

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF PAOLI
ORANGE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
03/14/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Amy J. Morris	01-01-12 to 12-31-19
President of the Town Council	Mark A. Jones	01-01-14 to 12-31-14
	Michael A. Harkness	01-01-15 to 12-31-15
	William E. Chastain	01-01-16 to 12-31-16
	Carolyn N. Clements	01-01-17 to 12-31-17



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Paoli (Town), which comprises the financial position and results of operations for the year ended December 31, 2014, and the related notes to the financial statement as listed in the Table of Contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the Town prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Town for the year ended December 31, 2014.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the year ended December 31, 2014, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.


Other Information

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2017, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.


Paul D. Joyce, CPA
State Examiner

January 24, 2017



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

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

We have audited, 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, the financial statement of the Town of Paoli (Town), which comprises the financial position and results of operations for the year ended December 31, 2014, and the related notes to the financial statement, and have issued our report thereon dated January 24, 2017, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Town's financial statement is 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002.

Town of Paoli's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

January 24, 2017

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

The financial statement and accompanying notes were approved by management of the Town. The financial statement and notes are presented as intended by the Town.

TOWN OF PAOLI
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Year Ended December 31, 2014

Fund	Cash and Investments 01-01-14	Receipts	Disbursements	Cash and Investments 12-31-14
CORPORATION	\$ 82,206	\$ 745,005	\$ 656,849	\$ 170,362
MOTOR VEHICLE HIGHWAY	52,560	155,386	169,533	38,413
LOCAL ROAD AND STREET	494	12,893	11,924	1,463
AIRPORT OPERATING	6,795	64,829	56,054	15,570
PARKING METERS	15	-	-	15
PARK SOFTBALL	8,590	4,088	3,459	9,219
VEHICLE UNLOCK	-	477	378	99
IMPOUND FEES - POLICE DEPARTMENT	475	7,947	7,509	913
COMMUNITY OUTREACH	324	4,492	3,602	1,214
LOCAL LAW ENFORCEMENT CONTINUING EDUCATION	779	3,151	2,615	1,315
RIVERBOAT CASINO FUND	484,976	734,958	839,300	380,634
PARK OPERATING	421	77,273	64,933	12,761
RAINY DAY	14,757	-	4,751	10,006
EDIT	91,016	152,639	90,609	153,046
EXCESS LEVY	1,382	18	-	1,400
GAS REVOLVING - AIRPORT	19,530	38,560	37,644	20,446
CUMULATIVE CAPITAL IMPROVEMENT	18,576	9,726	24,352	3,950
CUMULATIVE CAPITAL DEVELOPMENT	251,405	48,725	44,797	255,333
INDUSTRIAL DEVELOPMENT	85,773	25,144	-	110,917
POLICE CAR LOAN	61	-	-	61
T.I.F.	2,081	37,780	1,000	38,861
AIRPORT TIMBER SALE CONSTRUCTION	6,809	1,093	-	7,902
PAOLI CEMETERY	41,863	100	-	41,963
MISCELLANEOUS GRANTS	13,804	12,901	13,449	13,256
PARK DEBT SERVICE RESERVE	533,138	357,862	356,000	535,000
GOLF CART/UTV VEHICLES	-	285	-	285
PROHIBITED VEHICLE VIOLATION	-	15	-	15
TRAFFIC ENFORCEMENT VIOLATION	-	5,365	5,112	253
FIREWORKS DONATIONS	295	8,497	8,000	792
SIDEWALK FUND	9,405	59	3,611	5,853
FALL FESTIVAL	843	181	1,024	-
FIRE STATION PROJECT	-	635,044	635,044	-
AIRPORT RUNWAY PROJECT	-	112,902	118,629	(5,727)
AIRPORT RENTAL DEPOSIT	365	1,783	1,659	489
AWARENESS DAY - AIRPORT	2,465	1,914	2,990	1,389
PARK CONCESSIONS	32,172	60,473	53,822	38,823
PARK EVENTS	7,841	17,074	12,993	11,922
PAYROLL	2,818	1,645,755	1,646,963	1,610
UTILITY	-	6,783,213	6,783,213	-
ELECTRIC OPERATING	1,303,241	4,818,844	4,998,288	1,123,797
ELECTRIC METER DEPOSIT	117,421	18,375	16,782	119,014
ELECTRIC DEPRECIATION	245,534	409	-	245,943
ELECTRIC LIGHT CASH RESERVE	65,313	-	-	65,313
IMPA ENERGY EFFICIENCY FUND	2,883	2,854	-	5,737
ELECTRIC CASH CHANGE	500	-	-	500
SEWER OPERATING	74,693	2,204,365	2,031,599	247,459
SEWER DEBT SERVICE RESERVE	154,366	-	-	154,366
SEWER BOND AND INTEREST	14,038	164,970	164,970	14,038
SEWER BOND AND INTEREST - BNY	7,994	34,135	33,987	8,142
SEWER DEBT SERVICE RESERVE - BNY	25,585	7,140	-	32,725
SEWER ESCROW ACCOUNT	3,862	34,707	38,569	-
WATER OPERATING	118,793	1,242,589	1,118,559	242,823
WATER METER DEPOSIT	35,567	5,309	4,814	36,062
WATER BOND AND INTEREST	107,918	246,350	246,350	107,918
WATER DEBT SERVICE RESERVE	257,302	2,361	-	259,663
WATER TANK FUND	16,640	-	-	16,640
Totals	<u>\$ 4,325,684</u>	<u>\$ 20,550,015</u>	<u>\$ 20,315,736</u>	<u>\$ 4,559,963</u>

