

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

AUDIT REPORT

OF

TOWN OF AVILLA

NOBLE COUNTY, INDIANA

January 1, 2007 to December 31, 2008



FILED
11/05/2009

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Nancy Fischer	01-01-04 to 12-31-11
President of the Town Council	Paul Shepherd	01-01-07 to 12-31-09
Superintendent of Utilities	Don Papai	01-01-07 to 06-30-08
	Vacant	07-01-08 to 07-31-08
	Jeff Notestine	08-01-08 to 01-31-09
	Vacant	02-01-09 to 03-31-09
	Brian Carroll	04-01-09 to 12-31-09



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 AVILLA, NOBLE 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 Avilla (Town), as of and for the years ended December 31, 2007 and 2008, 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, 2007 and 2008, 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 September 29, 2009, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S.

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

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

STATE BOARD OF ACCOUNTS

September 29, 2009



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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 AVILLA, NOBLE 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 Avilla (Town), as of and for the years ended December 31, 2007 and 2008, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Finding 2008-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider the deficiencies described in Finding 2008-1 to be material weaknesses.

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

STATE BOARD OF ACCOUNTS

September 29, 2009

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

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 348,103	\$ 3,884	\$ -	\$ -	\$ (344,219)	\$ -	\$ (344,219)
Public safety	330,653	15,406	7,422	-	(307,825)	-	(307,825)
Highways and streets	733,731	-	2,833	-	(730,898)	-	(730,898)
Economic development	20,000	-	-	-	(20,000)	-	(20,000)
Culture and recreation	40,506	2,655	-	-	(37,851)	-	(37,851)
Interest on long-term debt	150	-	-	-	(150)	-	(150)
Total governmental activities	<u>1,473,143</u>	<u>21,945</u>	<u>10,255</u>	<u>-</u>	<u>(1,440,943)</u>	<u>-</u>	<u>(1,440,943)</u>
Business-type activities:							
Water	255,040	246,472	-	-	-	(8,568)	(8,568)
Wastewater	1,724,118	518,292	-	257,557	-	(948,269)	(948,269)
Electric	3,343,077	2,448,507	-	-	-	(894,570)	(894,570)
Total business-type activities	<u>5,322,235</u>	<u>3,213,271</u>	<u>-</u>	<u>257,557</u>	<u>-</u>	<u>(1,851,407)</u>	<u>(1,851,407)</u>
Total primary government	<u>\$ 6,795,378</u>	<u>\$ 3,235,216</u>	<u>\$ 10,255</u>	<u>\$ 257,557</u>	<u>(1,440,943)</u>	<u>(1,851,407)</u>	<u>(3,292,350)</u>
General receipts:							
Property taxes					968,514	-	968,514
Intergovernmental					424,454	-	424,454
Other local sources					6,770	-	6,770
Bonds and loans proceeds					-	3,108,424	3,108,424
Unrestricted investment earnings					5,527	57,507	63,034
Other receipts					34,214	26,199	60,413
Transfers					(209,501)	209,501	-
Total general receipts and transfers					<u>1,229,978</u>	<u>3,401,631</u>	<u>4,631,609</u>
Change in net assets					(210,965)	1,550,224	1,339,259
Net assets - beginning					<u>1,645,684</u>	<u>3,551,410</u>	<u>5,197,094</u>
Net assets - ending					<u>\$ 1,434,719</u>	<u>\$ 5,101,634</u>	<u>\$ 6,536,353</u>
<u>Assets</u>							
Cash and investments					\$ 55,742	\$ 1,327,141	\$ 1,382,883
Restricted assets:							
Cash and investments					<u>1,378,977</u>	<u>3,774,493</u>	<u>5,153,470</u>
Total assets					<u>\$ 1,434,719</u>	<u>\$ 5,101,634</u>	<u>\$ 6,536,353</u>
<u>Net Assets</u>							
Restricted for:							
Public safety					\$ 65,928	\$ -	\$ 65,928
Highways and streets					289,286	-	289,286
Culture and recreation					65,448	-	65,448
Debt service					-	1,297,766	1,297,766
Capital outlay					-	2,392,361	2,392,361
Other purposes					958,315	84,366	1,042,681
Unrestricted					<u>55,742</u>	<u>1,327,141</u>	<u>1,382,883</u>
Total net assets					<u>\$ 1,434,719</u>	<u>\$ 5,101,634</u>	<u>\$ 6,536,353</u>

