

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

AUDIT REPORT

OF

TOWN OF PAOLI

ORANGE COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED
04/30/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Carolyn N. Clements	01-01-04 to 12-31-07
President of the Town Council	Donald Crockett Noel Newlin Robert L. Gilliatt Gary Barnett	01-01-04 to 12-31-04 01-01-05 to 12-31-05 01-01-06 to 12-31-06 01-01-07 to 12-31-07
Superintendent of Town	Lester Mink	01-01-04 to 12-31-07



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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paoli (Town), as of and for the years ended December 31, 2004 and 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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, 2004 and 2005, 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 April 9, 2007, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, as listed in the table of contents, and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Combining Schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

April 9, 2007



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

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

We have audited the financial statements of the Town of Paoli (Town), as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated April 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

STATE BOARD OF ACCOUNTS

April 9, 2007

TOWN OF PAOLI
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2004

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 465,872	\$ 35,381	\$ 2,157	\$ 255,124	\$ (173,210)	\$ -	\$ (173,210)
Public safety	487,659	596	-	10,000	(477,063)	-	(477,063)
Highways and streets	111,946	1,194	138,930	-	28,178	-	28,178
Culture and recreation	68,634	21,042	8,530	-	(39,062)	-	(39,062)
Total governmental activities	<u>1,134,111</u>	<u>58,213</u>	<u>149,617</u>	<u>265,124</u>	<u>(661,157)</u>	<u>-</u>	<u>(661,157)</u>
Business-type activities:							
Water	3,797,048	885,292	-	164,000	-	(2,747,756)	(2,747,756)
Wastewater	928,410	974,250	-	-	-	45,840	45,840
Electric	2,725,848	2,719,213	-	-	-	(6,635)	(6,635)
Total business-type activities	<u>7,451,306</u>	<u>4,578,755</u>	<u>-</u>	<u>164,000</u>	<u>-</u>	<u>(2,708,551)</u>	<u>(2,708,551)</u>
Total primary government	<u>\$ 8,585,417</u>	<u>\$ 4,636,968</u>	<u>\$ 149,617</u>	<u>\$ 429,124</u>	<u>(661,157)</u>	<u>(2,708,551)</u>	<u>(3,369,708)</u>
General receipts:							
Property taxes					369,037	-	369,037
Other local sources					375,300	95,410	470,710
Notes and loans					-	2,775,726	2,775,726
Unrestricted investment earnings					7,319	23,729	31,048
Total general receipts					<u>751,656</u>	<u>2,894,865</u>	<u>3,646,521</u>
Change in net assets					90,499	186,314	276,813
Net assets - beginning					<u>754,116</u>	<u>2,422,253</u>	<u>3,176,369</u>
Net assets - ending					<u>\$ 844,615</u>	<u>\$ 2,608,567</u>	<u>\$ 3,453,182</u>
<u>Assets</u>							
Cash and investments					\$ 418,443	\$ 1,681,362	\$ 2,099,805
Restricted assets:							
Cash and investments					<u>426,172</u>	<u>927,205</u>	<u>1,353,377</u>
Total assets					<u>\$ 844,615</u>	<u>\$ 2,608,567</u>	<u>\$ 3,453,182</u>
<u>Net Assets</u>							
Restricted for:							
General government					\$ 43,408	\$ -	\$ 43,408
Public safety					1,631	-	1,631
Highways and streets					147,020	-	147,020
Culture and recreation					30,283	-	30,283
Debt service					-	441,373	441,373
Capital improvements					-	255,806	255,806
Customer deposits					-	119,892	119,892
Other purposes					203,830	110,134	313,964
Unrestricted					<u>418,443</u>	<u>1,681,362</u>	<u>2,099,805</u>
Total net assets					<u>\$ 844,615</u>	<u>\$ 2,608,567</u>	<u>\$ 3,453,182</u>

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

TOWN OF PAOLI
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2004

	General	Other Governmental Funds	Totals
Receipts:			
Taxes	\$ 287,188	\$ 81,849	\$ 369,037
Licenses and permits	50	250	300
Intergovernmental	224,662	463,286	687,948
Charges for services	967	56,221	57,188
Fines and forfeits	-	275	275
Other	48,786	61,076	109,862
	<u>561,653</u>	<u>662,957</u>	<u>1,224,610</u>
Disbursements:			
General government	149,086	92,351	241,437
Public safety	316,962	2,148	319,110
Highways and streets	-	111,946	111,946
Culture and recreation	1,000	67,634	68,634
Debt service:			
Principal	-	2,235	2,235
Interest	-	176	176
Capital outlay:			
General government	-	222,024	222,024
Public safety	46,919	121,630	168,549
	<u>513,967</u>	<u>620,144</u>	<u>1,134,111</u>
Excess of revenue over disbursements	<u>47,686</u>	<u>42,813</u>	<u>90,499</u>
Other financing sources (uses)			
Transfers in	17,442	-	17,442
Transfers out	-	(17,442)	(17,442)
	<u>17,442</u>	<u>(17,442)</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	65,128	25,371	90,499
Cash and investment fund balance - beginning	<u>310,302</u>	<u>443,814</u>	<u>754,116</u>
Cash and investment fund balance - ending	<u>\$ 375,430</u>	<u>\$ 469,185</u>	<u>\$ 844,615</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 375,430	\$ 43,013	\$ 418,443
Restricted assets:			
Cash and investments	-	426,172	426,172
Total cash and investment assets - December 31	<u>\$ 375,430</u>	<u>\$ 469,185</u>	<u>\$ 844,615</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
General government	\$ -	\$ 43,408	\$ 43,408
Public safety	-	1,631	1,631
Highways and streets	-	147,020	147,020
Culture and recreation	-	30,283	30,283
Other purposes	-	203,830	203,830
Unrestricted	<u>375,430</u>	<u>43,013</u>	<u>418,443</u>
Total cash and investment fund balance - December 31	<u>\$ 375,430</u>	<u>\$ 469,185</u>	<u>\$ 844,615</u>

