

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

AUDIT REPORT
OF
TOWN OF PAOLI
ORANGE COUNTY, INDIANA
January 1, 2006 to December 31, 2007



FILED
09/23/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Carolyn N.Clements	01-01-04 to 12-31-11
President of the Town Council	Robert L. Gilliatt Gary Barnett William E. Windhorst	01-01-06 to 12-31-06 01-01-07 to 12-31-07 01-01-08 to 12-31-08
Supervisor of Utilities	Vacant Mike Compton	01-01-06 to 01-01-07 01-02-07 to 12-31-08



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

TO: THE OFFICIALS OF THE TOWN OF PAOLI, ORANGE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paoli (Town), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2006 and 2007, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated August 28, 2008, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, as listed in the Table of Contents, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Long-Term Debt has 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 it.

STATE BOARD OF ACCOUNTS

August 28, 2008



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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 PAOLI, ORANGE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paoli (Town), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

The Town's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response and 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 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

August 28, 2008

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

Functions/Programs	Disbursements	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 295,955	\$ 43,039	\$ 5,629	\$ 95,116	\$ (152,171)	\$ -	\$ (152,171)
Public safety	543,566	1,150	1,993	-	(540,423)	-	(540,423)
Highways and streets	207,964	1,194	162,282	-	(44,488)	-	(44,488)
Culture and recreation	79,989	11,921	13,322	30,000	(24,746)	-	(24,746)
Total governmental activities	<u>1,127,474</u>	<u>57,304</u>	<u>183,226</u>	<u>125,116</u>	<u>(761,828)</u>	<u>-</u>	<u>(761,828)</u>
Business-type activities:							
Water	1,073,667	989,349	8,398	30,774	-	(45,146)	(45,146)
Wastewater	1,055,157	956,339	11,250	-	-	(87,568)	(87,568)
Electric	3,447,518	3,029,242	14,966	-	-	(403,310)	(403,310)
Total business-type activities	<u>5,576,342</u>	<u>4,974,930</u>	<u>34,614</u>	<u>30,774</u>	<u>-</u>	<u>(536,024)</u>	<u>(536,024)</u>
Total primary government	<u>\$ 6,703,816</u>	<u>\$ 5,032,234</u>	<u>\$ 217,840</u>	<u>\$ 155,890</u>	<u>(761,828)</u>	<u>(536,024)</u>	<u>(1,297,852)</u>
General receipts:							
Property taxes					397,766	-	397,766
Other local sources					412,301	275,405	687,706
Unrestricted investment earnings					22,206	46,616	68,822
Total general receipts					<u>832,273</u>	<u>322,021</u>	<u>1,154,294</u>
Change in net assets					70,445	(214,003)	(143,558)
Net assets - beginning					<u>833,342</u>	<u>2,481,132</u>	<u>3,314,474</u>
Net assets - ending					<u>\$ 903,787</u>	<u>\$ 2,267,129</u>	<u>\$ 3,170,916</u>
<u>Assets</u>							
Cash and investments					\$ 336,758	\$ 1,076,639	\$ 1,413,397
Restricted assets:							
Cash and investments					<u>567,029</u>	<u>1,190,490</u>	<u>1,757,519</u>
Total assets					<u>\$ 903,787</u>	<u>\$ 2,267,129</u>	<u>\$ 3,170,916</u>
<u>Net Assets</u>							
Restricted for:							
General government					\$ 92,528	\$ -	\$ 92,528
Public safety					1,595	-	1,595
Highways and streets					109,406	-	109,406
Culture and recreation					94,556	-	94,556
Debt service					-	688,922	688,922
Capital improvements					-	262,218	262,218
Customer deposits					-	130,637	130,637
Other purposes					268,944	108,713	377,657
Unrestricted					<u>336,758</u>	<u>1,076,639</u>	<u>1,413,397</u>
Total net assets					<u>\$ 903,787</u>	<u>\$ 2,267,129</u>	<u>\$ 3,170,916</u>

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

TOWN OF PAOLI
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2006

	General	Industrial Development	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 207,530	\$ -	\$ 190,236	\$ 397,766
Licenses and permits	60	-	630	690
Intergovernmental	212,961	-	319,777	532,738
Charges for services	756	-	66,678	67,434
Other	101,530	47,922	49,839	199,291
Total receipts	<u>522,837</u>	<u>47,922</u>	<u>627,160</u>	<u>1,197,919</u>
Disbursements:				
General government	149,924	-	129,031	278,955
Public safety	448,734	-	6,236	454,970
Highways and streets	-	-	207,964	207,964
Culture and recreation	2,405	-	76,653	79,058
Debt service:				
Principal	-	-	17,869	17,869
Interest	192	-	3,795	3,987
Capital outlay:				
General government	-	-	17,000	17,000
Public safety	17,484	-	49,256	66,740
Culture and recreation	931	-	-	931
Total disbursements	<u>619,670</u>	<u>-</u>	<u>507,804</u>	<u>1,127,474</u>
Excess (deficiency) of receipts over disbursements	<u>(96,833)</u>	<u>47,922</u>	<u>119,356</u>	<u>70,445</u>
Cash and investment fund balance - beginning	<u>283,134</u>	<u>142,466</u>	<u>407,742</u>	<u>833,342</u>
Cash and investment fund balance - ending	<u>\$ 186,301</u>	<u>\$ 190,388</u>	<u>\$ 527,098</u>	<u>\$ 903,787</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 186,301	\$ -	\$ 150,457	\$ 336,758
Restricted assets:				
Cash and investments	-	190,388	376,641	567,029
Total cash and investment assets - December 31	<u>\$ 186,301</u>	<u>\$ 190,388</u>	<u>\$ 527,098</u>	<u>\$ 903,787</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
General government	\$ -	\$ -	\$ 92,528	\$ 92,528
Public safety	-	-	1,595	1,595
Highways and streets	-	-	109,406	109,406
Culture and recreation	-	-	94,556	94,556
Other purposes	-	190,388	78,556	268,944
Unrestricted	186,301	-	150,457	336,758
Total cash and investment fund balance - December 31	<u>\$ 186,301</u>	<u>\$ 190,388</u>	<u>\$ 527,098</u>	<u>\$ 903,787</u>