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The accompanying financial statement presents the financial information for the Town.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

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

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

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

Penalties, which include fees received for late payments.

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

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

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

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

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

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

F. Interfund Transfers

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

G. Fund Accounting

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

Note 2. Budgets

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

Note 3. Property Taxes

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

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

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

Note 5. Risk Management

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

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

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

Indiana Public Retirement System
One North Capitol, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

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

Note 7. Cash Balance Deficits

The financial statement contains a fund with deficits in cash. This is a result of the fund being set up for a reimbursement grant. The reimbursement for expenditures made by the Town was not received by December 31, 2014.

Note 8. Holding Corporation

The Town has entered into a capital lease with the 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. The lessor has been determined to be a related party of the Town. Lease payments during the year 2014 totaled \$356,000.

Note 9. Subsequent Events

On March 9, 2015, the Town Council passed Ordinance 2015-02 to refund the Waterworks Revenue Bonds of 2004 and issue Waterworks Refunding Revenue Bonds of 2015. The \$4,190,000 proceeds from the new issue were used to retire the \$4,104,000 of outstanding bonds from 2004. The interest rate on the new bonds was 3.596 percent and the net savings on the refunding was \$568,650.

On August 18, 2015, the Town Council passed Resolution 2015-03 to amend the lease with the Paoli Building Corporation. The Building Corporation refinanced the First Mortgage Refunding Bonds and reduced the lease payments. The decrease in the lease payments was \$406,500.

On September 14, 2015, the Aviation Board was awarded federal grant 3-18-0064-012-2015 for \$1,687,072. The grant was to extend the runway. The grant required a 10 percent match. The state awarded grant #1664012 for \$93,726 to provide a 5 percent match. As of November 28, 2016, the Town had disbursed \$222,747 to Woolpert for professional services and \$1,400,774 to Ragle, Inc. for construction costs.

On September 25, 2015, the Town was awarded a \$400,000 Community Development Block Grant from the Indiana Office of Community and Rural Affairs for water utility improvements. On June 2, 2016, the Town entered into a \$289,806 contract with Trademark Utility Systems LLC for construction of the water improvements.

On September 9, 2016, the Aviation Board was awarded federal grant 3-18-0064-013-2016 for \$1,677,960. The grant was to extend the runway. The grant required a 10 percent match. On September 27, 2016, the state awarded a grant number 1764013 for \$74,576. This represents 4 percent of the grant.

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OTHER INFORMATION - UNAUDITED

The Town's Annual Financial Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Town's Annual Financial Report referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The other information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF PAOLI
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014