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

TOWN OF AVILLA
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	Motor Vehicle Highway	TIF	CEDIT	Other Governmental Funds	Totals
Receipts:						
Taxes	\$ 356,012	\$ 175,113	\$ 334,657	\$ -	\$ 102,732	\$ 968,514
Licenses and permits	5,344	-	-	-	722	6,066
Intergovernmental	219,998	81,695	-	79,243	53,773	434,709
Charges for services	11,384	-	-	-	10,561	21,945
Fines and forfeits	704	-	-	-	-	704
Other	12,844	6,068	-	1,259	19,570	39,741
Total receipts	606,286	262,876	334,657	80,502	187,358	1,471,679
Disbursements:						
General government	321,399	-	-	-	26,704	348,103
Public safety	298,756	-	-	-	11,897	310,653
Highways and streets	-	125,297	-	-	-	125,297
Culture and recreation	-	-	-	-	40,506	40,506
Urban redevelopment and housing	-	-	-	20,000	-	20,000
Debt service:						
Principal	3,570	-	-	-	16,430	20,000
Interest	150	-	-	-	-	150
Capital outlay:						
Highways and streets	31,945	15,593	559,242	-	1,654	608,434
Total disbursements	655,820	140,890	559,242	20,000	97,191	1,473,143
Excess (deficiency) of receipts over disbursements	(49,534)	121,986	(224,585)	60,502	90,167	(1,464)
Other financing sources (uses):						
Temporary loan proceeds	200,000	-	-	(200,000)	-	-
Temporary loan repayment	(200,000)	-	-	200,000	-	-
Transfers in	25,468	-	-	-	285	25,753
Transfers out	-	-	(209,500)	-	(25,754)	(235,254)
Total other financing sources (uses)	25,468	-	(209,500)	-	(25,469)	(209,501)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(24,066)	121,986	(434,085)	60,502	64,698	(210,965)
Cash and investment fund balance - beginning	67,957	141,212	896,449	286,349	253,717	1,645,684
Cash and investment fund balance - ending	\$ 43,891	\$ 263,198	\$ 462,364	\$ 346,851	\$ 318,415	\$ 1,434,719
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ 43,891	\$ -	\$ -	\$ -	\$ 11,851	\$ 55,742
Restricted assets:						
Cash and investments	-	263,198	462,364	346,851	306,564	1,378,977
Total cash and investment assets - December 31	\$ 43,891	\$ 263,198	\$ 462,364	\$ 346,851	\$ 318,415	\$ 1,434,719
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 65,928	\$ 65,928
Highways and street	-	263,198	-	-	26,088	289,286
Culture and recreation	-	-	-	-	65,448	65,448
Other purposes	-	-	462,364	346,851	149,100	958,315
Unrestricted	43,891	-	-	-	11,851	55,742
Total cash and investment fund balance - December 31	\$ 43,891	\$ 263,198	\$ 462,364	\$ 346,851	\$ 318,415	\$ 1,434,719

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

TOWN OF AVILLA
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:				
Metered revenue	\$ 222,822	\$ 512,159	\$ 2,405,692	\$ 3,140,673
Public street and highway lighting	-	-	27,462	27,462
Fire protection receipts	18,122	-	-	18,122
Other	5,528	6,133	15,353	27,014
	<u>246,472</u>	<u>518,292</u>	<u>2,448,507</u>	<u>3,213,271</u>
Total operating receipts				
Operating disbursements:				
Equipment and capital improvements	17,671	1,243,627	961,072	2,222,370
Salaries and wages	56,488	62,561	72,282	191,331
Employee pensions and benefits	25,279	26,024	28,476	79,779
Purchased water	-	1,386	-	1,386
Purchased power	26,936	38,317	1,911,224	1,976,477
Chemicals	2,098	3,668	-	5,766
Material and supplies	13,160	21,505	30,671	65,336
Contractual services	8,654	75,393	74,666	158,713
Insurance disbursements	5,970	5,523	6,326	17,819
Miscellaneous disbursements	44,642	43,128	110,129	197,899
	<u>200,898</u>	<u>1,521,132</u>	<u>3,194,846</u>	<u>4,916,876</u>
Total operating disbursements				
Excess (deficiency) of operating receipts over operating disbursements	45,574	(1,002,840)	(746,339)	(1,703,605)
Nonoperating receipts (disbursements):				
Bond proceeds	-	-	2,122,355	2,122,355
Loan proceeds	-	986,069	-	986,069
Interest and investment receipts	2,761	7,755	46,991	57,507
Miscellaneous receipts	2,540	2,605	21,054	26,199
Debt service of principal	(30,000)	(111,000)	-	(141,000)
Interest and investment disbursement	(21,632)	(89,476)	(134,466)	(245,574)
Miscellaneous disbursements	(2,510)	(2,510)	(13,765)	(18,785)
	<u>(48,841)</u>	<u>793,443</u>	<u>2,042,169</u>	<u>2,786,771</u>
Total nonoperating receipts (disbursements)				
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(3,267)	(209,397)	1,295,830	1,083,166
Capital contributions	-	257,557	-	257,557
Transfers in	19,500	190,001	-	209,501
Excess of receipts, contributions and transfers in over disbursements and transfers out	16,233	238,161	1,295,830	1,550,224
Cash and investment fund balance - beginning	<u>724,070</u>	<u>599,938</u>	<u>2,227,402</u>	<u>3,551,410</u>
Cash and investment fund balance - ending	<u>\$ 740,303</u>	<u>\$ 838,099</u>	<u>\$ 3,523,232</u>	<u>\$ 5,101,634</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 95,722	\$ 284,857	\$ 946,562	\$ 1,327,141
Restricted assets:				
Cash and investments	644,581	553,242	2,576,670	3,774,493
Total cash and investment assets - December 31	<u>\$ 740,303</u>	<u>\$ 838,099</u>	<u>\$ 3,523,232</u>	<u>\$ 5,101,634</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 286,043	\$ 542,106	\$ 469,617	\$ 1,297,766
Capital outlay	346,311	-	2,046,050	2,392,361
Other purposes	12,227	11,136	61,003	84,366
Unrestricted	95,722	284,857	946,562	1,327,141
Total cash and investment fund balance - December 31	<u>\$ 740,303</u>	<u>\$ 838,099</u>	<u>\$ 3,523,232</u>	<u>\$ 5,101,634</u>

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

TOWN OF AVILLA
STATEMENT OF NET ASSETS - CASH AND INVESTMENT BALANCES
FIDUCIARY FUND
For The Year Ended December 31, 2007