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

TOWN OF PAOLI
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2004

	Water Utility	Wastewater Utility	Electric Utility	Total
Operating receipts:				
Unmetered water receipts	\$ 3,470	\$ -	\$ -	\$ 3,470
Metered water receipts	836,822	-	-	836,822
Residential sales	-	-	992,634	992,634
Commercial and industrial sales	-	-	1,690,756	1,690,756
Public street and highway lighting	-	-	15,104	15,104
Fire protection receipts	45,000	-	-	45,000
Other water receipts	31,066	-	-	31,066
Measured revenue	-	969,955	-	969,955
Other	-	23,993	65,365	89,358
	<u>916,358</u>	<u>993,948</u>	<u>2,763,859</u>	<u>4,674,165</u>
Total operating receipts				
Operating disbursements:				
Equipment and capital improvements	2,977,947	-	97,292	3,075,239
Salaries and wages	153,278	276,459	232,654	662,391
Employee pensions and benefits	35,132	70,139	98,204	203,475
Purchased water	305,419	-	-	305,419
Purchased power	-	-	1,773,901	1,773,901
Chemicals	1,677	-	-	1,677
Material and supplies	105,257	29,224	107,516	241,997
Contractual services	1,429	222,150	7,884	231,463
Transportation disbursements	6,005	15,723	48,592	70,320
Insurance disbursements	20,125	49,632	18,853	88,610
Miscellaneous disbursements	92,211	74,002	305,360	471,573
	<u>3,698,480</u>	<u>737,329</u>	<u>2,690,256</u>	<u>7,126,065</u>
Total operating disbursements				
Excess (deficiency) of operating receipts over operating disbursements	<u>(2,782,122)</u>	<u>256,619</u>	<u>73,603</u>	<u>(2,451,900)</u>
Nonoperating receipts (disbursements):				
Note proceeds	2,775,726	-	-	2,775,726
Interest and investment receipts	2,989	6,575	14,165	23,729
Debt service of principal	(78,075)	(92,123)	(32,465)	(202,663)
Interest and investment disbursement	(20,493)	(98,958)	(3,127)	(122,578)
	<u>2,680,147</u>	<u>(184,506)</u>	<u>(21,427)</u>	<u>2,474,214</u>
Total nonoperating receipts (disbursements)				
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(101,975)	72,113	52,176	22,314
Capital contributions	<u>164,000</u>	<u>-</u>	<u>-</u>	<u>164,000</u>
Excess of receipts, contributions and transfers in over disbursements and transfers out	62,025	72,113	52,176	186,314
Cash and investment fund balance - beginning	<u>258,266</u>	<u>785,803</u>	<u>1,378,184</u>	<u>2,422,253</u>
Cash and investment fund balance - ending	<u>\$ 320,291</u>	<u>\$ 857,916</u>	<u>\$ 1,430,360</u>	<u>\$ 2,608,567</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 33,299	\$ 812,846	\$ 835,217	\$ 1,681,362
Restricted assets:				
Cash and investments	<u>286,992</u>	<u>45,070</u>	<u>595,143</u>	<u>927,205</u>
Total cash and investment assets - December 31	<u>\$ 320,291</u>	<u>\$ 857,916</u>	<u>\$ 1,430,360</u>	<u>\$ 2,608,567</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 193,038	\$ 45,070	\$ 203,265	\$ 441,373
Capital improvements	2,933	-	252,873	255,806
Customer deposits	28,021	-	91,871	119,892
Other purposes	63,000	-	47,134	110,134
Unrestricted	<u>33,299</u>	<u>812,846</u>	<u>835,217</u>	<u>1,681,362</u>
Total cash and investment fund balance - December 31	<u>\$ 320,291</u>	<u>\$ 857,916</u>	<u>\$ 1,430,360</u>	<u>\$ 2,608,567</u>

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

TOWN OF PAOLI
 STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 FIDUCIARY FUND
 For The Year Ended December 31, 2004

	Agency Fund
Additions:	
Agency fund additions	\$ 1,187,541
Deductions:	
Agency fund deductions	1,171,718
Excess of total additions over total deductions	15,823
Cash and investment fund balance - beginning	10,629
Cash and investment fund balance - ending	\$ 26,452