	CORPORATION	MOTOR VEHICLE HIGHWAY	LOCAL ROAD AND STREET	AIRPORT OPERATING	PARKING METERS	PARK SOFTBALL
Cash and investments - beginning	\$ 82,206	\$ 52,560	\$ 494	\$ 6,795	\$ 15	\$ 8,590
Receipts:						
Taxes	384,324	20,677	-	38,345	-	-
Licenses and permits	1,987	-	-	-	-	-
Intergovernmental receipts	347,810	131,406	12,893	4,330	-	-
Charges for services	1,819	1,195	-	22,154	-	4,088
Fines and forfeits	3,083	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	5,982	2,108	-	-	-	-
Total receipts	<u>745,005</u>	<u>155,386</u>	<u>12,893</u>	<u>64,829</u>	<u>-</u>	<u>4,088</u>
Disbursements:						
Personal services	417,157	37,590	-	34,211	-	-
Supplies	33,714	122,763	11,924	3,920	-	-
Other services and charges	187,897	4,942	-	17,923	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	17,331	4,173	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	750	65	-	-	-	3,459
Total disbursements	<u>656,849</u>	<u>169,533</u>	<u>11,924</u>	<u>56,054</u>	<u>-</u>	<u>3,459</u>
Excess (deficiency) of receipts over disbursements	<u>88,156</u>	<u>(14,147)</u>	<u>969</u>	<u>8,775</u>	<u>-</u>	<u>629</u>
Cash and investments - ending	<u>\$ 170,362</u>	<u>\$ 38,413</u>	<u>\$ 1,463</u>	<u>\$ 15,570</u>	<u>\$ 15</u>	<u>\$ 9,219</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

	VEHICLE UNLOCK	IMPOUND FEES- POLICE DEPARTMENT	COMMUNITY OUTREACH	LOCAL LAW ENFORCEMENT CONTINUING EDUCATION	RIVERBOAT CASINO FUND	PARK OPERATING
Cash and investments - beginning	\$ -	\$ 475	\$ 324	\$ 779	\$ 484,976	\$ 421
Receipts:						
Taxes	-	-	-	-	-	33,200
Licenses and permits	-	-	-	1,380	-	-
Intergovernmental receipts	-	-	-	-	734,958	43,749
Charges for services	477	7,947	-	400	-	324
Fines and forfeits	-	-	-	1,371	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	4,492	-	-	-
Total receipts	<u>477</u>	<u>7,947</u>	<u>4,492</u>	<u>3,151</u>	<u>734,958</u>	<u>77,273</u>
Disbursements:						
Personal services	-	-	-	-	-	64,863
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	378	7,509	3,602	2,615	839,300	70
Total disbursements	<u>378</u>	<u>7,509</u>	<u>3,602</u>	<u>2,615</u>	<u>839,300</u>	<u>64,933</u>
Excess (deficiency) of receipts over disbursements	<u>99</u>	<u>438</u>	<u>890</u>	<u>536</u>	<u>(104,342)</u>	<u>12,340</u>
Cash and investments - ending	<u>\$ 99</u>	<u>\$ 913</u>	<u>\$ 1,214</u>	<u>\$ 1,315</u>	<u>\$ 380,634</u>	<u>\$ 12,761</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

	RAINY DAY	EDIT	EXCESS LEVY	GAS REVOLVING- AIRPORT	CUMULATIVE CAPITAL IMPROVEMENT	CUMULATIVE CAPITAL DEVELOPMENT
Cash and investments - beginning	\$ 14,757	\$ 91,016	\$ 1,382	\$ 19,530	\$ 18,576	\$ 251,405
Receipts:						
Taxes	-	-	18	-	-	43,781
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	152,639	-	-	9,726	4,944
Charges for services	-	-	-	38,560	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-
Total receipts	<u>-</u>	<u>152,639</u>	<u>18</u>	<u>38,560</u>	<u>9,726</u>	<u>48,725</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	24,352	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	44,797
Utility operating expenses	-	-	-	-	-	-
Other disbursements	4,751	90,609	-	37,644	-	-
Total disbursements	<u>4,751</u>	<u>90,609</u>	<u>-</u>	<u>37,644</u>	<u>24,352</u>	<u>44,797</u>
Excess (deficiency) of receipts over disbursements	<u>(4,751)</u>	<u>62,030</u>	<u>18</u>	<u>916</u>	<u>(14,626)</u>	<u>3,928</u>
Cash and investments - ending	<u>\$ 10,006</u>	<u>\$ 153,046</u>	<u>\$ 1,400</u>	<u>\$ 20,446</u>	<u>\$ 3,950</u>	<u>\$ 255,333</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

