

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

AUDIT REPORT

OF

TOWN OF PARAGON

MORGAN COUNTY, INDIANA

January 1, 2006 to December 31, 2007



**FILED**  
12/31/2008



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Vickie L. Herrington	01-01-06 to 12-31-08
President of the Town Council	Michael Troxel	01-01-06 to 12-31-06
	Dale Allen	01-01-07 to 12-31-07
	Dale Lauderman	01-01-08 to 12-31-08



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

TO: THE OFFICIALS OF THE TOWN OF PARAGON, MORGAN 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 Paragon (Town), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated October 9, 2008, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. 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 Town has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

STATE BOARD OF ACCOUNTS

October 9, 2008



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

TO: THE OFFICIALS OF THE TOWN OF PARAGON, MORGAN COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paragon (Town), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

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

STATE BOARD OF ACCOUNTS

October 9, 2008

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

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 97,620	\$ 2,205	\$ 40,430	\$ -	\$ (54,985)	\$ -	\$ (54,985)
Public safety	51,669	2,450	-	-	(49,219)	-	(49,219)
Highways and streets	17,336	499	37,149	-	20,312	-	20,312
Urban development and housing	2,700	-	-	2,700	-	-	-
Capital outlay	-	-	-	44,793	44,793	-	44,793
Total governmental activities	<u>169,325</u>	<u>5,154</u>	<u>77,579</u>	<u>47,493</u>	<u>(39,099)</u>	<u>-</u>	<u>(39,099)</u>
Business-type activities:							
Water	59,971	80,786	-	-	-	20,815	20,815
Wastewater	<u>92,122</u>	<u>113,005</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,883</u>	<u>20,883</u>
Total business-type activities	<u>152,093</u>	<u>193,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,698</u>	<u>41,698</u>
Total primary government	<u>\$ 321,418</u>	<u>\$ 198,945</u>	<u>\$ 77,579</u>	<u>\$ 47,493</u>	<u>(39,099)</u>	<u>41,698</u>	<u>2,599</u>
General receipts:							
Property taxes					64,824	-	64,824
Riverboat revenue sharing					4,172	-	4,172
Grants and contributions not restricted to specific programs					13,309	-	13,309
Unrestricted investment earnings					4,608	4,600	9,208
Other operating receipts					3,253	-	3,253
Transfers:							
Interfund loans					<u>12,000</u>	<u>(12,000)</u>	<u>-</u>
Total general receipts and transfers					<u>102,166</u>	<u>(7,400)</u>	<u>94,766</u>
Change in net assets					63,067	34,298	97,365
Net assets - beginning					<u>121,905</u>	<u>156,493</u>	<u>278,398</u>
Net assets - ending					<u>\$ 184,972</u>	<u>\$ 190,791</u>	<u>\$ 375,763</u>
<u>Assets</u>							
Cash and investments					\$ 108,157	\$ 19,574	\$ 127,731
Restricted assets:							
Cash and investments					<u>76,815</u>	<u>171,217</u>	<u>248,032</u>
Total assets					<u>\$ 184,972</u>	<u>\$ 190,791</u>	<u>\$ 375,763</u>
<u>Net Assets</u>							
Restricted for:							
Debt service					\$ -	\$ 116,336	\$ 116,336
Other purposes					76,815	54,881	131,696
Unrestricted					<u>108,157</u>	<u>19,574</u>	<u>127,731</u>
Total net assets					<u>\$ 184,972</u>	<u>\$ 190,791</u>	<u>\$ 375,763</u>