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

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

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 378,561	\$ 55,355	\$ 2,151	\$ 132,653	\$ (188,402)	\$ -	\$ (188,402)
Public safety	465,201	646	-	-	(464,555)	-	(464,555)
Highways and streets	240,166	1,194	140,656	-	(98,316)	-	(98,316)
Culture and recreation	74,201	-	6,887	-	(67,314)	-	(67,314)
Total governmental activities	1,158,129	57,195	149,694	132,653	(818,587)	-	(818,587)
Business-type activities:							
Water	3,222,487	1,040,155	892	449,226	-	(1,732,214)	(1,732,214)
Wastewater	1,089,890	983,190	719	-	-	(105,981)	(105,981)
Electric	3,159,286	3,066,887	477	-	-	(91,922)	(91,922)
Total business-type activities	7,471,663	5,090,232	2,088	449,226	-	(1,930,117)	(1,930,117)
Total primary government	\$ 8,629,792	\$ 5,147,427	\$ 151,782	\$ 581,879	(818,587)	(1,930,117)	(2,748,704)
General receipts:							
Property taxes					333,675	-	333,675
Other local sources					464,180	53,809	517,989
Notes and loans					-	1,724,274	1,724,274
Unrestricted investment earnings					9,459	24,599	34,058
Total general receipts					807,314	1,802,682	2,609,996
Change in net assets					(11,273)	(127,435)	(138,708)
Net assets - beginning					844,615	2,608,567	3,453,182
Net assets - ending					\$ 833,342	\$ 2,481,132	\$ 3,314,474
Assets							
Cash and investments					\$ 438,616	\$ 1,442,030	\$ 1,880,646
Restricted assets:							
Cash and investments					394,726	1,039,102	1,433,828
Total assets					\$ 833,342	\$ 2,481,132	\$ 3,314,474
Net Assets							
Restricted for:							
General government	\$ 51,074	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,074
Public safety	2,592	-	-	-	-	-	2,592
Highways and streets	79,923	-	-	-	-	-	79,923
Culture and recreation	43,924	-	-	-	-	-	43,924
Debt service	-	549,304	-	-	-	-	549,304
Capital improvements	-	257,222	-	-	-	-	257,222
Customer deposits	-	124,692	-	-	-	-	124,692
Other purposes	217,213	107,884	-	-	-	-	325,097
Unrestricted	438,616	1,442,030	-	-	-	-	1,880,646
Total net assets	\$ 833,342	\$ 2,481,132	\$ -	\$ -	\$ -	\$ -	\$ 3,314,474

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

TOWN OF PAOLI
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2005

	General	Other Governmental Funds	Totals
Receipts:			
Taxes	\$ 242,234	\$ 91,441	\$ 333,675
Licenses and permits	-	336	336
Intergovernmental	199,731	306,736	506,467
Charges for services	833	55,856	56,689
Fines and forfeits	-	20	20
Other	83,335	166,334	249,669
	<u>526,133</u>	<u>620,723</u>	<u>1,146,856</u>
Disbursements:			
General government	152,133	169,464	321,597
Public safety	442,244	-	442,244
Highways and streets	-	240,166	240,166
Culture and recreation	1,095	45,117	46,212
Capital outlay:			
General government	-	56,964	56,964
Public safety	22,957	-	22,957
Culture and recreation	-	27,989	27,989
	<u>618,429</u>	<u>539,700</u>	<u>1,158,129</u>
Excess (deficiency) of revenue over disbursements	<u>(92,296)</u>	<u>81,023</u>	<u>(11,273)</u>
Cash and investment fund balance - beginning	<u>375,430</u>	<u>469,185</u>	<u>844,615</u>
Cash and investment fund balance - ending	<u>\$ 283,134</u>	<u>\$ 550,208</u>	<u>\$ 833,342</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 283,134	\$ 155,482	\$ 438,616
Restricted assets:			
Cash and investments	-	394,726	394,726
	<u>\$ 283,134</u>	<u>\$ 550,208</u>	<u>\$ 833,342</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
General government	\$ -	\$ 51,074	\$ 51,074
Public safety	-	2,592	2,592
Highways and streets	-	79,923	79,923
Culture and recreation	-	43,924	43,924
Other purposes	-	217,213	217,213
Unrestricted	<u>283,134</u>	<u>155,482</u>	<u>438,616</u>
Total cash and investment fund balance - December 31	<u>\$ 283,134</u>	<u>\$ 550,208</u>	<u>\$ 833,342</u>

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

TOWN OF PAOLI
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Electric Utility	Total
Operating receipts:				
Unmetered water receipts	\$ 3,542	\$ -	\$ -	\$ 3,542
Metered water receipts	876,612	-	-	876,612
Residential sales	-	-	1,117,556	1,117,556
Commercial and industrial sales	-	-	1,906,556	1,906,556
Public street and highway lighting	-	-	14,592	14,592
Fire protection receipts	160,000	-	-	160,000
Other water revenue	29,744	-	-	29,744
Measured revenue	-	974,138	-	974,138
Other	-	12,604	50,785	63,389
Total operating receipts	1,069,898	986,742	3,089,489	5,146,129
Operating disbursements:				
Equipment and capital improvements	2,227,105	176,792	260,397	2,664,294
Salaries and wages	151,003	257,236	211,504	619,743
Employee pensions and benefits	47,043	72,489	69,919	189,451
Purchased water	364,355	-	-	364,355
Purchased power	-	-	2,041,312	2,041,312
Chemicals	1,908	-	-	1,908
Material and supplies	57,145	23,585	202,197	282,927
Contractual services	31,399	206,071	3,737	241,207
Transportation disbursements	8,700	23,007	16,824	48,531
Insurance disbursements	20,784	49,480	26,418	96,682
Miscellaneous disbursements	88,731	88,212	311,314	488,257
Total operating disbursements	2,998,173	896,872	3,143,622	7,038,667
Excess (deficiency) of operating receipts over operating disbursements	(1,928,275)	89,870	(54,133)	(1,892,538)
Nonoperating receipts (disbursements):				
Note proceeds	1,724,274	-	-	1,724,274
Interest and investment receipts	3,733	7,578	13,288	24,599
Debt service of principal	(86,953)	(98,160)	(14,170)	(199,283)
Interest and investment disbursement	(137,361)	(94,858)	(1,494)	(233,713)
Total nonoperating receipts (disbursements)	1,503,693	(185,440)	(2,376)	1,315,877
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(424,582)	(95,570)	(56,509)	(576,661)
Capital contributions	449,226	-	-	449,226
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	24,644	(95,570)	(56,509)	(127,435)
Cash and investment fund balance - beginning	320,291	857,916	1,430,360	2,608,567
Cash and investment fund balance - ending	<u>\$ 344,935</u>	<u>\$ 762,346</u>	<u>\$ 1,373,851</u>	<u>\$ 2,481,132</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 159,416	\$ 519,185	\$ 763,429	\$ 1,442,030
Restricted assets:				
Cash and investments	185,519	243,161	610,422	1,039,102
Total cash and investment assets - December 31	<u>\$ 344,935</u>	<u>\$ 762,346</u>	<u>\$ 1,373,851</u>	<u>\$ 2,481,132</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 92,489	\$ 243,161	\$ 213,654	\$ 549,304
Capital improvements	3,263	-	253,959	257,222
Customer deposits	29,502	-	95,190	124,692
Other purposes	60,265	-	47,619	107,884
Unrestricted	159,416	519,185	763,429	1,442,030
Total cash and investment fund balance - December 31	<u>\$ 344,935</u>	<u>\$ 762,346</u>	<u>\$ 1,373,851</u>	<u>\$ 2,481,132</u>