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

TOWN OF PAOLI
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Electric Utility	Totals
Operating receipts:				
Unmetered water receipts	\$ 3,348	\$ -	\$ -	\$ 3,348
Metered water receipts	804,600	-	-	804,600
Residential sales	-	-	1,099,921	1,099,921
Commercial and industrial sales	-	-	1,894,782	1,894,782
Public street and highway lighting	-	-	14,532	14,532
Fire protection receipts	170,000	-	-	170,000
Penalties	6,721	15,039	16,542	38,302
Other water receipts	79,070	-	-	79,070
Measured revenue	-	666,559	-	666,559
Other	-	310,633	203,202	513,835
Total operating receipts	1,063,739	992,231	3,228,979	5,284,949
Operating disbursements:				
Equipment and capital improvements	76,046	126,331	287,663	490,040
Salaries and wages	154,206	276,260	218,534	649,000
Employee pensions and benefits	40,437	61,511	80,296	182,244
Purchased water	354,983	-	-	354,983
Purchased power	-	-	2,227,689	2,227,689
Material and supplies	53,252	20,211	182,996	256,459
Contractual services	8,242	222,344	3,896	234,482
Transportation disbursements	9,890	25,906	20,197	55,993
Insurance disbursements	12,873	43,287	31,641	87,801
Miscellaneous disbursements	96,961	93,581	378,943	569,485
Total operating disbursements	806,890	869,431	3,431,855	5,108,176
Excess (deficiency) of operating receipts over operating disbursements	256,849	122,800	(202,876)	176,773
Nonoperating receipts (disbursements):				
Interest and investment receipts	5,237	18,733	22,646	46,616
Debt service of principal	(62,304)	(94,304)	(14,304)	(170,912)
Interest and investment disbursement	(204,473)	(91,422)	(1,359)	(297,254)
Total nonoperating receipts (disbursements)	(261,540)	(166,993)	6,983	(421,550)
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(4,691)	(44,193)	(195,893)	(244,777)
Capital contributions	30,774	-	-	30,774
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	26,083	(44,193)	(195,893)	(214,003)
Cash and investment fund balance - beginning	344,935	762,346	1,373,851	2,481,132
Cash and investment fund balance - ending	\$ 371,018	\$ 718,153	\$ 1,177,958	\$ 2,267,129
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 51,398	\$ 465,360	\$ 559,881	\$ 1,076,639
Restricted assets:				
Cash and investments	319,620	252,793	618,077	1,190,490
Total cash and investment assets - December 31	\$ 371,018	\$ 718,153	\$ 1,177,958	\$ 2,267,129
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 220,857	\$ 252,793	\$ 215,272	\$ 688,922
Capital improvements	7,259	-	254,959	262,218
Customer deposits	31,239	-	99,398	130,637
Other purposes	60,265	-	48,448	108,713
Unrestricted	51,398	465,360	559,881	1,076,639
Total cash and investment fund balance - December 31	\$ 371,018	\$ 718,153	\$ 1,177,958	\$ 2,267,129

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

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

	<u>Agency Fund</u>
Additions:	
Agency fund additions	<u>\$ 1,204,848</u>
Deductions:	
Agency fund deductions	<u>1,217,892</u>
Deficiency of total additions over total deductions	(13,044)
Cash and investment fund balance - beginning	<u>21,044</u>
Cash and investment fund balance - ending	<u><u>\$ 8,000</u></u>

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

TOWN OF PAOLI
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2007

Functions/Programs	Disbursements	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 676,607	\$ 42,856	\$ 4,709	\$ 276,598	\$ (352,444)	\$ -	\$ (352,444)
Public safety	607,636	1,005	13,857	-	(592,774)	-	(592,774)
Highways and streets	255,055	-	163,951	-	(91,104)	-	(91,104)
Culture and recreation	644,979	8,045	16,767	425,406	(194,761)	-	(194,761)
Total governmental activities	2,184,277	51,906	199,284	702,004	(1,231,083)	-	(1,231,083)
Business-type activities:							
Water	987,459	1,049,229	-	-	-	61,770	61,770
Wastewater	1,050,488	983,218	-	-	-	(67,270)	(67,270)
Electric	3,266,241	3,194,659	-	-	-	(71,582)	(71,582)
Total business-type activities	5,304,188	5,227,106	-	-	-	(77,082)	(77,082)
Total primary government	\$ 7,488,465	\$ 5,279,012	\$ 199,284	\$ 702,004	(1,231,083)	(77,082)	(1,308,165)
General receipts:							
Property taxes					419,432	-	419,432
Other local sources					455,163	262,106	717,269
Gaming revenues					684,352	-	684,352
Unrestricted investment earnings					18,723	63,546	82,269
Total general receipts					1,577,670	325,652	1,903,322
Change in net assets					346,587	248,570	595,157
Net assets - beginning					903,787	2,267,129	3,170,916
Net assets - ending					\$ 1,250,374	\$ 2,515,699	\$ 3,766,073
Assets							
Cash and investments					\$ 248,169	\$ 1,264,563	\$ 1,512,732
Restricted assets:							
Cash and investments					1,002,205	1,251,136	2,253,341
Total assets					\$ 1,250,374	\$ 2,515,699	\$ 3,766,073
Net Assets							
Restricted for:							
General government					\$ 77,348	\$ -	\$ 77,348
Public safety					413	-	413
Highways and streets					119,503	-	119,503
Culture and recreation					117,385	-	117,385
Debt service					-	738,325	738,325
Capital improvements					-	262,208	262,208
Customer deposits					-	138,634	138,634
Other purposes					687,556	111,969	799,525
Unrestricted					248,169	1,264,563	1,512,732
Total net assets					\$ 1,250,374	\$ 2,515,699	\$ 3,766,073