	INDUSTRIAL DEVELOPMENT	POLICE CAR LOAN	T.I.F.	AIRPORT TIMBER SALE CONSTRUCTION	PAOLI CEMETERY	MISCELLANEOUS GRANTS
Cash and investments - beginning	\$ 85,773	\$ 61	\$ 2,081	\$ 6,809	\$ 41,863	\$ 13,804
Receipts:						
Taxes	-	-	37,780	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	1,093	100	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	25,144	-	-	-	-	12,901
Total receipts	<u>25,144</u>	<u>-</u>	<u>37,780</u>	<u>1,093</u>	<u>100</u>	<u>12,901</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	1,000	-	-	13,449
Total disbursements	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>13,449</u>
Excess (deficiency) of receipts over disbursements	<u>25,144</u>	<u>-</u>	<u>36,780</u>	<u>1,093</u>	<u>100</u>	<u>(548)</u>
Cash and investments - ending	<u>\$ 110,917</u>	<u>\$ 61</u>	<u>\$ 38,861</u>	<u>\$ 7,902</u>	<u>\$ 41,963</u>	<u>\$ 13,256</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

	PARK DEBT SERVICE RESERVE	GOLF CART/UTV VEHICLES	PROHIBITED VEHICLE VIOLATION	TRAFFIC ENFORCEMENT VIOLATION	FIREWORKS DONATIONS	SIDEWALK FUND
Cash and investments - beginning	\$ 533,138	\$ -	\$ -	\$ -	\$ 295	\$ 9,405
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	285	15	5,365	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	357,862	-	-	-	8,497	59
Total receipts	357,862	285	15	5,365	8,497	59
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	356,000	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	5,112	8,000	3,611
Total disbursements	356,000	-	-	5,112	8,000	3,611
Excess (deficiency) of receipts over disbursements	1,862	285	15	253	497	(3,552)
Cash and investments - ending	\$ 535,000	\$ 285	\$ 15	\$ 253	\$ 792	\$ 5,853

TOWN OF PAOLI
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

	FALL FESTIVAL	FIRE STATION PROJECT	AIRPORT RUNWAY PROJECT	AIRPORT RENTAL DEPOSIT	AWARENESS DAY- AIRPORT	PARK CONCESSIONS
Cash and investments - beginning	\$ 843	\$ -	\$ -	\$ 365	\$ 2,465	\$ 32,172
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	635,044	112,902	-	-	-
Charges for services	-	-	-	1,783	-	60,473
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	181	-	-	-	1,914	-
Total receipts	<u>181</u>	<u>635,044</u>	<u>112,902</u>	<u>1,783</u>	<u>1,914</u>	<u>60,473</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	635,044	118,629	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	1,024	-	-	1,659	2,990	53,822
Total disbursements	<u>1,024</u>	<u>635,044</u>	<u>118,629</u>	<u>1,659</u>	<u>2,990</u>	<u>53,822</u>
Excess (deficiency) of receipts over disbursements	<u>(843)</u>	<u>-</u>	<u>(5,727)</u>	<u>124</u>	<u>(1,076)</u>	<u>6,651</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,727)</u>	<u>\$ 489</u>	<u>\$ 1,389</u>	<u>\$ 38,823</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

	PARK EVENTS	PAYROLL	UTILITY	ELECTRIC OPERATING	ELECTRIC METER DEPOSIT	ELECTRIC DEPRECIATION
Cash and investments - beginning	\$ 7,841	\$ 2,818	\$ -	\$ 1,303,241	\$ 117,421	\$ 245,534
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	17,074	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	4,455,582	-	-
Penalties	-	-	-	357	-	-
Other receipts	-	1,645,755	6,783,213	362,905	18,375	409
Total receipts	<u>17,074</u>	<u>1,645,755</u>	<u>6,783,213</u>	<u>4,818,844</u>	<u>18,375</u>	<u>409</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	44,402	-	-
Utility operating expenses	-	-	-	4,372,077	16,782	-
Other disbursements	12,993	1,646,963	6,783,213	581,809	-	-
Total disbursements	<u>12,993</u>	<u>1,646,963</u>	<u>6,783,213</u>	<u>4,998,288</u>	<u>16,782</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>4,081</u>	<u>(1,208)</u>	<u>-</u>	<u>(179,444)</u>	<u>1,593</u>	<u>409</u>
Cash and investments - ending	<u>\$ 11,922</u>	<u>\$ 1,610</u>	<u>\$ -</u>	<u>\$ 1,123,797</u>	<u>\$ 119,014</u>	<u>\$ 245,943</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