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

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

	Agency Fund
Additions:	
Agency fund additions	\$ 1,164,893
Deductions:	
Agency fund deductions	1,170,301
Deficiency of total additions over total deductions	(5,408)
Cash and investment fund balance - beginning	26,452
Cash and investment fund balance - ending	\$ 21,044

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Primary Government: Town of Paoli

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

The Town reports the following major governmental fund:

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 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.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the Town reports the following fund type:

The agency fund accounts for assets held by the Town as an agent for other entities and serves as a control of accounts for certain cash transactions during the time they are a liability to the Town.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

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

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

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Capital Assets

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

3. Long-Term Debt

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

4. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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

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.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2004 and 2005, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2004	2005
General	\$ -	\$ 618,429
Motor Vehicle Highway	-	227,041
Local Road and Street	-	13,125
Aviation	4,940	44,101
Park and Recreation	-	33,582
Nonreverting Pool Concessions	3,220	-
Nonreverting Softball	8,138	10,476
Law Enforcement Continuing Education	1,148	-
Economic Development Income Tax	149,618	58,511
Totals	<u>\$ 167,064</u>	<u>\$ 1,005,265</u>

These disbursements were funded by available fund balances.

C. Cash and Investment Balance Deficits

At December 31, 2004 and 2005, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2004	2005
Economic Development Income Tax	\$ 5,533	\$ -
Aviation	-	2,168
Totals	<u>\$ 5,533</u>	<u>\$ 2,168</u>

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2004 and 2005, were as follows:

Transfer From	Transfer To	2004	2005
Other governmental	General Fund	<u>\$ 17,442</u>	<u>\$ -</u>

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

C. Restatements and Reclassifications

For the year ended December 31, 2003, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Town. The following schedule presents a summary of restated beginning balances by opinion unit.

Opinion Unit	Balance as Reported December 31, 2003	Fund Reclassification	Balance as Restated January 1, 2004
Trust Fund	\$ 19,839	\$ (19,839)	\$ -
Other governmental funds	423,975	19,839	443,814

IV. Other Information

A. Risk Management

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

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

Job Related Illness or Injuries to Employees

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

B. Rate Structure – Enterprise Funds

Water Utility

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

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

Wastewater Utility

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

Electric Utility

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

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

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:

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Funding Policy and Annual Pension Cost

The contribution requirements of 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	\$ 40,888
Interest on net pension obligation	(6,063)
Adjustment to annual required contribution	6,910
Annual pension cost	41,735
Contributions made	48,871
Decrease in net pension obligation	(7,136)
Net pension obligation, beginning of year	(83,632)
Net pension obligation, end of year	\$ (90,768)
Contribution rates:	
Town	5.63%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Three Year Trend Information

	<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
PERF	06-30-03	\$ 52,371	100%	\$ (65,590)
	06-30-04	37,104	149%	(83,632)
	06-30-05	41,735	132%	(90,768)

TOWN OF PAOLI
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 827,339	\$ 822,575	\$ 4,764	101%	\$ 880,172	1%
07-01-04	849,735	889,172	(39,437)	96%	885,298	(4%)
07-01-05	888,304	960,092	(71,788)	93%	901,210	(8%)