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

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

	General	Motor Vehicle Highway	Economic Development Income Tax	Other Governmental Funds	Totals
<b>Receipts:</b>					
Taxes	\$ 64,824	\$ -	\$ -	\$ -	\$ 64,824
Licenses and permits	40	-	-	100	140
Intergovernmental	55,543	30,473	44,793	11,744	142,553
Charges for services	2,165	-	-	105	2,270
Fines and forfeits	2,450	-	-	294	2,744
Other	7,306	555	-	-	7,861
<b>Total receipts</b>	<b>132,328</b>	<b>31,028</b>	<b>44,793</b>	<b>12,243</b>	<b>220,392</b>
<b>Disbursements:</b>					
General government	97,620	-	-	-	97,620
Public safety	40,943	10,633	-	93	51,669
Highways and streets	7,972	7,420	-	1,944	17,336
Urban redevelopment and housing	-	-	-	2,700	2,700
<b>Total disbursements</b>	<b>146,535</b>	<b>18,053</b>	<b>-</b>	<b>4,737</b>	<b>169,325</b>
Excess (deficiency) of revenue over disbursements	(14,207)	12,975	44,793	7,506	51,067
<b>Other financing sources (uses):</b>					
Interfund loans	16,000	(4,000)	-	-	12,000
Transfers in	3,000	-	-	-	3,000
Transfers out	-	-	-	(3,000)	(3,000)
<b>Total other financing sources (uses)</b>	<b>19,000</b>	<b>(4,000)</b>	<b>-</b>	<b>(3,000)</b>	<b>12,000</b>
Excess of receipts and other financing sources over disbursements and other financing uses	4,793	8,975	44,793	4,506	63,067
Cash and investment fund balance - beginning	101,946	14,568	-	5,391	121,905
Cash and investment fund balance - ending	<u>\$ 106,739</u>	<u>\$ 23,543</u>	<u>\$ 44,793</u>	<u>\$ 9,897</u>	<u>\$ 184,972</u>
<b><u>Cash and Investment Assets - December 31</u></b>					
Cash and investments	\$ 106,739	\$ -	\$ -	\$ 1,418	\$ 108,157
Restricted assets:					
Cash and investments	-	23,543	44,793	8,479	76,815
<b>Total cash and investment assets - December 31</b>	<u>\$ 106,739</u>	<u>\$ 23,543</u>	<u>\$ 44,793</u>	<u>\$ 9,897</u>	<u>\$ 184,972</u>
<b><u>Cash and Investment Fund Balance - December 31</u></b>					
Restricted for:					
Other purposes	\$ -	\$ 23,543	\$ 44,793	\$ 8,479	\$ 76,815
Unrestricted	106,739	-	-	1,418	108,157
<b>Total cash and investment fund balance - December 31</b>	<u>\$ 106,739</u>	<u>\$ 23,543</u>	<u>\$ 44,793</u>	<u>\$ 9,897</u>	<u>\$ 184,972</u>

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

TOWN OF PARAGON  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Totals
Operating receipts:			
Metered water receipts:			
Residential	\$ 65,104	\$ -	\$ 65,104
Other water receipts	10,606	-	10,606
Measured revenue:			
Residential	-	112,113	112,113
Other	4,124	892	5,016
	<u>79,834</u>	<u>113,005</u>	<u>192,839</u>
Total operating receipts			
Operating disbursements:			
Employee salaries and wages	25,420	25,420	50,840
Officers salaries and wages	1,338	1,338	2,676
Employee pensions and benefits	2,060	2,061	4,121
Purchased power	1,292	14,863	16,155
Fuel for power production	-	297	297
Chemicals	300	-	300
Material and supplies	11,057	12,262	23,319
Contractual services	3,194	12,491	15,685
Rents	224	55	279
Insurance disbursements	3,118	3,884	7,002
Bad debts	30	99	129
Miscellaneous disbursements	11,362	7,605	18,967
	<u>59,395</u>	<u>80,375</u>	<u>139,770</u>
Total operating disbursements			
Excess of operating receipts over operating disbursements	<u>20,439</u>	<u>32,630</u>	<u>53,069</u>
Nonoperating receipts (disbursements):			
Interest and investment receipts	202	4,398	4,600
Debt service of interest	-	(11,747)	(11,747)
Customer deposit receipts	951	-	951
Customer deposit disbursements	(576)	-	(576)
	<u>577</u>	<u>(7,349)</u>	<u>(6,772)</u>
Total nonoperating receipts (disbursements)			
Excess of receipts over disbursements and nonoperating receipts (disbursements)	21,016	25,281	46,297
Transfers in	-	20,000	20,000
Transfers out	(12,000)	(20,000)	(32,000)
Excess of receipts and transfers in over disbursements and transfers out	9,016	25,281	34,297
Cash and investment fund balance - beginning	<u>11,972</u>	<u>144,522</u>	<u>156,494</u>
Cash and investment fund balance - ending	<u>\$ 20,988</u>	<u>\$ 169,803</u>	<u>\$ 190,791</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 12,233	\$ 7,341	\$ 19,574
Restricted assets:			
Cash and investments	8,755	162,462	171,217
Total cash and investment assets - December 31	<u>\$ 20,988</u>	<u>\$ 169,803</u>	<u>\$ 190,791</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ -	\$ 116,336	\$ 116,336
Other purposes	8,755	46,126	54,881
Unrestricted	<u>12,233</u>	<u>7,341</u>	<u>19,574</u>
Total cash and investment fund balance - December 31	<u>\$ 20,988</u>	<u>\$ 169,803</u>	<u>\$ 190,791</u>