	<u>Agency Fund</u>
Total net assets	<u>\$ 24,627</u>

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

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

Functions/Programs	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Capital Grants and Contributions	Primary Government		Totals
				Governmental Activities	Business-Type Activities	
Primary government:						
Governmental activities:						
General government	\$ 217,571	\$ -	\$ -	\$ (217,571)	\$ -	\$ (217,571)
Public safety	476,096	15,636	-	(460,460)	-	(460,460)
Highways and streets	693,428	4,269	-	(689,159)	-	(689,159)
Culture and recreation	39,371	4,170	-	(35,201)	-	(35,201)
Total governmental activities	1,426,466	24,075	-	(1,402,391)	-	(1,402,391)
Business-type activities:						
Water	275,413	240,568	-	-	(34,845)	(34,845)
Wastewater	2,214,203	523,604	242,443	-	(1,448,156)	(1,448,156)
Electric	3,566,351	2,391,913	-	-	(1,174,438)	(1,174,438)
Total business-type activities	6,055,967	3,156,085	242,443	-	(2,657,439)	(2,657,439)
Total primary government	\$ 7,482,433	\$ 3,180,160	\$ 242,443	(1,402,391)	(2,657,439)	(4,059,830)
General receipts:						
Property taxes				1,117,649	-	1,117,649
Intergovernmental				396,095	-	396,095
Other local sources				5,278	-	5,278
Bonds and loans				-	1,412,110	1,412,110
Unrestricted investment earnings				3,791	59,399	63,190
Other receipts				19,915	24,385	44,300
Transfers				(209,500)	209,500	-
Total general receipts and transfers				1,333,228	1,705,394	3,038,622
Change in net assets				(69,163)	(952,045)	(1,021,208)
Net assets - beginning				1,434,719	5,101,634	6,536,353
Net assets - ending				\$ 1,365,556	\$ 4,149,589	\$ 5,515,145
<u>Assets</u>						
Cash and investments				\$ 174,530	\$ 2,193,850	\$ 2,368,380
Restricted assets:						
Cash and investments				1,191,026	1,955,740	3,146,766
Total assets				\$ 1,365,556	\$ 4,149,590	\$ 5,515,146
<u>Net Assets</u>						
Restricted for:						
Public safety				\$ 86,588	\$ -	\$ 86,588
Highways and streets				115,033	-	115,033
Culture and recreation				52,406	-	52,406
Debt service				-	1,202,463	1,202,463
Capital outlay				-	666,968	666,968
Other purposes				936,999	86,308	1,023,307
Unrestricted				174,530	2,193,850	2,368,380
Total net assets				\$ 1,365,556	\$ 4,149,589	\$ 5,515,145

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

TOWN OF AVILLA
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2008

	General	Motor Vehicle Highway	TIF	CEDIT	Other Governmental Funds	Totals
Receipts:						
Taxes	\$ 545,670	\$ 32,804	\$ 499,787	\$ -	\$ 39,388	\$ 1,117,649
Licenses and permits	3,459	-	-	-	1,110	4,569
Intergovernmental	219,847	62,365	-	81,273	32,610	396,095
Charges for services	7,500	-	-	4,269	12,306	24,075
Fines and forfeits	709	-	-	-	-	709
Other	3,561	7,166	-	-	12,979	23,706
Total receipts	780,746	102,335	499,787	85,542	98,393	1,566,803
Disbursements:						
General government	212,651	-	-	-	4,920	217,571
Public safety	459,710	-	-	-	16,386	476,096
Highways and streets	-	161,093	-	-	-	161,093
Culture and recreation	-	-	-	-	39,371	39,371
Capital outlay:						
Highways and streets	-	100,000	343,181	33,464	55,690	532,335
Total disbursements	672,361	261,093	343,181	33,464	116,367	1,426,466
Excess (deficiency) of receipts over disbursements	108,385	(158,758)	156,606	52,078	(17,974)	140,337
Other financing sources (uses):						
Transfers out	-	-	(209,500)	-	-	(209,500)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	108,385	(158,758)	(52,894)	52,078	(17,974)	(69,163)
Cash and investment fund balance - beginning	43,891	263,198	462,364	346,851	318,415	1,434,719
Cash and investment fund balance - ending	\$ 152,276	\$ 104,440	\$ 409,470	\$ 398,929	\$ 300,441	\$ 1,365,556
Cash and Investment Assets - December 31						
Cash and investments	\$ 152,276	\$ -	\$ -	\$ -	\$ 22,254	\$ 174,530
Restricted assets:						
Cash and investments	-	104,440	409,470	398,929	278,187	1,191,026
Total cash and investment assets - December 31	\$ 152,276	\$ 104,440	\$ 409,470	\$ 398,929	\$ 300,441	\$ 1,365,556
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 86,588	\$ 86,588
Highways and streets	-	104,440	-	-	10,593	115,033
Culture and recreation	-	-	-	-	52,406	52,406
Other purposes	-	-	409,470	398,929	128,600	936,999
Unrestricted	152,276	-	-	-	22,254	174,530
Total cash and investment fund balance - December 31	\$ 152,276	\$ 104,440	\$ 409,470	\$ 398,929	\$ 300,441	\$ 1,365,556