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

TOWN OF PAOLI
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, 2007

	General	Industrial Development	Park Debt Service	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 239,862	\$ -	\$ -	\$ 179,570	\$ 419,432
Licenses and permits	220	-	-	745	965
Intergovernmental	254,098	-	684,352	827,167	1,765,617
Charges for services	701	-	-	50,460	51,161
Fines and forfeits	-	-	-	1	1
Other	89,559	47,392	23,472	133,265	293,688
Total receipts	584,440	47,392	707,824	1,191,208	2,530,864
Disbursements:					
General government	159,399	25,000	195,520	96,068	475,987
Public safety	473,972	-	-	65,064	539,036
Highways and streets	-	-	-	255,055	255,055
Culture and recreation	1,000	-	-	77,938	78,938
Debt service:					
Principal	-	-	-	2,708	2,708
Interest	544	-	-	18,604	19,148
Capital outlay:					
General government	-	-	-	200,620	200,620
Public safety	14,498	-	-	32,246	46,744
Culture and recreation	675	77,847	25,780	461,739	566,041
Total disbursements	650,088	102,847	221,300	1,210,042	2,184,277
Excess (deficiency) of receipts over disbursements	(65,648)	(55,455)	486,524	(18,834)	346,587
Other financing sources (uses):					
Transfers in	-	-	-	100	100
Transfers out	-	-	-	(100)	(100)
Total other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(65,648)	(55,455)	486,524	(18,834)	346,587
Cash and investment fund balance - beginning	186,301	190,388	-	527,098	903,787
Cash and investment fund balance - ending	<u>\$ 120,653</u>	<u>\$ 134,933</u>	<u>\$ 486,524</u>	<u>\$ 508,264</u>	<u>\$ 1,250,374</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 120,653	\$ -	\$ -	\$ 127,516	\$ 248,169
Restricted assets:					
Cash and investments	-	134,933	486,524	380,748	1,002,205
Total cash and investment assets - December 31	<u>\$ 120,653</u>	<u>\$ 134,933</u>	<u>\$ 486,524</u>	<u>\$ 508,264</u>	<u>\$ 1,250,374</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ 77,348	\$ 77,348
Public safety	-	-	-	413	413
Highways and streets	-	-	-	119,503	119,503
Culture and recreation	-	-	-	117,385	117,385
Other purposes	-	134,933	486,524	66,099	687,556
Unrestricted	120,653	-	-	127,516	248,169
Total cash and investment fund balance - December 31	<u>\$ 120,653</u>	<u>\$ 134,933</u>	<u>\$ 486,524</u>	<u>\$ 508,264</u>	<u>\$ 1,250,374</u>

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

TOWN OF PAOLI
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, 2007

	Water Utility	Wastewater Utility	Electric Utility	Totals
Operating receipts:				
Unmetered water receipts	\$ 3,115	\$ -	\$ -	\$ 3,115
Metered water receipts	856,527	-	-	856,527
Residential sales	-	-	1,204,386	1,204,386
Commercial and industrial sales	-	-	1,953,639	1,953,639
Public street and highway lighting	-	-	14,622	14,622
Fire protection receipts	175,000	-	-	175,000
Penalties	7,157	15,861	18,057	41,075
Other water receipts	70,628	-	-	70,628
Measured revenue	-	689,825	-	689,825
Other	-	281,442	198,953	480,395
Total operating receipts	1,112,427	987,128	3,389,657	5,489,212
Operating disbursements:				
Equipment and capital improvements	15,230	669	15,626	31,525
Salaries and wages	141,221	289,093	208,507	638,821
Employee pensions and benefits	33,555	76,718	50,834	161,107
Purchased water	346,981	-	-	346,981
Purchased power	-	-	2,328,071	2,328,071
Material and supplies	52,900	17,604	172,182	242,686
Contractual services	10,556	287,485	50,613	348,654
Transportation disbursements	6,518	25,026	15,065	46,609
Insurance disbursements	23,954	43,440	28,719	96,113
Miscellaneous disbursements	88,035	128,907	380,960	597,902
Total operating disbursements	718,950	868,942	3,250,577	4,838,469
Excess of operating receipts over operating disbursements	393,477	118,186	139,080	650,743
Nonoperating receipts (disbursements):				
Interest and investment receipts	6,591	23,249	33,706	63,546
Debt service of principal	(67,087)	(95,087)	(15,087)	(177,261)
Interest and investment disbursement	(201,422)	(86,459)	(577)	(288,458)
Total nonoperating receipts (disbursements)	(261,918)	(158,297)	18,042	(402,173)
Excess of receipts over disbursements and nonoperating receipts (disbursements)	131,559	(40,111)	157,122	248,570
Cash and investment fund balance - beginning	371,018	718,153	1,177,958	2,267,129
Cash and investment fund balance - ending	<u>\$ 502,577</u>	<u>\$ 678,042</u>	<u>\$ 1,335,080</u>	<u>\$ 2,515,699</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 159,794	\$ 410,250	\$ 694,519	\$ 1,264,563
Restricted assets:				
Cash and investments	342,783	267,792	640,561	1,251,136
Total cash and investment assets - December 31	\$ 502,577	\$ 678,042	\$ 1,335,080	\$ 2,515,699
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 249,209	\$ 267,792	\$ 221,324	\$ 738,325
Capital improvements	362	-	261,846	262,208
Customer deposits	32,947	-	105,687	138,634
Other purposes	60,265	-	51,704	111,969
Unrestricted	159,794	410,250	694,519	1,264,563
Total cash and investment fund balance - December 31	\$ 502,577	\$ 678,042	\$ 1,335,080	\$ 2,515,699

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

TOWN OF PAOLI
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2007

	Agency Funds
Additions:	
Agency fund additions	\$ 1,231,559
Deductions:	
Agency fund deductions	1,205,449
Excess of total additions over total deductions	26,110
Cash and investment fund balance - beginning	8,000
Cash and investment fund balance - ending	\$ 34,110

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Primary Government: Town of Paoli

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

The Town reports the following major governmental 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 industrial development fund is used to account for funds used for the betterment of the Town of Paoli and local businesses.