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

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

	Agency Funds
Additions:	
Agency fund additions	\$ 116,500
Deductions:	
Agency fund deductions	117,524
Deficiency of additions	
Deficiency of additions over deductions	(1,024)
Cash and investment fund balance - beginning	1,768
Cash and investment fund balance - ending	\$ 744

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

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

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
<b>Primary government:</b>							
<b>Governmental activities:</b>							
General government	\$ 82,008	\$ 2,306	\$ 39,048	\$ -	\$ (40,654)	\$ -	\$ (40,654)
Public safety	58,350	2,750	-	-	(55,600)	-	(55,600)
Highways and streets	18,060	221	37,579	-	19,740	-	19,740
Capital outlay	553,444	-	-	520,521	(32,923)	-	(32,923)
Interest on short-term debt	336	-	-	-	(336)	-	(336)
<b>Total governmental activities</b>	<b>712,198</b>	<b>5,277</b>	<b>76,627</b>	<b>520,521</b>	<b>(109,773)</b>	<b>-</b>	<b>(109,773)</b>
<b>Business-type activities:</b>							
Water	81,813	79,359	-	-	-	(2,454)	(2,454)
Wastewater	143,195	108,883	-	-	-	(34,312)	(34,312)
Storm water	8,974	32,334	-	-	-	23,360	23,360
<b>Total business-type activities</b>	<b>233,982</b>	<b>220,576</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13,406)</b>	<b>(13,406)</b>
<b>Total primary government</b>	<b>\$ 946,180</b>	<b>\$ 225,853</b>	<b>\$ 76,627</b>	<b>\$ 520,521</b>	<b>(109,773)</b>	<b>(13,406)</b>	<b>(123,179)</b>
<b>General receipts:</b>							
Property taxes					68,340	-	68,340
Riverboat revenue sharing					4,181	-	4,181
Grants and contributions not restricted to specific programs					13,887	-	13,887
Unrestricted investment earnings					5,728	5,280	11,008
Other operating receipts					3,414	-	3,414
<b>Total general receipts</b>					<b>95,550</b>	<b>5,280</b>	<b>100,830</b>
<b>Change in net assets</b>					<b>(14,223)</b>	<b>(8,126)</b>	<b>(22,349)</b>
<b>Net assets - beginning</b>					<b>184,972</b>	<b>190,791</b>	<b>375,763</b>
<b>Net assets - ending</b>					<b>\$ 170,749</b>	<b>\$ 182,665</b>	<b>\$ 353,414</b>
<b>Assets</b>							
Cash and investments					\$ 108,284	\$ 53,819	\$ 162,103
<b>Restricted assets:</b>							
Cash and investments					62,465	128,846	191,311
<b>Total assets</b>					<b>\$ 170,749</b>	<b>\$ 182,665</b>	<b>\$ 353,414</b>
<b>Net Assets</b>							
<b>Restricted for:</b>							
Debt service					\$ -	\$ 70,000	\$ 70,000
Other purposes					62,465	58,846	121,311
Unrestricted					108,284	53,819	162,103
<b>Total net assets</b>					<b>\$ 170,749</b>	<b>\$ 182,665</b>	<b>\$ 353,414</b>