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2004

	Motor Vehicle Highway	Local Road and Street	Parking Meter	Aviation	Airport Awareness Day	Airport Construction
Receipts:						
Taxes	\$ 28,435	\$ -	\$ -	\$ 10,809	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	124,066	14,863	-	2,157	-	192,026
Charges for services	1,194	-	-	18,898	-	-
Fines and forfeits	-	-	275	-	-	-
Other	57	-	-	-	1,876	14,800
Total receipts	<u>153,752</u>	<u>14,863</u>	<u>275</u>	<u>31,864</u>	<u>1,876</u>	<u>206,826</u>
Disbursements:						
General government	-	-	-	44,479	1,797	-
Public safety	-	-	-	-	-	-
Highways and streets	93,345	18,513	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	2,235	-	-
Interest	-	-	-	176	-	-
Capital outlay:						
General government	-	-	-	-	-	222,024
Public safety	-	-	-	-	-	-
Total disbursements	<u>93,345</u>	<u>18,513</u>	<u>-</u>	<u>46,890</u>	<u>1,797</u>	<u>222,024</u>
Excess (deficiency) of receipts over disbursements	<u>60,407</u>	<u>(3,650)</u>	<u>275</u>	<u>(15,026)</u>	<u>79</u>	<u>(15,198)</u>
Other financing sources (uses)						
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	60,407	(3,650)	275	(15,026)	79	(15,198)
Cash and investment fund balance - beginning	<u>85,973</u>	<u>4,290</u>	<u>8,490</u>	<u>21,081</u>	<u>1,289</u>	<u>21,546</u>
Cash and investment fund balance - ending	<u>\$ 146,380</u>	<u>\$ 640</u>	<u>\$ 8,765</u>	<u>\$ 6,055</u>	<u>\$ 1,368</u>	<u>\$ 6,348</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	<u>146,380</u>	<u>640</u>	<u>8,765</u>	<u>6,055</u>	<u>1,368</u>	<u>6,348</u>
Total cash and investment assets - December 31	<u>\$ 146,380</u>	<u>\$ 640</u>	<u>\$ 8,765</u>	<u>\$ 6,055</u>	<u>\$ 1,368</u>	<u>\$ 6,348</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
General government	\$ -	\$ -	\$ 8,765	\$ 6,055	\$ 1,368	\$ 6,348
Public safety	-	-	-	-	-	-
Highways and streets	146,380	640	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 146,380</u>	<u>\$ 640</u>	<u>\$ 8,765</u>	<u>\$ 6,055</u>	<u>\$ 1,368</u>	<u>\$ 6,348</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2004
 (Continued)

	Airport Gas Revolving	Airport Rental House	Park and Recreation	Nonreverting Pool Concessions	Nonreverting Pool Donations	Nonreverting Marea Radcliff Park Donation
Receipts:						
Taxes	\$ -	\$ -	\$ 42,605	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	8,530	-	-	-
Charges for services	14,741	-	7,533	4,044	-	-
Fines and forfeits	-	-	-	-	-	-
Other	-	500	442	-	-	-
Total receipts	14,741	500	59,110	4,044	-	-
Disbursements:						
General government	16,279	500	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	56,277	3,219	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Total disbursements	16,279	500	56,277	3,219	-	-
Excess (deficiency) of receipts over disbursements	(1,538)	-	2,833	825	-	-
Other financing sources (uses)						
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(1,538)	-	2,833	825	-	-
Cash and investment fund balance - beginning	1,839	500	5,595	14,778	2,869	318
Cash and investment fund balance - ending	<u>\$ 301</u>	<u>\$ 500</u>	<u>\$ 8,428</u>	<u>\$ 15,603</u>	<u>\$ 2,869</u>	<u>\$ 318</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	301	500	8,428	15,603	2,869	318
Total cash and investment assets - December 31	<u>\$ 301</u>	<u>\$ 500</u>	<u>\$ 8,428</u>	<u>\$ 15,603</u>	<u>\$ 2,869</u>	<u>\$ 318</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
General government	\$ 301	\$ 500	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	8,428	15,603	2,869	318
Other purposes	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 301</u>	<u>\$ 500</u>	<u>\$ 8,428</u>	<u>\$ 15,603</u>	<u>\$ 2,869</u>	<u>\$ 318</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2004
 (Continued)

	Park Operating Grant	Nonreverting Softball	Law Enforcement Continuing Education	Donations	Industrial Development	Downtown Revitalization
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	250	-	-	-
Intergovernmental	-	-	-	10,000	-	-
Charges for services	-	9,465	346	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	-	-	-	2,000	41,340	-
Total receipts	-	9,465	596	12,000	41,340	-
Disbursements:						
General government	-	-	-	171	-	-
Public safety	-	-	1,148	1,000	-	-
Highways and streets	-	-	-	-	-	88
Culture and recreation	-	8,138	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Total disbursements	-	8,138	1,148	1,171	-	88
Excess (deficiency) of receipts over disbursements	-	1,327	(552)	10,829	41,340	(88)
Other financing sources (uses)						
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	1,327	(552)	10,829	41,340	(88)
Cash and investment fund balance - beginning	311	1,427	2,183	932	126,612	188
Cash and investment fund balance - ending	<u>\$ 311</u>	<u>\$ 2,754</u>	<u>\$ 1,631</u>	<u>\$ 11,761</u>	<u>\$ 167,952</u>	<u>\$ 100</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	311	2,754	1,631	11,761	167,952	100
Total cash and investment assets - December 31	<u>\$ 311</u>	<u>\$ 2,754</u>	<u>\$ 1,631</u>	<u>\$ 11,761</u>	<u>\$ 167,952</u>	<u>\$ 100</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	1,631	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	311	2,754	-	-	-	-
Other purposes	-	-	-	11,761	167,952	100
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 311</u>	<u>\$ 2,754</u>	<u>\$ 1,631</u>	<u>\$ 11,761</u>	<u>\$ 167,952</u>	<u>\$ 100</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2004
 (Continued)