The park debt service fund is used to account for riverboat funds received and disbursed, and for future lease payments on park facilities.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

Additionally, the Town reports the following fund type:

Agency funds account for assets held by the Town as an agent for other entities and serves as a 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 than when a liability is incurred. Investment transactions are not presented on the financial statements.

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

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

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

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

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

3. Long-Term Debt

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

4. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds 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:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Stewardship, Compliance and Accountability

Budgetary Information

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

Prior to the first required publication, the fiscal officer of the Town submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. 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. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2006 and 2007, were as follows:

Transfer From	Transfer To	2006	2007
Other governmental funds	Other governmental funds	\$ -	\$ 100

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

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

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

Job Related Illness or Injuries to Employees

During 1993, the Town joined a public entity risk pool, the Indiana Public Employer's Plan, Inc., currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989, for the purpose of providing a medium for the funding and administration of workers compensation claims. The Town pays an annual premium to the risk pool for its job related illness or injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Holding Corporation

The Town has entered into a capital lease with Paoli Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the Town. Lease payments are scheduled to begin January 15, 2009.

C. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on June 30, 2004.

On October 5, 2004, the Town Council adopted Ordinance No. 2004-06 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission.

Wastewater Utility

The current rate structure was approved by the Town Council on February 6, 2001.

Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on November 24, 1980.

On October 5, 2004, the Town Council adopted Ordinance No. 2004-06 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plan

Agent Multiple-Employer and Single-Employer Defined Benefit 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.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 47,053
Interest on net pension obligation	(6,581)
Adjustment to annual required contribution	7,499
Annual pension cost	47,971
Contributions made	45,066
Increase in net pension obligation	2,905
Net pension obligation, beginning of year	(90,768)
Net pension obligation, end of year	\$ (87,863)
Contribution rates:	
Town	4.88%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

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%

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-04	\$ 37,104	149%	\$ (83,632)
	06-30-05	41,735	117%	(90,768)
	06-30-06	47,971	94%	(87,863)

TOWN OF PAOLI
 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)
07-01-04	\$ 849,735	\$ 889,172	\$ (39,437)	96%	\$ 885,298	(4%)
07-01-05	888,304	960,092	(71,788)	93%	901,210	(8%)
07-01-06	1,024,823	1,040,438	(15,615)	98%	969,927	(2%)

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006

	Motor Vehicle Highway	Local Road and Street	Parking Meter	Aviation	Airport Awareness Day	Airport Construction
Receipts:						
Taxes	\$ 55,187	\$ -	\$ -	\$ 38,203	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	147,910	14,371	-	5,629	-	18,560
Charges for services	1,194	-	-	19,806	-	-
Other	688	-	-	2	3,330	-
Total receipts	204,979	14,371	-	63,640	3,330	18,560
Disbursements:						
General government	-	-	2,464	43,507	2,143	-
Public safety	-	-	-	-	-	-
Highways and streets	173,173	16,694	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	17,000
Public safety	-	-	-	-	-	-
Total disbursements	173,173	16,694	2,464	43,507	2,143	17,000
Excess (deficiency) of receipts over disbursements	31,806	(2,323)	(2,464)	20,133	1,187	1,560
Cash and investment fund balance - beginning	77,600	2,323	8,785	(2,168)	2,108	16,207
Cash and investment fund balance - ending	\$ 109,406	\$ -	\$ 6,321	\$ 17,965	\$ 3,295	\$ 17,767
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	109,406	-	6,321	17,965	3,295	17,767
Total cash and investment assets - December 31	\$ 109,406	\$ -	\$ 6,321	\$ 17,965	\$ 3,295	\$ 17,767
Cash and Investment Fund Balance - December 31						
Restricted for:						
General government	\$ -	\$ -	\$ 6,321	\$ 17,965	\$ 3,295	\$ 17,767
Public safety	-	-	-	-	-	-
Highways and streets	109,406	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ 109,406	\$ -	\$ 6,321	\$ 17,965	\$ 3,295	\$ 17,767