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

TOWN OF PARAGON  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2007

	General	Motor Vehicle Highway	Storm Water Construction Grant	Other Governmental Funds	Totals
<b>Receipts:</b>					
Taxes	\$ 68,340	\$ -	\$ -	\$ -	\$ 68,340
Licenses and permits	140	-	-	20	160
Intergovernmental	54,787	30,878	490,756	38,795	615,216
Charges for services	2,166	-	-	-	2,166
Fines and forfeits	2,750	-	-	201	2,951
Other	8,726	80	100	236	9,142
<b>Total receipts</b>	<b>136,909</b>	<b>30,958</b>	<b>490,856</b>	<b>39,252</b>	<b>697,975</b>
<b>Disbursements:</b>					
General government	82,008	-	-	-	82,008
Public safety	47,552	10,762	-	36	58,350
Highways and streets	8,570	7,588	-	1,902	18,060
<b>Debt service:</b>					
Principal	25,000	-	-	-	25,000
Interest	336	-	-	-	336
<b>Capital outlay:</b>					
General government	-	-	-	56,443	56,443
Public safety	-	-	-	5,500	5,500
Urban redevelopment and housing	-	-	491,501	-	491,501
<b>Total disbursements</b>	<b>163,466</b>	<b>18,350</b>	<b>491,501</b>	<b>63,881</b>	<b>737,198</b>
Excess (deficiency) of revenue over disbursements	(26,557)	12,608	(645)	(24,629)	(39,223)
<b>Other financing sources (uses):</b>					
Short term loan proceeds	25,000	-	-	-	25,000
Transfers in	2,500	-	-	-	2,500
Transfers out	-	-	-	(2,500)	(2,500)
<b>Total other financing sources (uses)</b>	<b>27,500</b>	<b>-</b>	<b>-</b>	<b>(2,500)</b>	<b>25,000</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	943	12,608	(645)	(27,129)	(14,223)
Cash and investment fund balance - beginning	106,739	23,543	-	54,690	184,972
Cash and investment fund balance - ending	<u>\$ 107,682</u>	<u>\$ 36,151</u>	<u>\$ (645)</u>	<u>\$ 27,561</u>	<u>\$ 170,749</u>
<b><u>Cash and Investment Assets - December 31</u></b>					
Cash and investments	\$ 107,682	\$ -	\$ (645)	\$ 1,247	\$ 108,284
<b>Restricted assets:</b>					
Cash and investments	-	36,151	-	26,314	62,465
<b>Total cash and investment assets - December 31</b>	<b><u>\$ 107,682</u></b>	<b><u>\$ 36,151</u></b>	<b><u>\$ (645)</u></b>	<b><u>\$ 27,561</u></b>	<b><u>\$ 170,749</u></b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>					
<b>Restricted for:</b>					
Other purposes	\$ -	\$ 36,151	\$ -	\$ 26,314	\$ 62,465
Unrestricted	107,682	-	(645)	1,247	108,284
<b>Total cash and investment fund balance - December 31</b>	<b><u>\$ 107,682</u></b>	<b><u>\$ 36,151</u></b>	<b><u>\$ (645)</u></b>	<b><u>\$ 27,561</u></b>	<b><u>\$ 170,749</u></b>