	ELECTRIC LIGHT CASH RESERVE	IMPA ENERGY EFFICIENCY FUND	ELECTRIC CASH CHANGE	SEWER OPERATING	SEWER DEBT SERVICE RESERVE
Cash and investments - beginning	\$ 65,313	\$ 2,883	\$ 500	\$ 74,693	\$ 154,366
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental receipts	-	-	-	915,443	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	-	-	1,149,130	-
Penalties	-	-	-	493	-
Other receipts	-	2,854	-	139,299	-
Total receipts	-	2,854	-	2,204,365	-
Disbursements:					
Personal services	-	-	-	369,565	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	29,543	-
Debt service - principal and interest	-	-	-	-	-
Capital outlay	-	-	-	981,289	-
Utility operating expenses	-	-	-	443,209	-
Other disbursements	-	-	-	207,993	-
Total disbursements	-	-	-	2,031,599	-
Excess (deficiency) of receipts over disbursements	-	2,854	-	172,766	-
Cash and investments - ending	\$ 65,313	\$ 5,737	\$ 500	\$ 247,459	\$ 154,366

TOWN OF PAOLI
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

	SEWER BOND AND INTEREST	SEWER BOND AND INTEREST - BNY	SEWER DEBT SERVICE RESERVE - BNY	SEWER ESCROW ACCOUNT	WATER OPERATING
Cash and investments - beginning	\$ 14,038	\$ 7,994	\$ 25,585	\$ 3,862	\$ 118,793
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	-	-	-	1,231,396
Penalties	-	-	-	-	172
Other receipts	164,970	34,135	7,140	34,707	11,021
Total receipts	<u>164,970</u>	<u>34,135</u>	<u>7,140</u>	<u>34,707</u>	<u>1,242,589</u>
Disbursements:					
Personal services	-	-	-	-	199,360
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	23,735
Debt service - principal and interest	164,970	33,987	-	-	-
Capital outlay	-	-	-	-	4,075
Utility operating expenses	-	-	-	-	640,382
Other disbursements	-	-	-	38,569	251,007
Total disbursements	<u>164,970</u>	<u>33,987</u>	<u>-</u>	<u>38,569</u>	<u>1,118,559</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>148</u>	<u>7,140</u>	<u>(3,862)</u>	<u>124,030</u>
Cash and investments - ending	<u>\$ 14,038</u>	<u>\$ 8,142</u>	<u>\$ 32,725</u>	<u>\$ -</u>	<u>\$ 242,823</u>

TOWN OF PAOLI
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	WATER METER DEPOSIT	WATER BOND AND INTEREST	WATER DEBT SERVICE RESERVE	WATER TANK FUND	Totals
Cash and investments - beginning	\$ 35,567	\$ 107,918	\$ 257,302	\$ 16,640	\$ 4,325,684
Receipts:					
Taxes	-	-	-	-	558,125
Licenses and permits	-	-	-	-	3,367
Intergovernmental receipts	-	-	-	-	3,105,844
Charges for services	-	-	-	-	163,152
Fines and forfeits	-	-	-	-	4,454
Utility fees	-	-	-	-	6,836,108
Penalties	-	-	-	-	1,022
Other receipts	5,309	246,350	2,361	-	9,877,943
Total receipts	5,309	246,350	2,361	-	20,550,015
Disbursements:					
Personal services	-	-	-	-	1,122,746
Supplies	-	-	-	-	196,673
Other services and charges	-	-	-	-	264,040
Debt service - principal and interest	-	246,350	-	-	801,307
Capital outlay	-	-	-	-	1,849,740
Utility operating expenses	4,814	-	-	-	5,477,264
Other disbursements	-	-	-	-	10,603,966
Total disbursements	4,814	246,350	-	-	20,315,736
Excess (deficiency) of receipts over disbursements	495	-	2,361	-	234,279
Cash and investments - ending	\$ 36,062	\$ 107,918	\$ 259,663	\$ 16,640	\$ 4,559,963

TOWN OF PAOLI
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2014

Government or Enterprise	Accounts Payable	Accounts Receivable
Electric	\$ 248,484	\$ 322,528
Wastewater	15,698	83,849
Water	38,218	95,390
Governmental activities	<u>15,491</u>	<u>-</u>
Totals	<u>\$ 317,891</u>	<u>\$ 501,767</u>

TOWN OF PAOLI
SCHEDULE OF LEASES AND DEBT
December 31, 2014

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Paoli Building Corporation	Park Construction	<u>\$ 357,000</u>	10/1/2006	1/15/2032