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

TOWN OF AVILLA
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, 2008

	Water Utility	Wastewater Utility	Electric Utility	Totals
Operating receipts:				
Metered revenue	\$ 219,606	\$ 518,476	\$ 2,345,699	\$ 3,083,781
Public street and highway lighting	-	-	27,462	27,462
Fire protection receipts	18,122	-	-	18,122
Other	2,840	5,128	18,752	26,720
	<u>240,568</u>	<u>523,604</u>	<u>2,391,913</u>	<u>3,156,085</u>
Total operating receipts				
Operating disbursements:				
Equipment and capital improvements	25,471	1,654,553	1,088,801	2,768,825
Salaries and wages	59,347	83,833	75,432	218,612
Employee pensions and benefits	27,865	32,957	37,513	98,335
Purchased water	-	1,396	65,118	66,514
Purchased power	25,523	44,853	1,827,775	1,898,151
Chemicals	783	5,388	-	6,171
Material and supplies	9,666	21,346	1,950	32,962
Contractual services	14,812	30,418	16,950	62,180
Transportation disbursements	9,863	35,249	7,976	53,088
Insurance disbursements	7,721	7,044	6,925	21,690
Miscellaneous disbursements	37,527	368	173,092	210,987
	<u>218,578</u>	<u>1,917,405</u>	<u>3,301,532</u>	<u>5,437,515</u>
Total operating disbursements				
Excess (deficiency) of operating receipts over operating disbursements	<u>21,990</u>	<u>(1,393,801)</u>	<u>(909,619)</u>	<u>(2,281,430)</u>
Nonoperating receipts (disbursements):				
Loan proceeds	-	1,412,110	-	1,412,110
Interest and investment receipts	1,856	8,097	49,446	59,399
Miscellaneous receipts	2,430	2,455	19,500	24,385
Debt service of principal	(30,000)	(162,000)	(95,000)	(287,000)
Interest and investment disbursement	(24,637)	(132,484)	(155,873)	(312,994)
Miscellaneous disbursements	(2,198)	(2,314)	(13,946)	(18,458)
	<u>(52,549)</u>	<u>1,125,864</u>	<u>(195,873)</u>	<u>877,442</u>
Total nonoperating receipts (disbursements)				
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(30,559)	(267,937)	(1,105,492)	(1,403,988)
Capital contributions	-	242,443	-	242,443
Transfers in	19,500	190,000	-	209,500
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(11,059)	164,506	(1,105,492)	(952,045)
Cash and investment fund balance - beginning	<u>740,303</u>	<u>838,099</u>	<u>3,523,232</u>	<u>5,101,634</u>
Cash and investment fund balance - ending	<u>\$ 729,244</u>	<u>\$ 1,002,605</u>	<u>\$ 2,417,740</u>	<u>\$ 4,149,589</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 118,153	\$ 494,906	\$ 1,580,791	\$ 2,193,850
Restricted assets:				
Cash and investments	611,091	507,699	836,949	1,955,739
Total cash and investment assets - December 31	<u>\$ 729,244</u>	<u>\$ 1,002,605</u>	<u>\$ 2,417,740</u>	<u>\$ 4,149,589</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 277,791	\$ 496,422	\$ 428,250	\$ 1,202,463
Capital outlay	320,840	-	346,128	666,968
Other purposes	12,460	11,277	62,571	86,308
Unrestricted	118,153	494,906	1,580,791	2,193,850
Total cash and investment fund balance - December 31	<u>\$ 729,244</u>	<u>\$ 1,002,605</u>	<u>\$ 2,417,740</u>	<u>\$ 4,149,589</u>

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

TOWN OF AVILLA
STATEMENT OF NET ASSETS - CASH AND INVESTMENT BALANCES
FIDUCIARY FUND
For The Year Ended December 31, 2008

	<u>Agency Fund</u>
Total net assets	<u>\$ 16,611</u>

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

TOWN OF AVILLA
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 services.

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

Primary Government: Town of Avilla

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

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

The motor vehicle highway fund (special revenue) accounts for the financial resources used for the construction, operation, and maintenance of local arterial roads and street system.

The tif fund (capital projects) accounts for the Town's use of tax increment financing revenues.

The cedit fund (capital projects) accounts for the Town's use of economic development income tax revenues.

TOWN OF AVILLA
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 types:

Agency funds account for assets held by the Town as an agent for payroll withholdings.

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 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 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.

TOWN OF AVILLA
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Property Taxes

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

3. 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.

4. 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.

5. 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.

TOWN OF AVILLA
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

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

TOWN OF AVILLA
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Stewardship, Compliance and Accountability

A. 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.

B. Disbursements in Excess of Appropriations

For the years ended December 31, 2007 and 2008, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2007	2008
Local Road and Street	\$ -	\$ 13,690
Cumulative Capital Improvement	-	16,190
Rainy Day	22,792	4,920
Totals	\$ 22,792	\$ 34,800

These disbursements were funded by available cash in the funds.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to

TOWN OF AVILLA
NOTES TO FINANCIAL STATEMENTS
(Continued)

receive public funds of the political subdivision. The Town does not have a deposit policy for custodial credit risk. At December 31, 2008, the Town had deposit balances in the amount of \$5,531,756. 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, 2007 and 2008, were as follows:

Transfer From	Transfer To	2007	2008
TIF	Water Utility Fund	\$ 19,500	\$ 19,500
	Wastewater Utility Fund	190,000	190,000
Other governmental funds	General Fund	25,468	-
	Wastewater Utility Fund	1	-
	Other governmental funds	285	-
Totals		<u>\$ 235,254</u>	<u>\$ 209,500</u>

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

IV. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from 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 2000, the Town joined with other governmental entities in the Indiana Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The Town pays an annual premium to the risk pool for its workers' compensation 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. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

TOWN OF AVILLA
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Rate Structure – Enterprise Funds

Water Utility

On June 8, 1994, the Town Council adopted Ordinance No. 1307-6-94 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Town Council on March 21, 1995.