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

TOWN OF PARAGON  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Storm Water Utility	Totals
<b>Operating receipts:</b>				
Metered water receipts:				
Residential	\$ 68,814	\$ -	\$ -	\$ 68,814
Other water revenue	1,968	-	-	1,968
Flat rate receipts	-	-	30,793	30,793
Measured revenue:				
Residential	-	108,159	-	108,159
Other	7,647	724	1,541	9,912
	<u>78,429</u>	<u>108,883</u>	<u>32,334</u>	<u>219,646</u>
<b>Total operating receipts</b>				
<b>Operating disbursements:</b>				
Employee salaries and wages	26,687	26,277	-	52,964
Officers salaries and wages	1,338	1,338	-	2,676
Employee pensions and benefits	2,144	2,113	-	4,257
Purchased power	6,932	13,901	-	20,833
Chemicals	778	77	-	855
Material and supplies	9,080	3,303	49	12,432
Contractual services	4,951	12,762	-	17,713
Insurance disbursements	9,747	11,912	-	21,659
Bad debts	147	157	466	770
Miscellaneous disbursements	15,009	9,180	8,459	32,648
	<u>76,813</u>	<u>81,020</u>	<u>8,974</u>	<u>166,807</u>
<b>Total operating disbursements</b>				
Excess of operating receipts over operating disbursements				
	<u>1,616</u>	<u>27,863</u>	<u>23,360</u>	<u>52,839</u>
<b>Nonoperating receipts (disbursements):</b>				
Interest and investment receipts	164	5,059	57	5,280
Debt service of interest	-	(22,917)	-	(22,917)
Debt service of principal	-	(44,258)	-	(44,258)
Customer deposit receipts	930	-	-	930
	<u>1,094</u>	<u>(62,116)</u>	<u>57</u>	<u>(60,965)</u>
<b>Total nonoperating receipts (disbursements)</b>				
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)				
	2,710	(34,253)	23,417	(8,126)
<b>Transfers in</b>				
Transfers in	19,400	9,000	7,000	35,400
<b>Transfers out</b>				
Transfers out	(24,400)	(4,000)	(7,000)	(35,400)
<b>Excess (deficiency) of receipts and transfers in over disbursements and transfers out</b>				
	(2,290)	(29,253)	23,417	(8,126)
<b>Cash and investment fund balance - beginning</b>				
	20,988	169,803	-	190,791
<b>Cash and investment fund balance - ending</b>				
	<u>\$ 18,698</u>	<u>\$ 140,550</u>	<u>\$ 23,417</u>	<u>\$ 182,665</u>
<u><b>Cash and Investment Assets - December 31</b></u>				
Cash and investments	\$ 5,989	\$ 24,413	\$ 23,417	\$ 53,819
Restricted assets:				
Cash and investments	12,709	116,137	-	128,846
	<u>\$ 18,698</u>	<u>\$ 140,550</u>	<u>\$ 23,417</u>	<u>\$ 182,665</u>
<u><b>Total cash and investment assets - December 31</b></u>				
<u><b>Cash and Investment Fund Balance - December 31</b></u>				
Restricted for:				
Debt service	\$ -	\$ 70,000	\$ -	\$ 70,000
Other purposes	12,709	46,137	-	58,846
Unrestricted				
	5,989	24,413	23,417	53,819
	<u>\$ 18,698</u>	<u>\$ 140,550</u>	<u>\$ 23,417</u>	<u>\$ 182,665</u>
<u><b>Total cash and investment fund balance - December 31</b></u>				

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

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

	Agency Funds
<b>Additions:</b>	
Agency fund additions	\$ 119,023
<b>Deductions:</b>	
Agency fund deductions	117,306
Excess of additions over deductions	1,717
Cash and investment fund balance - beginning	744
Cash and investment fund balance - ending	\$ 2,461

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

TOWN OF PARAGON  
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), highways and streets, culture and recreation, public improvements, general administrative services, water, wastewater, storm water, and urban redevelopment.

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

Primary Government: Town of Paragon

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

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

The motor vehicle highway fund is used to account for highway taxes as well as wheel and surtax collections. Disbursements are used to maintain town streets, streetlights, and public safety salaries.

The economic development income tax fund, for the year 2006 only, was used to account for distributions of this tax from the county treasurer. Disbursements are as approved in the Town's annual capital improvement plan.