	Riverboat	Cemetery	Cemetery General Care	Cumulative Capital Improvement	Economic Development Income Tax	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,849
Licenses and permits	-	-	-	-	-	250
Intergovernmental	48,546	-	-	14,345	48,753	463,286
Charges for services	-	-	-	-	-	56,221
Fines and forfeits	-	-	-	-	-	275
Other	-	29	32	-	-	61,076
Total receipts	48,546	29	32	14,345	48,753	662,957
Disbursements:						
General government	-	1,137	-	-	27,988	92,351
Public safety	-	-	-	-	-	2,148
Highways and streets	-	-	-	-	-	111,946
Culture and recreation	-	-	-	-	-	67,634
Debt service:						
Principal	-	-	-	-	-	2,235
Interest	-	-	-	-	-	176
Capital outlay:						
General government	-	-	-	-	-	222,024
Public safety	-	-	-	-	121,630	121,630
Total disbursements	-	1,137	-	-	149,618	620,144
Excess (deficiency) of receipts over disbursements	48,546	(1,108)	32	14,345	(100,865)	42,813
Other financing sources (uses)						
Transfers out	-	(17,442)	-	-	-	(17,442)
Total other financing sources (uses)	-	(17,442)	-	-	-	(17,442)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	48,546	(18,550)	32	14,345	(100,865)	25,371
Cash and investment fund balance - beginning	-	18,750	19,839	9,672	95,332	443,814
Cash and investment fund balance - ending	<u>\$ 48,546</u>	<u>\$ 200</u>	<u>\$ 19,871</u>	<u>\$ 24,017</u>	<u>\$ (5,533)</u>	<u>\$ 469,185</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ 48,546	\$ -	\$ -	\$ -	\$ (5,533)	\$ 43,013
Restricted assets:						
Cash and investments	-	200	19,871	24,017	-	426,172
Total cash and investment assets - December 31	\$ 48,546	\$ 200	\$ 19,871	\$ 24,017	\$ (5,533)	\$ 469,185
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
General government	\$ -	\$ 200	\$ 19,871	\$ -	\$ -	\$ 43,008
Public safety	-	-	-	-	-	1,631
Highways and streets	-	-	-	-	-	147,020
Culture and recreation	-	-	-	-	-	30,283
Other purposes	-	-	-	24,017	-	203,830
Unrestricted	48,546	-	-	-	(5,533)	43,013
Total cash and investment fund balance - December 31	\$ 48,546	\$ 200	\$ 19,871	\$ 24,017	\$ (5,533)	\$ 469,185

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005

	Motor Vehicle Highway	Local Road and Street	Parking Meter	Aviation	Airport Awareness Day	Airport Construction	Airport Gas Revolving
Receipts:							
Taxes	\$ 29,095	\$ -	\$ -	\$ 12,108	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	125,847	14,808	-	2,151	-	66,823	-
Charges for services	1,194	-	-	20,430	-	-	21,423
Fines and forfeits	-	-	20	-	-	-	-
Other	2,125	-	-	1,189	2,803	-	-
Total receipts	158,261	14,808	20	35,878	2,803	66,823	21,423
Disbursements:							
General government	-	-	-	44,101	2,063	-	18,664
Highways and streets	227,041	13,125	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	56,964	-
Culture and recreation	-	-	-	-	-	-	-
Total disbursements	227,041	13,125	-	44,101	2,063	56,964	18,664
Excess (deficiency) of receipts over disbursements	(68,780)	1,683	20	(8,223)	740	9,859	2,759
Cash and investment fund balance - beginning	146,380	640	8,765	6,055	1,368	6,348	301
Cash and investment fund balance - ending	\$ 77,600	\$ 2,323	\$ 8,785	\$ (2,168)	\$ 2,108	\$ 16,207	\$ 3,060
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ -	\$ -	\$ -	\$ (2,168)	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	77,600	2,323	8,785	-	2,108	16,207	3,060
Total cash and investment assets - December 31	\$ 77,600	\$ 2,323	\$ 8,785	\$ (2,168)	\$ 2,108	\$ 16,207	\$ 3,060
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
General government	\$ -	\$ -	\$ 8,785	\$ -	\$ 2,108	\$ 16,207	\$ 3,060
Public safety	-	-	-	-	-	-	-
Highways and streets	77,600	2,323	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-
Unrestricted	-	-	-	(2,168)	-	-	-
Total cash and investment fund balance - December 31	\$ 77,600	\$ 2,323	\$ 8,785	\$ (2,168)	\$ 2,108	\$ 16,207	\$ 3,060

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Airport Rental House	Park and Recreation	Nonreverting Pool Concessions	Nonreverting Pool Donations	Nonreverting Marea Radcliff Park Donation	Park Operating Grant
Receipts:						
Taxes	\$ -	\$ 38,763	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	6,887	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total receipts	<u>-</u>	<u>45,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:						
General government	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	23,093	-	600	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Culture and recreation	-	10,489	-	-	-	-
Total disbursements	<u>-</u>	<u>33,582</u>	<u>-</u>	<u>600</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>12,068</u>	<u>-</u>	<u>(600)</u>	<u>-</u>	<u>-</u>
Cash and investment fund balance - beginning	<u>500</u>	<u>8,428</u>	<u>15,603</u>	<u>2,869</u>	<u>318</u>	<u>311</u>
Cash and investment fund balance - ending	<u>\$ 500</u>	<u>\$ 20,496</u>	<u>\$ 15,603</u>	<u>\$ 2,269</u>	<u>\$ 318</u>	<u>\$ 311</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	<u>500</u>	<u>20,496</u>	<u>15,603</u>	<u>2,269</u>	<u>318</u>	<u>311</u>
Total cash and investment assets - December 31	<u>\$ 500</u>	<u>\$ 20,496</u>	<u>\$ 15,603</u>	<u>\$ 2,269</u>	<u>\$ 318</u>	<u>\$ 311</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
General government	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	20,496	15,603	2,269	318	311
Other purposes	-	-	-	-	-	-
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash and investment fund balance - December 31	<u>\$ 500</u>	<u>\$ 20,496</u>	<u>\$ 15,603</u>	<u>\$ 2,269</u>	<u>\$ 318</u>	<u>\$ 311</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Nonreverting Softball	Law Enforcement Continuing Education	Donations	Industrial Development	Downtown Revitalization	Riverboat
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	336	-	-	-	-
Intergovernmental	-	-	150	-	-	24,239
Charges for services	12,649	160	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	-	465	18,116	44,293	-	-
Total receipts	12,649	961	18,266	44,293	-	24,239
Disbursements:						
General government	-	-	4,794	69,779	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	10,476	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Total disbursements	10,476	-	4,794	69,779	-	-
Excess (deficiency) of receipts over disbursements	2,173	961	13,472	(25,486)	-	24,239
Cash and investment fund balance - beginning	2,754	1,631	11,761	167,952	100	48,546
Cash and investment fund balance - ending	<u>\$ 4,927</u>	<u>\$ 2,592</u>	<u>\$ 25,233</u>	<u>\$ 142,466</u>	<u>\$ 100</u>	<u>\$ 72,785</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72,785
Restricted assets:						
Cash and investments	4,927	2,592	25,233	142,466	100	-
Total cash and investment assets - December 31	<u>\$ 4,927</u>	<u>\$ 2,592</u>	<u>\$ 25,233</u>	<u>\$ 142,466</u>	<u>\$ 100</u>	<u>\$ 72,785</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	2,592	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	4,927	-	-	-	-	-
Other purposes	-	-	25,233	142,466	100	-
Unrestricted	-	-	-	-	-	72,785
Total cash and investment fund balance - December 31	<u>\$ 4,927</u>	<u>\$ 2,592</u>	<u>\$ 25,233</u>	<u>\$ 142,466</u>	<u>\$ 100</u>	<u>\$ 72,785</u>