Wastewater Utility

The current rate structure was approved by the Town Council on May 11, 2005.

Electric Utility

On June 8, 1994, the Town Council adopted Ordinance No. 1307-6-94 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Town Council on July 20, 2007.

C. Pension Plan

Agent Multiple-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

TOWN OF AVILLA
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The 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	\$ 30,343
Interest on net pension obligation	(1,321)
Adjustment to annual required contribution	1,506
Annual pension cost	30,528
Contributions made	30,508
Increase (decrease) in net pension obligation	20
Net pension obligation, beginning of year	(18,226)
Net pension obligation, end of year	\$ (18,206)

	PERF
Contribution rates:	
Town	7.25%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

<u>Actuarial Assumptions</u>	PERF
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 AVILLA
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	06-30-06	\$ 23,171	141%	\$ (28,090)
	06-30-07	41,249	76%	(18,226)
	06-30-08	30,528	100%	(18,206)

TOWN OF AVILLA
 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)
07-01-06	\$ 295,573	\$ 402,466	\$ (106,893)	73%	\$ 587,463	(18%)
07-01-07	299,682	361,498	(61,816)	83%	438,917	(14%)
07-01-08	332,270	396,071	(63,801)	84%	533,864	(12%)

TOWN OF AVILLA
 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

	Local Road and Street	Park and Recreation	LECE	Park Donation	Fire Donation	Drug Free Indiana
Receipts:						
Taxes	\$ -	\$ 82,365	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	722	-	-	-
Intergovernmental	11,023	730	-	-	-	-
Charges for services	-	2,655	406	-	-	-
Other	-	-	1,318	1,000	-	-
Total receipts	11,023	85,750	2,446	1,000	-	-
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	-	1,682	-	100	-
Culture and recreation	-	40,506	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Capital outlay:						
Highways and streets	-	-	-	-	-	-
Total disbursements	-	40,506	1,682	-	100	-
Excess (deficiency) of receipts over disbursements	11,023	45,244	764	1,000	(100)	-
Other financing sources (uses):						
Payment of interfund loans	-	(30,000)	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(223)
Total other financing sources (uses)	-	(30,000)	-	-	-	(223)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	11,023	15,244	764	1,000	(100)	(223)
Cash and investment fund balance - beginning	15,065	42,576	1,805	6,378	397	223
Cash and investment fund balance - ending	\$ 26,088	\$ 57,820	\$ 2,569	\$ 7,378	\$ 297	\$ -
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	26,088	57,820	2,569	7,378	297	-
Total cash and investment assets - December 31	\$ 26,088	\$ 57,820	\$ 2,569	\$ 7,378	\$ 297	\$ -
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ -	\$ 2,569	\$ -	\$ 297	\$ -
Highways and streets	26,088	-	-	-	-	-
Culture and recreation	-	57,820	-	7,378	-	-
Other purposes	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ 26,088	\$ 57,820	\$ 2,569	\$ 7,378	\$ 297	\$ -

TOWN OF AVILLA
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2008
 (Continued)

	Criminal Justice COPS Grant	Infrastructure Revolving Loan	Sewer and Water Revolving Loan	Levy Excess	Cumulative Capital Improvement	Cumulative Fire
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,367
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	7,197	180
Charges for services	-	-	-	-	-	7,500
Other	-	-	3,507	-	-	-
Total receipts	-	-	3,507	-	7,197	28,047
Disbursements:						
General government	-	-	70	3,842	-	-
Public safety	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	16,430
Capital outlay:						
Highways and streets	-	-	-	-	1,654	-
Total disbursements	-	-	70	3,842	1,654	16,430
Excess (deficiency) of receipts over disbursements	-	-	3,437	(3,842)	5,543	11,617
Other financing sources (uses):						
Payment of interfund loans	-	-	30,000	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	(62)	(1)	-	-	-	-
Total other financing sources (uses)	(62)	(1)	30,000	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(62)	(1)	33,437	(3,842)	5,543	11,617
Cash and investment fund balance - beginning	62	1	78,433	3,842	25,266	44,767
Cash and investment fund balance - ending	\$ -	\$ -	\$ 111,870	\$ -	\$ 30,809	\$ 56,384
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	-	-	111,870	-	30,809	56,384
Total cash and investment assets - December 31	\$ -	\$ -	\$ 111,870	\$ -	\$ 30,809	\$ 56,384
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,384
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Other purposes	-	-	111,870	-	30,809	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ -	\$ -	\$ 111,870	\$ -	\$ 30,809	\$ 56,384

TOWN OF AVILLA
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2008
 (Continued)