The storm water construction grant fund, for the year 2007 only, was used to account for community development block grant and rural development loan funds obtained to construct lines for the Town's Storm Water Utility collection system.

TOWN OF PARAGON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The Town reports the following major proprietary funds:

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

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

The storm water utility fund, which began in 2007, accounts for the operation of the storm water collection system.

Additionally, the Town reports the following fund type:

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

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. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

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

TOWN OF PARAGON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

3. Capital Assets

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

4. Long-Term Debt

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

5. Equity Classification

Government-Wide Statements

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

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

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

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

TOWN OF PARAGON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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

TOWN OF PARAGON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Disbursements in Excess of Appropriations

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

<u>Fund</u>	<u>2007</u>
General	<u>\$ 9,979</u>

These disbursements were funded by greater than anticipated receipts and use of available cash balance.

TOWN OF PARAGON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

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.

2. Investments

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the Town to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Town to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Town and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Town may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Town's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

TOWN OF PARAGON  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Town does not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town must follow state statute and limit the stated final maturities of the investments to no more than two years. The Town does not have a formal investment policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The Town does not have a formal investment policy for credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The Town does not have a formal policy in regards to foreign currency risk.

B. Interfund Transfers

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>2006</u>	<u>2007</u>
Other governmental funds	General Fund	<u>\$ 3,000</u>	<u>\$ 2,500</u>

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

TOWN OF PARAGON  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

IV. Other Information

A. Risk Management

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

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

B. Subsequent Events

The Town approved for its employees to be covered in the Public Employees Retirement Fund (PERF) effective July 1, 2008.

On June 7, 2008, the Town experienced flooding covering 90% of its area. This resulted in the need to clean up debris that covered streets and property. The Town was eligible to claim these expenses with the Federal Emergency Management Agency (FEMA) for assistance in this cost. The Town received notice that FEMA allowed costs of \$22,027 with the federal contribution of 75% being allowed for reimbursement or \$16,520. The Town does not know any if any other costs will be allowed for assistance by FEMA. There was also damage to property and utility plant infrastructure which was covered by the Town's commercial insurance policy.

On September 15, 2008, the Town entered into a capital lease to purchase a police vehicle. This lease requires annual lease payments of \$6,221 in advance. These lease payments will be paid from the Local Option Income Tax fund which was adopted by Morgan County in 2007 and distributions to local units, including the Town, starting in 2008. The Town can only use this fund for public safety purposes.

C. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Council on August 2, 2004.

Wastewater Utility

The current rate structure was approved by the Town Council on August 2, 2004.

Storm Water Utility

The current rate structure was approved by the Town Council on August 6, 2007.

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

	Local Road and Street	Law Enforcement Continuing Education	Cumulative Capital Improvement	Storm Water Construction Grant	Totals
<b>Receipts:</b>					
Licenses and permits	\$ -	\$ 100	\$ -	\$ -	\$ 100
Intergovernmental	6,676	-	2,368	2,700	11,744
Charges for services	75	30	-	-	105
Fines and forfeits	-	294	-	-	294
<b>Total receipts</b>	<b>6,751</b>	<b>424</b>	<b>2,368</b>	<b>2,700</b>	<b>12,243</b>
<b>Disbursements:</b>					
Public safety	-	93	-	-	93
Highways and streets	1,944	-	-	-	1,944
Urban redevelopment and housing	-	-	-	2,700	2,700
<b>Total disbursements</b>	<b>1,944</b>	<b>93</b>	<b>-</b>	<b>2,700</b>	<b>4,737</b>
<b>Excess of revenue over disbursements</b>	<b>4,807</b>	<b>331</b>	<b>2,368</b>	<b>-</b>	<b>7,506</b>
<b>Other financing sources (uses):</b>					
Transfers out	-	-	(3,000)	-	(3,000)
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>4,807</b>	<b>331</b>	<b>(632)</b>	<b>-</b>	<b>4,506</b>
<b>Cash and investment fund balance - beginning</b>	<b>3,292</b>	<b>49</b>	<b>2,050</b>	<b>-</b>	<b>5,391</b>
<b>Cash and investment fund balance - ending</b>	<b>\$ 8,099</b>	<b>\$ 380</b>	<b>\$ 1,418</b>	<b>\$ -</b>	<b>\$ 9,897</b>
<b><u>Cash and Investment Assets - December 31</u></b>					
Cash and investments	\$ -	\$ -	\$ 1,418	\$ -	\$ 1,418
Restricted assets:					
Cash and investments	8,099	380	-	-	8,479
<b>Total cash and investment assets - December 31</b>	<b>\$ 8,099</b>	<b>\$ 380</b>	<b>\$ 1,418</b>	<b>\$ -</b>	<b>\$ 9,897</b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>					
Restricted for:					
Other purposes	\$ 8,099	\$ 380	\$ -	\$ -	\$ 8,479
Unrestricted	-	-	1,418	-	1,418
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 8,099</b>	<b>\$ 380</b>	<b>\$ 1,418</b>	<b>\$ -</b>	<b>\$ 9,897</b>