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Airport Gas Revolving	Airport Rental House	Park and Recreation	Nonreverting Pool Concessions	Nonreverting Pool Donations	Nonreverting Marea Radcliff Park Donation
Receipts:						
Taxes	\$ -	\$ -	\$ 72,042	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	2,561
Charges for services	22,076	-	10,761	-	-	-
Other	-	-	-	-	-	-
Total receipts	22,076	-	82,803	-	-	2,561
Disbursements:						
General government	21,276	-	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	23,672	13,017	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Total disbursements	21,276	-	23,672	13,017	-	-
Excess (deficiency) of receipts over disbursements	800	-	59,131	(13,017)	-	2,561
Cash and investment fund balance - beginning	3,060	500	20,496	15,603	2,269	318
Cash and investment fund balance - ending	<u>\$ 3,860</u>	<u>\$ 500</u>	<u>\$ 79,627</u>	<u>\$ 2,586</u>	<u>\$ 2,269</u>	<u>\$ 2,879</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	3,860	500	79,627	2,586	2,269	2,879
Total cash and investment assets - December 31	<u>\$ 3,860</u>	<u>\$ 500</u>	<u>\$ 79,627</u>	<u>\$ 2,586</u>	<u>\$ 2,269</u>	<u>\$ 2,879</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
General government	\$ 3,860	\$ 500	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	79,627	2,586	2,269	2,879
Other purposes	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 3,860</u>	<u>\$ 500</u>	<u>\$ 79,627</u>	<u>\$ 2,586</u>	<u>\$ 2,269</u>	<u>\$ 2,879</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Park Operating Grant	Nonreverting Softball	Law Enforcement Continuing Education	Miscellaneous Grants and Donations	Downtown Revitalization	Riverboat
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	630	-	-	-
Intergovernmental	-	-	-	30,000	-	24,190
Charges for services	-	11,921	520	-	-	-
Other	-	-	-	5,224	-	-
Total receipts	-	11,921	1,150	35,224	-	24,190
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	-	2,147	4,089	-	-
Highways and streets	-	-	-	-	-	9,443
Culture and recreation	-	9,964	-	30,000	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	14,368	-	-
Total disbursements	-	9,964	2,147	48,457	-	9,443
Excess (deficiency) of receipts over disbursements	-	1,957	(997)	(13,233)	-	14,747
Cash and investment fund balance - beginning	311	4,927	2,592	25,233	100	72,785
Cash and investment fund balance - ending	<u>\$ 311</u>	<u>\$ 6,884</u>	<u>\$ 1,595</u>	<u>\$ 12,000</u>	<u>\$ 100</u>	<u>\$ 87,532</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 87,532
Restricted assets:						
Cash and investments	311	6,884	1,595	12,000	100	-
Total cash and investment assets - December 31	<u>\$ 311</u>	<u>\$ 6,884</u>	<u>\$ 1,595</u>	<u>\$ 12,000</u>	<u>\$ 100</u>	<u>\$ 87,532</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	1,595	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	311	6,884	-	-	-	-
Other purposes	-	-	-	12,000	100	-
Unrestricted	-	-	-	-	-	87,532
Total cash and investment fund balance - December 31	<u>\$ 311</u>	<u>\$ 6,884</u>	<u>\$ 1,595</u>	<u>\$ 12,000</u>	<u>\$ 100</u>	<u>\$ 87,532</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Cemetery	Cemetery General Care	Cumulative Capital Improvement	Cumulative Capital Development	Economic Development Income Tax	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ 24,804	\$ -	\$ 190,236
Licenses and permits	-	-	-	-	-	630
Intergovernmental	-	-	13,733	3,608	59,215	319,777
Charges for services	400	-	-	-	-	66,678
Other	21,937	219	-	18,439	-	49,839
Total receipts	22,337	219	13,733	46,851	59,215	627,160
Disbursements:						
General government	150	-	-	-	59,491	129,031
Public safety	-	-	-	-	-	6,236
Highways and streets	-	-	8,654	-	-	207,964
Culture and recreation	-	-	-	-	-	76,653
Debt service:						
Principal	-	-	-	-	17,869	17,869
Interest	-	-	-	-	3,795	3,795
Capital outlay:						
General government	-	-	-	-	-	17,000
Public safety	-	-	-	34,888	-	49,256
Total disbursements	150	-	8,654	34,888	81,155	507,804
Excess (deficiency) of receipts over disbursements	22,187	219	5,079	11,963	(21,940)	119,356
Cash and investment fund balance - beginning	200	20,214	35,900	13,514	84,865	407,742
Cash and investment fund balance - ending	<u>\$ 22,387</u>	<u>\$ 20,433</u>	<u>\$ 40,979</u>	<u>\$ 25,477</u>	<u>\$ 62,925</u>	<u>\$ 527,098</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 62,925	\$ 150,457
Restricted assets:						
Cash and investments	22,387	20,433	40,979	25,477	-	376,641
Total cash and investment assets - December 31	\$ 22,387	\$ 20,433	\$ 40,979	\$ 25,477	\$ 62,925	\$ 527,098
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
General government	\$ 22,387	\$ 20,433	\$ -	\$ -	\$ -	\$ 92,528
Public safety	-	-	-	-	-	1,595
Highways and streets	-	-	-	-	-	109,406
Culture and recreation	-	-	-	-	-	94,556
Other purposes	-	-	40,979	25,477	-	78,556
Unrestricted	-	-	-	-	62,925	150,457
Total cash and investment fund balance - December 31	\$ 22,387	\$ 20,433	\$ 40,979	\$ 25,477	\$ 62,925	\$ 527,098

TOWN OF PAOLI
 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, 2007

	Motor Vehicle Highway	Local Road and Street	Parking Meter	Aviation	Airport Awareness Day
Receipts:					
Taxes	\$ 66,989	\$ -	\$ -	\$ 25,396	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	149,284	14,667	-	4,709	-
Charges for services	-	-	-	21,719	-
Fines and forfeits	-	-	1	-	-
Other	62	-	-	-	1,771
Total receipts	216,335	14,667	1	51,824	1,771
Disbursements:					
General government	-	-	-	49,667	3,464
Public safety	-	-	-	-	-
Highways and streets	206,905	14,000	-	-	-
Culture and recreation	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Total disbursements	206,905	14,000	-	49,667	3,464
Excess (deficiency) of receipts over disbursements	9,430	667	1	2,157	(1,693)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	9,430	667	1	2,157	(1,693)
Cash and investment fund balance - beginning	109,406	-	6,321	17,965	3,295
Cash and investment fund balance - ending	<u>\$ 118,836</u>	<u>\$ 667</u>	<u>\$ 6,322</u>	<u>\$ 20,122</u>	<u>\$ 1,602</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:					
Cash and investments	118,836	667	6,322	20,122	1,602
Total cash and investment assets - December 31	<u>\$ 118,836</u>	<u>\$ 667</u>	<u>\$ 6,322</u>	<u>\$ 20,122</u>	<u>\$ 1,602</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
General government	\$ -	\$ -	\$ 6,322	\$ 20,122	\$ 1,602
Public safety	-	-	-	-	-
Highways and streets	118,836	667	-	-	-
Culture and recreation	-	-	-	-	-
Other purposes	-	-	-	-	-
Unrestricted	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 118,836</u>	<u>\$ 667</u>	<u>\$ 6,322</u>	<u>\$ 20,122</u>	<u>\$ 1,602</u>

TOWN OF PAOLI
 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, 2007
 (Continued)