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Notes and loans payable	Police Vehicles	<u>\$ 87,877</u>	<u>\$ 30,730</u>
Total governmental activities		<u>87,877</u>	<u>30,730</u>
Wastewater:			
Revenue bonds	Sewage Works Revenue Bonds	1,017,000	164,595
Revenue bonds	Sewage Works State Revolving Loan	454,000	34,430
Notes and loans payable	Trash Truck Loan	<u>96,877</u>	<u>33,878</u>
Total Wastewater		<u>1,567,877</u>	<u>232,903</u>
Water:			
Revenue bonds	Waterworks Revenue Bond	<u>4,104,000</u>	<u>246,550</u>
Totals		<u>\$ 5,759,754</u>	<u>\$ 510,183</u>

TOWN OF PAOLI
SCHEDULE OF CAPITAL ASSETS
December 31, 2014

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.

	Ending Balance
Governmental activities:	
Land	\$ 1,654,456
Infrastructure	1,691,953
Buildings	3,950,674
Improvements other than buildings	6,747,132
Machinery, equipment, and vehicles	1,645,370
Construction In Progress	381,846
Total governmental activities	16,071,431
Electric:	
Land	296,797
Infrastructure	10,270,456
Buildings	540,856
Improvements other than buildings	942,261
Machinery, equipment, and vehicles	666,646
Total Electric	12,717,016
Wastewater:	
Infrastructure	12,764,748
Buildings	436,123
Improvements other than buildings	8,586,179
Machinery, equipment, and vehicles	763,927
Total Wastewater	22,550,977
Water:	
Land	28,800
Infrastructure	22,760,741
Buildings	441,001
Improvements other than buildings	1,220,948
Machinery, equipment, and vehicles	437,912
CIP	12,039
Total Water	24,901,441
Total capital assets	\$ 76,240,865

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for the Major Federal Program

We have audited the Town of Paoli's (Town) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2014. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Town's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on the Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control over Compliance


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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-003 to be a material weakness.

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

January 24, 2017

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the Town. The schedule and notes are presented as intended by the Town.

TOWN OF PAOLI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii				
	Office of Community and Rural Affairs (OCRA)	14.228	A192-13-DR2-09-232	\$ 869,857
DR2 Stormwater Project		14.228	A192-13-PL-12-034	40,000
Comprehensive Planning Grant		14.228	A192-13-FF-12-103	400,000
Fire Station Project				<u>400,000</u>
Total - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii				<u>1,309,857</u>
Total - CDBG - State-Administered CDBG Cluster				<u>1,309,857</u>
Total - Department of Housing and Urban Development				<u>1,309,857</u>
<u>Department of Transportation</u>				
Airport Improvement Program				
Improve Runway 2/20 RSA; Remove Obstructions; Environmental Assessment - Phase I				
	Direct	20.106	3-18-0064-009-2011	103,083
Conduct Environmental Study (Extend Widen and Reconstruct Runway 2-20)	Direct	20.106	3-18-0064-10-2012	9,554
Total - Airport Improvement Program				<u>112,637</u>
Highway Safety Cluster				
Occupant Protection Incentive Grants Rural Demonstration Project - Seat Belts				
	Indiana Criminal Justice Institute	20.602	FY14	2,500
Total - Highway Safety Cluster				<u>2,500</u>
Total - Department of Transportation				<u>112,637</u>
Total federal awards expended				<u>\$ 1,424,994</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF PAOLI
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. *Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Town under programs of the federal government for the year ended December 31, 2014. The information in the SEFA is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the SEFA presents only a select portion of the operations of the Town, it is not intended to and does not present the financial position of the Town.

Note 2. *Summary of Significant Accounting Policies*

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

TOWN OF PAOLI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	no

Identification of Major Program:

_____ Name of Federal Program or Cluster _____
CDBG - State-Administered CDBG Cluster

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

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Clerk-Treasurer prepared the SEFA and no evidence was presented that there was any oversight, review, approval, or other compensating control to verify the accuracy of the information and amounts.

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

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the publication, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. This includes control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management had not established a system of internal control that would ensure proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, misstatements of the SEFA could have remain undetected.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2014-002 - INTERNAL CONTROLS AND NONCOMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

Condition

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting.