TOWN OF PARAGON  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2007

	Local Road and Street	Law Enforcement Continuing Education	Cumulative Capital Improvement	Economic Development Income Tax	Totals
Receipts:					
Licenses and permits	\$ -	\$ 20	\$ -	\$ -	\$ 20
Intergovernmental	6,701	-	2,329	29,765	38,795
Fines and forfeits	-	201	-	-	201
Other	236	-	-	-	236
	<u>6,937</u>	<u>221</u>	<u>2,329</u>	<u>29,765</u>	<u>39,252</u>
Total receipts					
Disbursements:					
Public safety	-	36	-	-	36
Highways and streets	1,902	-	-	-	1,902
Capital outlay:					
General government	-	-	-	56,443	56,443
Public safety	-	-	-	5,500	5,500
	<u>1,902</u>	<u>36</u>	<u>-</u>	<u>61,943</u>	<u>63,881</u>
Total disbursements					
Excess (deficiency) of revenue over disbursements	<u>5,035</u>	<u>185</u>	<u>2,329</u>	<u>(32,178)</u>	<u>(24,629)</u>
Other financing sources (uses):					
Transfers out	-	-	(2,500)	-	(2,500)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses					
	5,035	185	(171)	(32,178)	(27,129)
Cash and investment fund balance - beginning	<u>8,099</u>	<u>380</u>	<u>1,418</u>	<u>44,793</u>	<u>54,690</u>
Cash and investment fund balance - ending	<u>\$ 13,134</u>	<u>\$ 565</u>	<u>\$ 1,247</u>	<u>\$ 12,615</u>	<u>\$ 27,561</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ -	\$ -	\$ 1,247	\$ -	\$ 1,247
Restricted assets:					
Cash and investments	13,134	565	-	12,615	26,314
Total cash and investment assets - December 31	<u>\$ 13,134</u>	<u>\$ 565</u>	<u>\$ 1,247</u>	<u>\$ 12,615</u>	<u>\$ 27,561</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Other purposes	\$ 13,134	\$ 565	\$ -	\$ 12,615	\$ 26,314
Unrestricted	-	-	1,247	-	1,247
Total cash and investment fund balance - December 31	<u>\$ 13,134</u>	<u>\$ 565</u>	<u>\$ 1,247</u>	<u>\$ 12,615</u>	<u>\$ 27,561</u>

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

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
<b>Governmental Activities:</b>		
Interfund Loans:		
Due From General to Motor Vehicle Highway	\$ 4,000	\$ 4,000
Due From General to Water Utility	<u>12,000</u>	<u>12,000</u>
<b>Total governmental activities debt</b>	<u>\$ 16,000</u>	<u>\$ 16,000</u>
<b>Business-type Activities:</b>		
Wastewater Utility		
Interfund Loans:		
Due From Wastewater Utility to Water Utility	5,000	5,000
State Revolving Loan:		
Wastewater Improvements	<u>765,886</u>	<u>62,212</u>
<b>Total Wastewater Utility</b>	<u>770,886</u>	<u>67,212</u>
Storm Water Utility:		
Rural Development Loan:		
Construction of Storm Water lines	<u>485,000</u>	<u>20,700</u>
<b>Total business-type activities debt:</b>	<u>\$ 1,255,886</u>	<u>\$ 87,912</u>