	Airport Construction	Airport Gas Revolving	Airport Rental House	Park and Recreation	Nonreverting Pool Concessions
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ 36,494	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	183,716	-	-	7,262	-
Charges for services	-	20,236	-	-	-
Fines and forfeits	-	-	-	-	-
Other	-	-	-	7,959	-
Total receipts	183,716	20,236	-	51,715	-
Disbursements:					
General government	-	19,608	-	-	-
Public safety	-	-	-	-	-
Highways and streets	-	-	-	-	-
Culture and recreation	-	-	-	48,000	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay:					
General government	200,620	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Total disbursements	200,620	19,608	-	48,000	-
Excess (deficiency) of receipts over disbursements	(16,904)	628	-	3,715	-
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(16,904)	628	-	3,715	-
Cash and investment fund balance - beginning	17,767	3,860	500	79,627	2,586
Cash and investment fund balance - ending	<u>\$ 863</u>	<u>\$ 4,488</u>	<u>\$ 500</u>	<u>\$ 83,342</u>	<u>\$ 2,586</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:					
Cash and investments	863	4,488	500	83,342	2,586
Total cash and investment assets - December 31	<u>\$ 863</u>	<u>\$ 4,488</u>	<u>\$ 500</u>	<u>\$ 83,342</u>	<u>\$ 2,586</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
General government	\$ 863	\$ 4,488	\$ 500	\$ -	\$ -
Public safety	-	-	-	-	-
Highways and streets	-	-	-	-	-
Culture and recreation	-	-	-	83,342	2,586
Other purposes	-	-	-	-	-
Unrestricted	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 863</u>	<u>\$ 4,488</u>	<u>\$ 500</u>	<u>\$ 83,342</u>	<u>\$ 2,586</u>

TOWN OF PAOLI
 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, 2007
 (Continued)

	Nonreverting Pool Donations	Nonreverting Marea Radcliff Park Donation	Park Operating Grant	Nonreverting Softball	Law Enforcement Continuing Education
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	745
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	8,045	260
Fines and forfeits	-	-	-	-	-
Other	34,540	-	-	-	1,360
	<u>34,540</u>	<u>-</u>	<u>-</u>	<u>8,045</u>	<u>1,360</u>
Total receipts	<u>34,540</u>	<u>-</u>	<u>-</u>	<u>8,045</u>	<u>2,365</u>
Disbursements:					
General government	-	-	-	-	-
Public safety	-	-	-	-	3,547
Highways and streets	-	-	-	-	-
Culture and recreation	23,198	-	-	6,740	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>23,198</u>	<u>-</u>	<u>-</u>	<u>6,740</u>	<u>3,547</u>
Excess (deficiency) of receipts over disbursements	<u>11,342</u>	<u>-</u>	<u>-</u>	<u>1,305</u>	<u>(1,182)</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	11,342	-	-	1,305	(1,182)
Cash and investment fund balance - beginning	<u>2,269</u>	<u>2,879</u>	<u>311</u>	<u>6,884</u>	<u>1,595</u>
Cash and investment fund balance - ending	<u>\$ 13,611</u>	<u>\$ 2,879</u>	<u>\$ 311</u>	<u>\$ 8,189</u>	<u>\$ 413</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:					
Cash and investments	13,611	2,879	311	8,189	413
	<u>13,611</u>	<u>2,879</u>	<u>311</u>	<u>8,189</u>	<u>413</u>
Total cash and investment assets - December 31	<u>\$ 13,611</u>	<u>\$ 2,879</u>	<u>\$ 311</u>	<u>\$ 8,189</u>	<u>\$ 413</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	413
Highways and streets	-	-	-	-	-
Culture and recreation	13,611	2,879	311	8,189	-
Other purposes	-	-	-	-	-
Unrestricted	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash and investment fund balance - December 31	<u>\$ 13,611</u>	<u>\$ 2,879</u>	<u>\$ 311</u>	<u>\$ 8,189</u>	<u>\$ 413</u>

TOWN OF PAOLI
 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, 2007
 (Continued)

	Miscellaneous Grants and Donations	Downtown Revitalization	Riverboat	Cemetery	Cemetery General Care
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	200	-
Fines and forfeits	-	-	-	-	-
Other	24,782	-	11,600	231	200
	<u>24,782</u>	<u>-</u>	<u>11,600</u>	<u>231</u>	<u>200</u>
Total receipts	<u>24,782</u>	<u>-</u>	<u>11,600</u>	<u>431</u>	<u>200</u>
Disbursements:					
General government	-	-	-	-	-
Public safety	34,282	-	14,893	-	-
Highways and streets	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	42,800	-	-
	<u>-</u>	<u>-</u>	<u>42,800</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>34,282</u>	<u>-</u>	<u>57,693</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(9,500)</u>	<u>-</u>	<u>(46,093)</u>	<u>431</u>	<u>200</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	(100)	-	-	-
	<u>-</u>	<u>(100)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>(100)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(9,500)</u>	<u>(100)</u>	<u>(46,093)</u>	<u>431</u>	<u>200</u>
Cash and investment fund balance - beginning	<u>12,000</u>	<u>100</u>	<u>87,532</u>	<u>22,387</u>	<u>20,433</u>
Cash and investment fund balance - ending	<u>\$ 2,500</u>	<u>\$ -</u>	<u>\$ 41,439</u>	<u>\$ 22,818</u>	<u>\$ 20,633</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ -	\$ -	\$ 41,439	\$ -	\$ -
Restricted assets:					
Cash and investments	2,500	-	-	22,818	20,633
	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>22,818</u>	<u>20,633</u>
Total cash and investment assets - December 31	<u>\$ 2,500</u>	<u>\$ -</u>	<u>\$ 41,439</u>	<u>\$ 22,818</u>	<u>\$ 20,633</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ 22,818	\$ 20,633
Public safety	-	-	-	-	-
Highways and streets	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Other purposes	2,500	-	-	-	-
Unrestricted	-	-	41,439	-	-
	<u>-</u>	<u>-</u>	<u>41,439</u>	<u>-</u>	<u>-</u>
Total cash and investment fund balance - December 31	<u>\$ 2,500</u>	<u>\$ -</u>	<u>\$ 41,439</u>	<u>\$ 22,818</u>	<u>\$ 20,633</u>

TOWN OF PAOLI
 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, 2007
 (Continued)