	Cumulative Sewer	Build Indiana Grant	Avilla Park Improvement	Police Donation	Rainy Day	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 102,732
Licenses and permits	-	-	-	-	-	722
Intergovernmental	-	-	-	-	34,643	53,773
Charges for services	-	-	-	-	-	10,561
Other	-	-	250	13,495	-	19,570
Total receipts	-	-	250	13,495	34,643	187,358
Disbursements:						
General government	-	-	-	-	22,792	26,704
Public safety	-	-	-	10,115	-	11,897
Culture and recreation	-	-	-	-	-	40,506
Debt service:						
Principal	-	-	-	-	-	16,430
Capital outlay:						
Highways and streets	-	-	-	-	-	1,654
Total disbursements	-	-	-	10,115	22,792	97,191
Excess (deficiency) of receipts over disbursements	-	-	250	3,380	11,851	90,167
Other financing sources (uses):						
Payment of interfund loans	-	-	-	-	-	-
Transfers in	-	-	-	285	-	285
Transfers out	-	(25,468)	-	-	-	(25,754)
Total other financing sources (uses)	-	(25,468)	-	285	-	(25,469)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(25,468)	250	3,665	11,851	64,698
Cash and investment fund balance - beginning	6,421	25,468	-	3,013	-	253,717
Cash and investment fund balance - ending	\$ 6,421	\$ -	\$ 250	\$ 6,678	\$ 11,851	\$ 318,415
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 11,851	\$ 11,851
Restricted assets:						
Cash and investments	6,421	-	250	6,678	-	306,564
Total cash and investment assets - December 31	\$ 6,421	\$ -	\$ 250	\$ 6,678	\$ 11,851	\$ 318,415
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ 6,678	\$ -	\$ 65,928
Highways and streets	-	-	-	-	-	26,088
Culture and recreation	-	-	250	-	-	65,448
Other purposes	6,421	-	-	-	-	149,100
Unrestricted	-	-	-	-	11,851	11,851
Total cash and investment fund balance - December 31	\$ 6,421	\$ -	\$ 250	\$ 6,678	\$ 11,851	\$ 318,415

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

	Payroll
Additions:	
Agency fund additions	\$ 655,439
Deductions:	
Agency fund deductions	645,422
Excess of total additions over total deductions	10,017
Cash and investment fund balance - beginning	14,610
Cash and investment fund balance - ending	\$ 24,627

TOWN OF AVILLA
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2008

	Local Road and Street	Park and Recreation	LECE	Park Donation	Fire Donation	Sewer and Water Revolving Loan	Cumulative Capital Improvement
Receipts:							
Taxes	\$ -	\$ 20,922	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	1,110	-	-	-	-
Intergovernmental	10,195	237	-	-	-	-	6,663
Charges for services	-	4,170	636	-	-	-	-
Other	-	-	-	-	-	2,837	-
Total receipts	10,195	25,329	1,746	-	-	2,837	6,663
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	-	-	1,375	-	100	-	-
Culture and recreation	-	34,371	-	5,000	-	-	-
Capital outlay:							
Highways and streets	25,690	-	-	-	-	-	30,000
Total disbursements	25,690	34,371	1,375	5,000	100	-	30,000
Excess (deficiency) of receipts over disbursements	(15,495)	(9,042)	371	(5,000)	(100)	2,837	(23,337)
Cash and investment fund balance - beginning	26,088	57,820	2,569	7,378	297	111,870	30,809
Cash and investment fund balance - ending	\$ 10,593	\$ 48,778	\$ 2,940	\$ 2,378	\$ 197	\$ 114,707	\$ 7,472
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	10,593	48,778	2,940	2,378	197	114,707	7,472
Total cash and investment assets - December 31	\$ 10,593	\$ 48,778	\$ 2,940	\$ 2,378	\$ 197	\$ 114,707	\$ 7,472
Cash and Investment Fund Balance - December 31							
Restricted for:							
Public safety	\$ -	\$ -	\$ 2,940	\$ -	\$ 197	\$ -	\$ -
Highways and streets	10,593	-	-	-	-	-	-
Culture and recreation	-	48,778	-	2,378	-	-	-
Other purposes	-	-	-	-	-	114,707	7,472
Unrestricted	-	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ 10,593	\$ 48,778	\$ 2,940	\$ 2,378	\$ 197	\$ 114,707	\$ 7,472

TOWN OF AVILLA
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2008
 (Continued)

	Cumulative Fire	Cumulative Sewer	Avilla Park Improvement	Police Donation	Rainy Day	Totals
Receipts:						
Taxes	\$ 18,466	\$ -	\$ -	\$ -	\$ -	\$ 39,388
Licenses and permits	-	-	-	-	-	1,110
Intergovernmental	192	-	-	-	15,323	32,610
Charges for services	7,500	-	-	-	-	12,306
Other	-	-	1,000	9,142	-	12,979
Total receipts	26,158	-	1,000	9,142	15,323	98,393
Disbursements:						
General government	-	-	-	-	4,920	4,920
Public safety	5,021	-	-	9,890	-	16,386
Culture and recreation	-	-	-	-	-	39,371
Capital outlay:						
Highways and streets	-	-	-	-	-	55,690
Total disbursements	5,021	-	-	9,890	4,920	116,367
Excess (deficiency) of receipts over disbursements	21,137	-	1,000	(748)	10,403	(17,974)
Cash and investment fund balance - beginning	56,384	6,421	250	6,678	11,851	318,415
Cash and investment fund balance - ending	\$ 77,521	\$ 6,421	\$ 1,250	\$ 5,930	\$ 22,254	\$ 300,441
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 22,254	\$ 22,254
Restricted assets:						
Cash and investments	77,521	6,421	1,250	5,930	-	278,187
Total cash and investment assets - December 31	\$ 77,521	\$ 6,421	\$ 1,250	\$ 5,930	\$ 22,254	\$ 300,441
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Public safety	\$ 77,521	\$ -	\$ -	\$ 5,930	\$ -	\$ 86,588
Highways and streets	-	-	-	-	-	10,593
Culture and recreation	-	-	1,250	-	-	52,406
Other purposes	-	6,421	-	-	-	128,600
Unrestricted	-	-	-	-	22,254	22,254
Total cash and investment fund balance - December 31	\$ 77,521	\$ 6,421	\$ 1,250	\$ 5,930	\$ 22,254	\$ 300,441

