	(46,128)	73,808	(819)	154
Other financing sources (uses)							
Transfers out	-	-	-	-	-	(1,952)	(1,952)
Total other financing sources (uses)	-	-	-	-	-	(1,952)	(1,952)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(8,881)	(905)	11,022	(46,128)	73,808	(2,771)	(1,798)
Cash and investment fund balance - beginning	8,881	965	56,768	124,399	87,746	2,771	1,049,339
Cash and investment fund balance - ending	$ -	$ 60	$ 67,790	$ 78,271	$ 161,554	$ -	$ 1,047,541
Cash and Investment Assets - December 31							
Cash and investments	$ -	$ -	$ -	$ -	$ -	$ -	$ 272,713
Restricted assets:							
Cash and investments	-	60	67,790	78,271	-	161,554	774,828
Total cash and investment assets - December 31	$ -	$ 60	$ 67,790	$ 78,271	$ -	$ 161,554	$ 1,047,541
Cash and Investment Fund Balance - December 31							
Restricted for:							
Culture and recreation	$ -	$ -	$ -	$ -	$ -	$ -	$ 31,179
Debt service	-	-	-	-	-	161,554	161,554
Other purposes	-	60	67,790	78,271	-	-	582,095
Unrestricted	-	-	-	-	-	-	272,713
Total cash and investment fund balance - December 31	$ -	$ 60	$ 67,790	$ 78,271	$ -	$ 161,554	$ 1,047,541

TOWN OF DANVILLE
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2005

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

General infrastructure assets completed in the current year has been reported.

Primary Government	Ending Balance
Governmental activities:	
Capital assets, not being depreciated:	
Land	$ 229,004
Infrastructure	1,066,782
Buildings	2,452,421
Improvements other than buildings	2,574,440
Machinery and equipment	1,820,221
Construction in progress	-
Total governmental activities, capital assets not being depreciated	$ 8,142,868

Primary Government	Ending Balance
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	$ 40,874
Construction in progress	-
Buildings	5,421,208
Improvements other than buildings	2,225,776
Machinery and equipment	609,428
Total Water Utility capital assets	8,297,286
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	97,668
Construction in progress	6,801,333
Buildings	6,256,787
Improvements other than buildings	2,551,254
Machinery and equipment	727,583
Total Wastewater Utility capital assets	16,434,625
Total business-type activities capital assets	$ 24,731,911

TOWN OF DANVILLE
SUPPLEMENTARY INFORMATION
SCHEDULE OF DEBT

For The Year Ended December 31, 2005

Description of Asset	Present Value of Net Minimum Lease Payments	Ending Balance	Due Within One Year
CAPITAL LEASES			
POLICE RADIO EQUIPMENT	$ 186,190	$ 176,137	$ 86,434

	Ending Balance	Due Within One Year
Governmental Activities:		
Bonds payable:		
General obligation bonds:		
GO BONDS OF 2001, SERIES B	$ 456,000	$ 34,000
GO BONDS OF 2005	203,000	50,000
PARK DISTRICT GO BONDS OF 2004	1,510,000	70,000
Total governmental activities long-term debt	$ 2,169,000	$ 154,000
Business-type Activities:		
Water Utility		
Revenue bonds:		
Water Revenue Bonds of 2001	$ 1,891,000	$ 81,000
Water Revenue Bonds of 2003	2,124,000	79,000
Water Revenue Bonds of 2004	771,174	28,000
Total Water Utility	4,786,174	188,000
Wastewater Utility		
Revenue bonds:		
Sewage Works Revenue Bonds of 1996	875,000	70,000
Sewage Works Revenue Bonds of 2004	7,890,000	180,000
Total Wastewater Utility	8,765,000	250,000
Total business-type activities:	$ 13,551,174	$ 438,000

APPROVAL OF FORMS - BUILDING DEPARTMENT

The Danville Building Department has been using a computer generated building applications/permit which has not been approved for use. The building applications/permit is not prenumbered.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

VENDING, CONCESSIONS OR OTHER SALES CONTROLS - PARK DEPARTMENT

As stated in prior Audit Report B26558, a system of internal controls has not been established by the Parks Department to ensure that all items purchased for resale and the receipts from sales of these items are safeguarded from theft, loss or misuse, and are properly accounted for.

The risk of theft, loss or misuse is greatly increased when accountability controls are not established and implemented.

Internal controls over vending operations, concessions or other sales should include, at a minimum, a regular reconcilement of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received. Any discrepancies noted should be immediately documented in writing to proper officials. The reconcilement should provide an accurate accounting. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Persons with access to vending should be properly designated and access should be limited to those designated. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PARK BOARD ACCEPTANCE OF DONATIONS

The minutes of the Park Board do not indicate acceptance of all donations received.

The governing body of the unit has the option and responsibility to either accept or reject, in writing, any proposed donation. (Cities and Towns Bullentin and Uniform Compliance Guidelines, June, 1996, page 21 to 22).

FINANCIAL RECORDS - PARK DEPARTMENT

Reports of Collections for the various programs were not retained for audit.

Indiana Code 5-15-6-3(d) states: "No financial records or records relating thereto shall be destroyed until the earlier of the following actions:

(1) The audit of the records by the State Board of Accounts has been completed, report filed, and any exceptions set out in the report satisfied.

(2) The financial record or records have been copied or reproduced as described in subsection (e)."

RECEIPT ISSUANCE - PARK DEPARTMENT

Receipts were not issued or recorded for the various Park programs.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONCESSION PRICES - PARK DEPARTMENT

The prices charged for food and beverages at the concession stand were not authorized by the Park Board.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPT DEPOSITS - PARK DEPARTMENT

The Park Department offered several programs for which collections were not remitted to the Clerk-Treasurer in the form in which they were received.

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PRENUMBERED TICKETS NOT USED

The tickets used by the Park Department for the Jazz in the Park Concert were not prescribed or approved forms nor were the tickets prenumbered. The Park Department could not provide a full accounting of the number of tickets that was available for sale, the number of tickets sold at normal price, the number of tickets sold at a reduced or discounted price, or the number of tickets that were issued for free.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OLD OUTSTANDING CHECKS

Our review of the bank reconcilements as of December 31, 2005, revealed checks outstanding in excess of two years.

Indiana Code 5-11-10.5-2 states, in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states, in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

SUPPLEMENTAL AUDIT OF

FEDERAL AWARDS

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE TOWN OF DANVILLE, HENDRICKS COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 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

September 6, 2006

TOWN OF DANVILLE
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.S. DEPARTMENT OF JUSTICE			
Direct Grant			
Public Safety Partnership and Community Policing Grants	16.710		
COPS in School		2003UMXW0260	$ 76,584
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-Through Indiana Criminal Justice Institute			
Highway Safety Cluster			
State and Community Highway Safety	20.600		
Operation Pullover		None	2,400
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Pass-Through Indiana Department of Environmental Management			
Capitalization Grants for Drinking Water State Revolving Funds	66.468		
New Drinking Water Plant		DW10117201	328,241
New Drinking Water Plant		DW10017001	670,903
Total for federal grantor agency			999,144
Total federal awards expended			$ 1,078,128

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

TOWN OF DANVILLE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

TOWN OF DANVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

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

Federal Awards:

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

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee?	no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF DANVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF DANVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 25, 2006, with Pauletta Frye, Clerk-Treasurer; Dinah Wheeler, Deputy Clerk-Treasurer; and Brad Andrews, Park Superintendent. The officials concurred with our audit findings.