TOWN OF PAOLI
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Cemetery	Cemetery General Care	Cumulative Capital Improvement	Cumulative Capital Development	Economic Development Income Tax	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ 11,475	\$ -	\$ 91,441
Licenses and permits	-	-	-	-	-	336
Intergovernmental	-	-	11,883	2,039	51,909	306,736
Charges for services	-	-	-	-	-	55,856
Fines and forfeits	-	-	-	-	-	20
Other	-	343	-	-	97,000	166,334
	<u>-</u>	<u>343</u>	<u>-</u>	<u>-</u>	<u>97,000</u>	<u>166,334</u>
Total receipts	<u>-</u>	<u>343</u>	<u>11,883</u>	<u>13,514</u>	<u>148,909</u>	<u>620,723</u>
Disbursements:						
General government	-	-	-	-	30,063	169,464
Highways and streets	-	-	-	-	-	240,166
Culture and recreation	-	-	-	-	10,948	45,117
Capital outlay:						
General government	-	-	-	-	-	56,964
Culture and recreation	-	-	-	-	17,500	27,989
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,511</u>	<u>539,700</u>
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,511</u>	<u>539,700</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>343</u>	<u>11,883</u>	<u>13,514</u>	<u>90,398</u>	<u>81,023</u>
Cash and investment fund balance - beginning	<u>200</u>	<u>19,871</u>	<u>24,017</u>	<u>-</u>	<u>(5,533)</u>	<u>469,185</u>
Cash and investment fund balance - ending	<u>\$ 200</u>	<u>\$ 20,214</u>	<u>\$ 35,900</u>	<u>\$ 13,514</u>	<u>\$ 84,865</u>	<u>\$ 550,208</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 84,865	\$ 155,482
Restricted assets:						
Cash and investments	<u>200</u>	<u>20,214</u>	<u>35,900</u>	<u>13,514</u>	<u>-</u>	<u>394,726</u>
Total cash and investment assets - December 31	<u>\$ 200</u>	<u>\$ 20,214</u>	<u>\$ 35,900</u>	<u>\$ 13,514</u>	<u>\$ 84,865</u>	<u>\$ 550,208</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
General government	\$ 200	\$ 20,214	\$ -	\$ -	\$ -	\$ 51,074
Public safety	-	-	-	-	-	2,592
Highways and streets	-	-	-	-	-	79,923
Culture and recreation	-	-	-	-	-	43,924
Other purposes	-	-	35,900	13,514	-	217,213
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,865</u>	<u>155,482</u>
Total cash and investment fund balance - December 31	<u>\$ 200</u>	<u>\$ 20,214</u>	<u>\$ 35,900</u>	<u>\$ 13,514</u>	<u>\$ 84,865</u>	<u>\$ 550,208</u>

TOWN OF PAOLI
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2005

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Fire equipment	\$ 97,000	\$ 17,870
Business-type Activities:		
Water Utility		
Notes and loans payable	\$ 18,900	\$ 15,019
Revenue bonds:		
1992 Waterworks improvements	98,000	47,000
2004 Waterworks improvements:		
Series A	3,575,000	-
Series B	925,000	-
Total Water Utility	<u>4,616,900</u>	<u>62,019</u>
Wastewater Utility		
Notes and loans payable	18,900	15,019
Revenue bonds:		
2001 Wastewater construction	<u>1,865,000</u>	<u>80,000</u>
Total Wastewater Utility	<u>1,883,900</u>	<u>95,019</u>
Electric Utility:		
Notes and loans payable	<u>18,900</u>	<u>15,019</u>
Total Electric Utility	<u>18,900</u>	<u>15,019</u>
Total business-type activities long-term debt:	<u>\$ 6,519,700</u>	<u>\$ 172,057</u>

TOWN OF PAOLI
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping that were cited in the prior audit report, were again present during the current audit period:

- (1) There were numerous posting errors. These errors included receipts deposited timely, but posted in ledgers with different dates; interest not posted; and nonsufficient funds checks incorrectly posted.

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)

- (2) Some transactions were recorded as "negative" receipts and disbursements.