TOWN OF AVILLA
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUND
 For The Year Ended December 31, 2008

	Payroll
Additions:	
Agency fund additions	\$ 680,841
Deductions:	
Agency fund deductions	688,857
Deficiency of total additions over total deductions	(8,016)
Cash and investment fund balance - beginning	24,627
Cash and investment fund balance - ending	\$ 16,611

TOWN OF AVILLA
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2008

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.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 120,000
Buildings	675,624
Improvements other than buildings	2,042,473
Machinery and equipment	<u>1,010,671</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 3,848,768</u>
<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 24,500
Buildings	849,803
Improvements other than buildings	1,823,405
Machinery and equipment	<u>153,633</u>
Total Water Utility capital assets	<u>2,851,341</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	108,431
Buildings	300,937
Improvements other than buildings	7,618,478
Machinery and equipment	<u>691,686</u>
Total Wastewater Utility capital assets	<u>8,719,532</u>
Electric Utility:	
Capital assets, not being depreciated:	
Land	65,663
Buildings	82,189
Improvements other than buildings	3,536,296
Machinery and equipment	<u>910,119</u>
Total Electric Utility capital assets	<u>4,594,267</u>
Total business-type activities capital assets	<u>\$ 16,165,140</u>

TOWN OF AVILLA
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2008

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 Chief Vehicle	\$ 7,069	\$ 3,796
Utilities Superintendent Vehicle	8,542	5,959
Ford Explorer	<u>11,574</u>	<u>4,414</u>
Total governmental activities debt	<u>\$ 27,185</u>	<u>\$ 14,169</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
Waterworks improvements	\$ 305,000	\$ 52,527
Wastewater Utility:		
State Revolving Fund loans:		
2000 Sewage works improvements	1,879,000	155,173
2006 Sewage works improvements	2,515,000	129,967
Revenue bonds:		
Sewage works improvements	<u>135,000</u>	<u>38,400</u>
Total Wastewater Utility	<u>4,529,000</u>	<u>323,540</u>
Electric Utility:		
Revenue bonds:		
Electric improvements	<u>3,060,000</u>	<u>246,781</u>
Total business-type activities debt	<u>\$ 7,894,000</u>	<u>\$ 622,848</u>

TOWN OF AVILLA
AUDIT RESULTS AND COMMENTS

GUARANTEE DEPOSIT REGISTER

The Guarantee Deposit Register was not reconciled with the Utility Meter Deposit Fund's cash balance for the Water, Wastewater, and Electric Utilities during the audit period. This was noted in prior Reports B26116 and B30752.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY RECEIPTS TAX

Per prior Report B30752, the Water and Electric Utilities did not pay all of the Utility Receipts Tax to the Indiana Department of Revenue for the years of 2005 and 2006. There is no official documentation supporting that the Electric and Water Utilities paid Utility Receipts Tax to the Indiana Department of Revenue for this period of time as required. It was observed that there was a check written in December 2008 for this period, but the check is still outstanding and copies of returns filed were not presented for audit. In addition, there is no documentation supporting filing of quarterly tax due during the current audit period.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to IC 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year 2007</u>	<u>Year 2008</u>
Rainy Day	\$ 22,792	\$ 4,920
Cumulative Capital Improvement	-	16,190
Local Road and Street	-	13,690

IC 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

TOWN OF AVILLA
AUDIT RESULTS AND COMMENTS
(Continued)

PRESCRIBED FORMS

General Form 350 – Register of Investments was not maintained for the purchase of certificates of deposit.

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)

CONDITION OF RECORDS

On April 10, 2007, a certificate of deposit was purchased from Electric Utility Funds and the Sewer and Water Revolving Loan Fund. The purchase from the Electric Utility was recorded as a construction expense and the Sewer and Water Revolving Loan Fund purchase was not recorded in Town's ledgers. The certificate of deposit matured on December 28, 2007, and was deposited into the bank on the same date. The deposit was not posted to the Revenue Detail until January 31, 2008.

Other posting errors included posting receipts and disbursements to the wrong accounts. Also, it was noted that posting to the ledgers was not always timely.

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)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide

TOWN OF AVILLA
AUDIT RESULTS AND COMMENTS
(Continued)

reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

MOTOR VEHICLE HIGHWAY FUND DISBURSEMENTS

The Town paid \$18,122.50 for hydrant rental for 2007 and 2008 from the Motor Vehicle Highway Fund. Since hydrant rental is not an approved use of the Motor Vehicle Highway Fund, the General Fund should pay \$18,122.50 to the Motor Vehicle Highway Fund for reimbursement of those expenses.

Motor Vehicle Highway Distribution - approved uses:

Motor Vehicle Highway Distributions are limited by IC 8-14-1-5 to the following approved uses on city and town highways. IC 8-14-1-1 (c) defines the term "highways" to mean "roadway, rights-of-way, bridges, drainage structures, signs, guard rails, protective structures in connection with highways, drains, culverts and bridges and the substructure and superstructure of bridges and approaches thereto and streets and alleys of cities and towns."