	Cumulative Capital Improvement	Cumulative Capital Development	Economic Development Income Tax	Senior Citizens Project	Totals
Receipts:					
Taxes	\$ -	\$ 50,691	\$ -	\$ -	\$ 179,570
Licenses and permits	-	-	-	-	745
Intergovernmental	13,502	9,400	69,981	374,646	827,167
Charges for services	-	-	-	-	50,460
Fines and forfeits	-	-	-	-	1
Other	-	-	-	50,760	133,265
Total receipts	13,502	60,091	69,981	425,406	1,191,208
Disbursements:					
General government	-	-	23,329	-	96,068
Public safety	10,054	-	2,288	-	65,064
Highways and streets	34,150	-	-	-	255,055
Culture and recreation	-	-	-	-	77,938
Debt service:					
Principal	-	-	2,708	-	2,708
Interest	-	-	18,604	-	18,604
Capital outlay:					
General government	-	-	-	-	200,620
Public safety	-	32,246	-	-	32,246
Culture and recreation	-	-	-	418,939	461,739
Total disbursements	44,204	32,246	46,929	418,939	1,210,042
Excess (deficiency) of receipts over disbursements	(30,702)	27,845	23,052	6,467	(18,834)
Other financing sources (uses):					
Transfers in	-	-	100	-	100
Transfers out	-	-	-	-	(100)
Total other financing sources (uses)	-	-	100	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(30,702)	27,845	23,152	6,467	(18,834)
Cash and investment fund balance - beginning	40,979	25,477	62,925	-	527,098
Cash and investment fund balance - ending	<u>\$ 10,277</u>	<u>\$ 53,322</u>	<u>\$ 86,077</u>	<u>\$ 6,467</u>	<u>\$ 508,264</u>
Cash and Investment Assets - December 31					
Cash and investments	\$ -	\$ -	\$ 86,077	\$ -	\$ 127,516
Restricted assets:					
Cash and investments	10,277	53,322	-	6,467	380,748
Total cash and investment assets - December 31	<u>\$ 10,277</u>	<u>\$ 53,322</u>	<u>\$ 86,077</u>	<u>\$ 6,467</u>	<u>\$ 508,264</u>
Cash and Investment Fund Balance - December 31					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ -	\$ 77,348
Public safety	-	-	-	-	413
Highways and streets	-	-	-	-	119,503
Culture and recreation	-	-	-	6,467	117,385
Other purposes	10,277	53,322	-	-	66,099
Unrestricted	-	-	86,077	-	127,516
Total cash and investment fund balance - December 31	<u>\$ 10,277</u>	<u>\$ 53,322</u>	<u>\$ 86,077</u>	<u>\$ 6,467</u>	<u>\$ 508,264</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2007

	Payroll	Construction Escrow	Totals
Additions:			
Agency fund additions	\$ 1,212,890	\$ 18,669	\$ 1,231,559
Deductions:			
Agency fund deductions	1,205,449	-	1,205,449
Excess of total additions over total deductions	7,441	18,669	26,110
Cash and investment fund balance - beginning	8,000	-	8,000
Cash and investment fund balance - ending	\$ 15,441	\$ 18,669	\$ 34,110

TOWN OF PAOLI
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Fire equipment	\$ 60,527	\$ 21,856
Park facilities	<u>5,000,000</u>	*
Total governmental activities debt	<u>\$ 5,060,527</u>	<u>\$ 21,856</u>
* First payment on this lease is due 1/15/09		
Business-type Activities:		
Water Utility		
Notes and loans payable	\$ 3,639	\$ 3,664
Revenue bonds:		
2004 Waterworks improvements:		
Series A	3,574,000	195,363
Series B	<u>924,000</u>	<u>49,425</u>
Total Water Utility	<u>4,501,639</u>	<u>248,452</u>
Wastewater Utility		
Notes and loans payable	3,658	3,684
Revenue bonds:		
2001 Wastewater construction	<u>1,705,000</u>	<u>167,382</u>
Total Wastewater Utility	<u>1,708,658</u>	<u>171,066</u>
Total business-type activities debt:	<u>\$ 6,210,297</u>	<u>\$ 419,518</u>

TOWN OF PAOLI
AUDIT RESULTS AND COMMENTS

ANNUAL REPORTS

The annual report for 2006 was not presented for audit. The annual report for 2007 was not completed until August 2008.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

TIMELY RECORDKEEPING

During 2007, the Town discontinued keeping hand posted cash journals for their three utilities and began using an approved computerized version of these reports. The hand posted ledgers for the Water Utility and the Wastewater Utility were posted through June 30, 2007, and the Electric Utility was posted through October 31, 2007. However, the computerized versions of these reports were not completed until July 2008.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

The Town has not adequately maintained capital asset records. Not all additions to capital assets were recorded. From 1998 to 2002 no capital assets transactions were recorded. An inventory of capital assets has not been made in several years. When the Town disposes of a capital asset, the cost of the asset should be recorded in the records as a deletion.

The Utilities do not maintain sufficient detailed records of capital assets for Utility Plant in Service accounts. Upon purchase, the costs of the capital assets are added to an aggregate Utility Plant in Service account in the General Ledgers. However, not all additions of capital assets in regards to major construction projects were recorded and records providing historical costs for some of the Utilities' capital assets are not available, and records classifying and summarizing the Utilities' capital assets are incomplete. Not all deletions or disposals of capital assets were 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)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

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

TO: THE OFFICIALS OF THE TOWN OF PAOLI, ORANGE COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Paoli (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2006 and 2007. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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

As described in item 2007-1 in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding Equipment and Real Property Management that are applicable to its Community Development Block Grants/State's Program. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended December 31, 2006 and 2007.

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)

Internal Control Over Compliance

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

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

A control deficiency in a Town's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in item 2007-1 of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2007-1, to be a material weakness.