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)

OVERDRAWN CASH BALANCES

The cash balance of the Economic Development Income Tax Fund was overdrawn in 2004 and the Aviation Fund was overdrawn in 2005.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (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>Years</u>	<u>Excess Amount Expended</u>
Aviation	2004	\$ 4,940
Nonreverting Pool Concessions	2004	3,220
Nonreverting Softball	2004	8,138
Law Enforcement Continuing Education	2004	1,148
Economic Development Income Tax	2004	149,618
General	2005	618,429
Motor Vehicle Highway	2005	227,041
Local Road and Street	2005	13,125
Aviation	2005	44,101
Park and Recreation	2005	33,582
Nonreverting Softball	2005	10,476
Economic Development Income Tax	2005	58,511

TOWN OF PAOLI
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 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."

PRESCRIBED FORMS

Prescribed Form 350, Register of Investments, was not always in use.

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)

INVESTMENT MATURITY LIMITATIONS

The governmental unit purchased certain investments which have a stated maturity in excess of two years.

Indiana Code 5-13-9-5.6 states: "Investments made under IC 5-13-9 must have a stated final maturity of not more than two years after the date of purchase or entry into a repurchase agreement."

CAPITAL ASSET RECORDS

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

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

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

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

TOWN OF PAOLI
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

(1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

(A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

(B) A description of the premises, as shown by the records of the county auditor.

(C) The amount of the delinquent fees, together with the penalty.

(2) An individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

ORDINANCES AND RESOLUTIONS

The Town of Paoli adopted Ordinance 2001-02 on January 16, 2001, authorizing the issuance of sewage works revenue bonds. This Ordinance requires that monthly transfers be made from the net revenues of the Wastewater Utility to the Bond and Interest Account and the Reserve Account. However, the Town did not begin making these transfers until December 2005.

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

PARK BOARD MINUTES

Not all minutes of meetings of the Park Board were available for audit. Additionally, the minutes presented for review were not always signed.

Indiana Code 5-14-1.5-4 states in part:

"(b) As the meeting progresses, the following memoranda shall be kept:

TOWN OF PAOLI
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes take, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5 or IC 20-12-63-7."

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

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

Compliance

We have audited the compliance of the Town of Paoli (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2004 and 2005. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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

As described in items 2005-1 and 2005-2 in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding Equipment and Real Property Management that are applicable to its Water and Waste Disposal Systems for Rural Communities program and its Community Development Block Grants/State's Program. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to each program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended December 31, 2004 and 2005.

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

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Town's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-1 and 2005-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2005-1 and 2005-2 to be material weaknesses.

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

STATE BOARD OF ACCOUNTS

April 9, 2007

TOWN OF PAOLI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2004 and 2005

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-04	Total Federal Awards Expended 12-31-05
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct grant				
Water and Waste Disposal Systems for Rural Communities 15-059-0356001156	10.760		\$ 2,774,312	\$ 1,838,370
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Economic Development Corporation Community Development Block Grants/State's Program Water Systems Improvements	14.228	CF-03-113	164,000	336,000
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Direct grant				
Airport Improvement Program	20.106			
2002 Program		3-18-0064-02	-	8,171
2003 Program		3-18-0064-03	58,928	-
2004 Program		3-18-0064-04	126,344	54,252
Total for federal grantor agency			185,272	62,423
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-Through Indiana Department of Homeland Security Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036			
Flooding Emergency		Disaster 1520	22,070	-
Severe Storms		Disaster 1542	17,098	-
Snow Emergency		Disaster 3197	7,024	-
Total for federal grantor agency			46,192	-
Total federal awards expended			\$ 3,169,776	\$ 2,236,793

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

TOWN OF PAOLI
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

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

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

TOWN OF PAOLI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	none reported

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities
14.228	Community Development Block Grants/State's Program

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

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

Section III – Federal Award Findings and Questioned Costs

FINDING 2005-1, EQUIPMENT AND REAL PROPERTY MANAGENT

Federal Agency: U.S. Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760
Federal Award Number: 15-059-0356001156

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

The U.S. Department of Agriculture Code of Federal Regulations, Title 7 CFR 3016.32, requires that grantees maintain equipment records, take a physical inventory at least every two years, design an appropriate control system to safeguard equipment, and adequately maintain all equipment.

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

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

FINDING 2005-2, EQUIPMENT AND REAL PROPERTY MANAGENT

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
CFDA Number: 14.228
Federal Award Number: CF-03-113
Pass-Through Entity: Indiana Economic Development Corporation

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

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

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

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

TOWN OF PAOLI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF PAOLI

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

CORRECTIVE ACTION PLAN

The following information relates to:

FINDING 2005-1, EQUIPMENT AND REAL PROPERTY MANAGEMENT (CFDA 10.760)
FINDING 2005-2, EQUIPMENT AND REAL PROPERTY MANAGEMENT (CFDA 14.228)

Capital Asset Records:

The Town recently added one additional person to the office staff. This will enable the Town to complete the in-house work to compile adequate capital asset records of the Town.

Estimated Completion Date:

Fall 2007

Carolyn N. Clements

Carolyn N. Clements
Clerk-Treasurer

April 09, 2007

Date

CLERK-TREASURER
Carolyn N. Clements

- 4 5 -
TOWN COUNCIL
Gary N. Barnett, President
Forrest G. Brown, Robert L. Gilliatt, Noel L. Newlin, Alva Sibbitt, Jr.

SUPERVISOR OF UTILITIES
Mike Compton

TOWN OF PAOLI
EXIT CONFERENCE

The contents of this report were discussed on April 9, 2007, with Carolyn N. Clements, Clerk-Treasurer.