- (1) Construction and reconstruction of streets, alleys and curbs.
- (2) Repair and maintenance of streets, alleys, and curbs.
- (3) Oiling, sprinkling, snow removal, weed and tree cutting and cleaning of streets, alleys and curbs.
- (4) Costs of the separation of the grades of crossing of public highways and railroads.
- (5) Purchase or lease of highway construction and maintenance equipment.
- (6) Purchase, erection, operation and maintenance of traffic signs and signals, and safety zones and devices.
- (7) Painting of structures, objects, surfaces and highways for the purpose of safety and traffic regulations.
- (8) Law enforcement purposes subject to the following limitations:
 - (a) For cities and towns with a population of less than five thousand (5,000) no more than fifteen percent (15%) may be spent for law enforcement purposes.

TOWN OF AVILLA
AUDIT RESULTS AND COMMENTS
(Continued)

(b) For cities or towns other than those specified in (a), no more than ten percent (10%) may be spent for law enforcement purposes.

All motor vehicle highway distributions shall be budgeted and appropriated in the manner required by law.

IC 8-14-1-3 lists the penalty for misapplication of Motor Vehicle Highway Distributions. The statute states in part:

". . . If any funds allocated to any city or town shall be used by any officer or officers of such city or town for any purpose or purposes other than the purposes as defined in this chapter such officer or officers shall be liable upon their official bonds to such city or town in such amount so used for other purposes than for the purposes as defined in this chapter together with the costs of said action and reasonable attorney fees recoverable in an action or suit instituted in the name of the State of Indiana on the relation of any taxpayer or taxpayers resident of such city or town. . . ."

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (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
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF AVILLA, NOBLE COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Avilla (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, 2007 and 2008. 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.

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 years ended December 31, 2007 and 2008.

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.

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

A 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

STATE BOARD OF ACCOUNTS

September 29, 2009

TOWN OF AVILLA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2007 and 2008

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-07	Total Federal Awards Expended 12-31-08
<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 and Non-Entitlement Grants in Hawaii	14.228	CF-06-246	\$ 345,747	\$ 154,253
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Pass-Through Indiana Department of Criminal Justice Edward Byrne Memorial Justice Assistance Grant Program	16.738	06-DJ-041	7,422	-
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Finance Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	WW06435702	691,517	194,290
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-Through Indiana Department of Homeland Security Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	3274	2,833	-
Total federal awards expended			<u>\$ 1,047,519</u>	<u>\$ 348,543</u>

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

TOWN OF AVILLA
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 Avilla (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 AVILLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weaknesses identified? yes
 Significant deficiencies identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

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

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program
14.228	Community Development Block Grants/State's Program
66.458	Capitalization Grants for Clean 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

FINDING 2008-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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

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

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

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF AVILLA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

**TOWN OF AVILLA
P O BOX 49
AVILLA, IN 46710**

Phone: 260/897-2781 Fax: 260/897-2605

September 28, 2009

Indiana State Board of Accounts
Mr. Bruce A. Hartman, CPA
302 West Washington Street
4th Floor, Room E 418
Indianapolis, IN 46204-2765

Dear Mr. Hartman:

The management of the Town Avilla has reviewed the Financial Statement Findings related to their audit for the years 2007 and 2008 and offers the following corrective actions.

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. – The Clerk Treasurer’s Office will review their office procedures and attempt to institute duties that would involve, at least on a sample basis, reviews of the work being performed by each of the office employees. However, the town is a very small governmental unit and management has determined that the cost associated with employing the additional staff necessary to properly segregate the duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current internal control structure used by their business office.
2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement of the Town’s audited financial statements and then determining how those identified risks should be managed. – Town officials will review their office procedures and attempt to institute duties that would involve reviews of the work being performed by each of the office employees. However, the town is a very small governmental unit and management has determined that the cost associated with employing the additional staff necessary to properly segregate the duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current internal control structure used by their business office.

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

Sincerely

A handwritten signature in cursive script that reads "Nancy Fischer".

Nancy Fischer
Clerk Treasurer
Town of Avilla

TOWN OF AVILLA
EXIT CONFERENCE

The contents of this report were discussed on September 29, 2009, with Nancy Fischer, Clerk-Treasurer. The official response has been made a part of this report and may be found on pages 50 and 51.

**TOWN OF AVILLA
P O BOX 49
AVILLA, IN 46710**

Phone: 260/897-2781 Fax: 260/897-2605

September 28, 2009

Indiana State Board of Accounts
Mr. Bruce A. Hartman, CPA
302 West Washington Street
4th Floor, Room E 418
Indianapolis, IN 46204-2765

Dear Mr. Hartman:

The following is a response to the preliminary draft of Audit Results and Comments that were presented as a part of the Town of Avilla audit report for the period of January 1, 2007 to December 31, 2008.

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. – The Clerk Treasurer’s Office will review their office procedures and attempt to institute duties that would involve, at least on a sample basis, reviews of the work being performed by each of the office employees. However, the town is a very small governmental unit and management has determined that the cost associated with employing the additional staff necessary to properly segregate the duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current internal control structure used by their business office.
2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement of the Town’s audited financial statements and then determining how those identified risks should be managed. – Town officials will review their office procedures and attempt to institute duties that would involve reviews of the work being performed by each of the office employees. However, the town is a very small governmental unit and management has determined that the cost associated with employing the additional staff necessary to properly segregate the duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current internal control structure used by their business office.

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

Sincerely



Nancy Fischer
Clerk Treasurer
Town of Avilla