The Town's response to the finding identified in our audit is described in the accompanying Official Response and 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 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

August 28, 2008

TOWN OF PAOLI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2006 and 2007

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-06	Total Federal Awards Expended 12-31-07
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities 15-059-0356001156	10.760		\$ 31,318	\$ -
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs Community Development Block Grants/State's Program	14.228			
Senior Center - Planning		PL-02-039	30,000	-
Senior Center - Construction		CF-06-218	-	374,646
			<u>30,000</u>	<u>374,646</u>
Total for federal grantor agency			<u>30,000</u>	<u>374,646</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Direct Grant				
Airport Improvement Program	20.106			
2005 Program		3-18-0064-05	17,669	37,401
2006 Program		3-18-0064-06	-	144,579
			<u>17,669</u>	<u>181,980</u>
Total for federal grantor agency			<u>17,669</u>	<u>181,980</u>
Total federal awards expended			<u>\$ 78,987</u>	<u>\$ 556,626</u>

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

TOWN OF PAOLI
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

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

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

TOWN OF PAOLI
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?	yes
Reportable conditions identified that are not considered to be material weaknesses?	none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program

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.

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

Section III – Federal Award Findings and Questioned Costs

FINDING 2007-1, EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
CFDA Number: 14.228
Federal Award Number: CF-06-218
Pass-Through Entity: Indiana Office of Community and Rural Affairs

In gaining an understanding of the internal control system the Town has in place for the major federal program, we noted the Town does not maintain sufficient detailed records of capital assets for Town owned capital assets. Not all audit period capital asset transactions were recorded by the Town. Deletions and disposals of capital assets were not recorded. Additionally, inventories of capital assets were not taken by all departments so that capital assets on hand can be reconciled to the capital asset ledger.

The U.S. Department of Housing and Urban Development Code of Federal Regulations, 24CFR85.32, requires that grantees maintain equipment records, take a physical inventory at least every two years, design an appropriate control system to safeguard equipment, and adequately maintain all equipment.

Failure to maintain adequate capital asset records and to conduct inventories of capital assets may result in property and equipment being lost, stolen, or otherwise misappropriated without detection.

We recommended the Town properly maintain capital asset records as required by the Accounting and Uniform Compliance Guidelines Manual for Cities and Towns and the Code of Federal Regulations.

TOWN OF PAOLI

110 North Gospel Street
Paoli, Indiana 47454
Phone: 812-723-2739
Fax: 812-723-5834

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Numbers 2005-1 and 2005-2

Original SBA Audit Report Number:

B29832

Audit Period:

January 1, 2004 to December 31, 2005

Auditee Contact Person:

Carolyn N. Clements

Title of Contact Person:

Clerk-Treasurer

Phone Number:

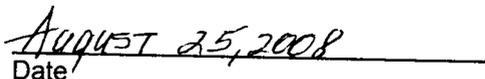
(812) 723-2739

Status of Finding:

Corrective action is not complete. The Town is in the process of contracting with an outside service to update the Town's capital asset records.



Carolyn N. Clements
Clerk-Treasurer


Date

CLERK-TREASURER
Carolyn N. Clements

- 4 6 -
TOWN COUNCIL
William E. Windhorst, President
Robert L. Gilliatt, Mark A. Jones, Carl P. Rutherford, Alva L. Sibbitt, Jr.

SUPERVISOR OF UTILITIES
Mike Compton

TOWN OF PAOLI

110 North Gospel Street
Paoli, Indiana 47454
Phone: 812-723-2739
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CORRECTIVE ACTION PLAN

The following information relates to:

FINDING 2007-1, EQUIPMENT AND REAL PROPERTY MANAGEMENT (CFDA 14.228)

Capital Asset Records:

The Town is in the process of contracting with an outside service to update the Town's capital asset records.

Estimated Completion Date:

June 2009



Carolyn N. Clements
Clerk-Treasurer



Date

CLERK-TREASURER
Carolyn N. Clements

- 47 -
TOWN COUNCIL
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Robert L. Gilliatt, Mark A. Jones, Carl P. Rutherford, Alva L. Sibbitt, Jr.

SUPERVISOR OF UTILITIES
Mike Compton

TOWN OF PAOLI
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2008, with Carolyn N. Clements, Clerk-Treasurer. The official response has been made a part of this report and may be found on pages 49 and 50.

TOWN OF PAOLI

110 North Gospel Street
Paoli, Indiana 47454
Phone: 812-723-2739
Fax: 812-723-5834

September 6, 2008

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, IN 46204-2765

In Re: Official Response

Dear Sir or Madam:

Please find my response to the three audit results and comments following our recent audit.

Annual Report

Our 2006 annual report was completed timely and mailed to the Census Bureau. About three months prior to the auditors being on site, a local resident attending Sullivan Jr. Business College requested a copy of our last annual report for a requirement in her accounting class on local government funding. After giving her a copy of the report I have not been able to find my copy. In the future this report will be generated by our computer and will be mailed timely to both the Census Bureau and State Board of Accounts.

Timely Recordkeeping

This office has been trying to get our three utilities on our computer system for sometime. We ceased the manual posting in 2007, thinking all reports could be computer generated. Trouble with our general ledger program caused us a delay, therefore our annual report and utility ledger reports were not completed until July of 2008. Now having our budget and general ledger program up and running, our records and reports will be generated daily. I must call to your attention at no time did this office fail to have accurate and up-to-date records on all budget and fund accounts, including the three utilities.

Capital Asset Records

Our capital asset records have not been maintained in acceptable status. At our last council meeting I received permission to contact T. M. Wells Valuation Service of Huntingburg, IN for a quote on his services to list our capital assets. Mr. Wells recently completed a capital asset record for the Town of Orleans and comes recommended by the

CLERK-TREASURER
Carolyn N. Clements

TOWN COUNCIL
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SUPERVISOR OF UTILITIES
Mike Compton

State Board of Accounts. Mr. Wells will be on site next week to access our assets and furnish this office with a quote. In the future assets will be recorded and deleted as they occur once we obtain an accurate capital assets record.

Sincerely,

Town of Paoli,


Carolyn N Clements