TOWN OF PARAGON  
AUDIT RESULTS AND COMMENTS

RECEIPT ISSUANCE

In some instances receipts were not found issued by the Clerk-Treasurer.

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

CAPITAL ASSET RECORDS

The Town, including the Water, Wastewater and Storm Water Utilities, does not maintain any capital asset records. Also, the Town does not have a capital asset policy which includes the dollar threshold for which capital assets are reported.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. 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)

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the customer deposit amount recorded in the simplified cash journal. The Clerk-Treasurer stated that she knows that this is out of balance and has been reviewing this. Since the records for the 2004 and 2005 period were not adequate to issue financial statements, she has to go back and try to determine transactions for that period as time allows.

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

PRESCRIBED FORMS

The following prescribed or approved form was not always in use, Investment Register, General Form No. 350.

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)

TOWN OF PARAGON  
AUDIT RESULTS AND COMMENTS  
(Continued)

UTILITY RECEIPTS TAX

As reported in the last examination, the Water Utility did not pay Utility Receipts Tax to the Indiana Department of Revenue during the audit period.

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

CREDIT CARDS

The Town is using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF PARAGON  
AUDIT RESULTS AND COMMENTS  
(Continued)

LOAN BETWEEN TOWN FUNDS

Temporary loans summarized below were made and not repaid by December 31 of the year made:

Fund Receiving Loan	Fund Making Loan	Date Loan Made	Amount Unpaid
General	Motor Vehicle Highway	June 6, 2006	\$ 1,000
General	Water Operating	September 8, 2006	7,000
General	Water Depreciation	October 3, 2006	5,000
General	Motor Vehicle Highway	October 3, 2006	3,000
Water Operating	Wastewater Bond and Interest	August 9, 2007	5,000

These loans are still unpaid as of October 7, 2008. The Clerk-Treasurer stated that these loans not being repaid by December 31 was an oversight, but that they will be repaid.

Indiana Code 36-1-8-4 concerning temporary loans, states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs; (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
  - (A) A statement that the fiscal body has determined that an emergency exists.
  - (B) A brief description of the grounds for the emergency.
  - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and department of local government finance."

APPROPRIATIONS

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

TOWN OF PARAGON  
AUDIT RESULTS AND COMMENTS  
(Continued)

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General	2007	<u>\$ 9,979</u>

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."

OVERDRAWN CASH BALANCES

The cash balance of the Storm Water Construction Grant Fund was overdrawn in 2007.

The cash balance of any fund may not be reduced below zero. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF PARAGON, MORGAN COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

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

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

STATE BOARD OF ACCOUNTS

October 9, 2008

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

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-06	Total Federal Awards Expended 12-31-07
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct grant				
Community Facilities Loans and Grants	10.766			
Rural Development Loan Advances		None	\$ -	\$ 389,272
Total for federal grantor agency			-	389,272
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Lieutenant Governor's Office				
Community Development Block Grants/States Program	14.228			
Paragon Storm Water Planning Grant		PL-04-019	2,700	-
Paragon Storm Water Project		CF-06-219	-	457,316
Total for federal grantor agency			2,700	457,316
Total federal awards expended			\$ 2,700	\$ 846,588

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

TOWN OF PARAGON  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Paragon (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 PARAGON  
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
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.766	Community Facilities Loans and Grants
14.228	Community Development Block Grants/States 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.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF PARAGON  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF PARAGON  
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2008, with Vickie L. Herrington, Clerk-Treasurer; and Dale Allen, Town Council member. The officials concurred with our audit findings.