1. The Clerk-Treasurer certified the accounts payable vouchers (APV) verifying the disbursements are valid and should be paid. The APV information is summarized on the Accounts Payable Voucher Register and the register is provided to the Town Council for their review and approval. The Town Council approved the disbursements by signing the Accounts Payable Voucher Register. The signed Accounts Payable Voucher Registers were not available for audit for the months of November and December 2014.

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

2. There were no controls in place to verify and approve hours worked by Town employees. The Clerk-Treasurer's office completed the Payroll Schedule and Voucher (General Form No. 99) for each payroll based on time card information, but they were not certified by the department heads or Clerk-Treasurer.
3. The computer system generated pre-numbered receipts. During 2014, 55 receipt numbers were not accounted for and officials could not provide explanations for all of the missing receipt numbers. Controls were not in place to identify and correct this error.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the publication, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. This includes control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Payroll Schedule and Voucher (General Form No. 99) should be used for all payrolls. Each Claim should be certified to by the department head and the Clerk-Treasurer in the appropriate sections provided thereon. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 6)

Indiana Code 5-11-10-1.6 states in part:

". . . (b)As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

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

Cause

Management of the Town had not established a proper system of internal control as it relates to approval of accounts payable vouchers, approval of time worked, and receipts.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Town at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan which is part of this report.

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-003 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Housing and Urban Development

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

CFDA Number: 14.228

Federal Award Numbers and Years (or Other Identifying Numbers): A192-13-FF-12-103,
A192-13-DR2-09-232

Pass-Through Entity: Office of Community and Rural Affairs

Condition

An effective internal control system was not in place at the Town of Paoli in order to ensure compliance with requirements related to the grant agreement and the compliance requirements for Equipment and Real Property Management.

An outside agency was used to track capital assets. The outside agency performed a physical inventory every year and then made changes to the asset records. There was no documentation available for audit to verify that Town officials reviewed or approved the changes made to the capital asset records or that they verify that assets purchased with grant funds are accounted for and identified in the records.

Context

The lack of controls was a systemic problem regarding reviewing and approving changes made to the capital asset records.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

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

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also have allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements pertaining to Equipment and Real Property Management.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Town. The document is presented as intended by the Town.

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Amy J. Morris
Contact Phone Number: 812-723-2739

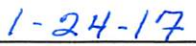
We concur with the finding.

Description of Corrective Action Plan: Implemented Internal Controls to verify additional review of expenditures by council. The Town Council will implement Internal Controls for Schedule of Expenditures of Federal Awards being uploaded into Gateway which will so oversight, review and approval of the information and amounts.

Anticipated Completion Date: March 2017


(Signature)


(Title)


(Date)

CORRECTIVE ACTION PLAN

FINDING 2014-002

Contact Person Responsible for Corrective Action: Amy J. Morris
Contact Phone Number: 812-723-2739

We concur with the findings:


Description of Corrective Action Plan:

- 1) The accounts payable clerk will be responsible for putting the signed claim registers in a binder and a review sheet has been placed in the front of the binder for a supervisor to sign each month verifying monthly claims have been approved by council.
- 2) The Department Heads will be initialing the time cards to show they have been reviewed and the Clerk-Treasurer will be signing General Form 99 to certify the weekly payroll
- 3) The accounts payable clerk has been made aware that when a receipt is being inputted into the system and if she has to stop in the middle of the transaction that the information will not save but the number will automatically change to the next number, therefore to always verify the receipt numbers. Additional internal controls measures have been implemented to make sure this doesn't reoccur.


Anticipated Completion Date: 1) Already in place for 2016 & 2017
2) Effective January 1, 2017
3) Effective December 2016



(Signature)



(Title)



(Date)

CLERK-TREASURER

Amy J. Morris
clerk@paoli.in.gov

TOWN COUNCIL

Carolyn N. Clements - President, Steven L. Hankins - Vice President
Gary N. Barnett, William E. Chastain, Michael A. Harkness

GENERAL FOREMAN

Roger Livingston
rlivingston@paoli.in.gov

CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: Amy J. Morris
Contact Phone Number: 812-723-2739

We concur with the findings:

Description of Corrective Action Plan: The governing body will implement internal controls dealing with the capital assets.

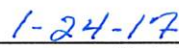
Anticipated Completion Date: March 2017



(Signature)



(Title)



(Date)

OTHER REPORTS

In addition to this report, other reports may have been issued for the Town. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.