

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

CITY OF KENDALLVILLE

NOBLE COUNTY, INDIANA



FILED
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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marsha L. Kiersey	01-01-04 to 12-31-07
Mayor	W. SuzAnne Handshoe	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	John Riemke	01-01-05 to 12-31-06
President of the Common Council	W. SuzAnne Handshoe	01-01-04 to 12-31-07
Superintendent of Water Utility	Scott Mosley	01-01-05 to 12-31-06
Superintendent of Wastewater Utility	Richard J. McGee	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE CITY OF KENDALLVILLE, NOBLE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kendallville (City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 City 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 City as of December 31, 2005, and the respective cash receipts and cash disbursements during the year 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 24, 2006, on our consideration of the City'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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City 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.

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

The Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities as listed in the table of contents, are not required parts of the basic financial statements but are 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 City 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 City's basic financial statements. The Combining Schedules, as listed in the table of contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not 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 Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 24, 2006



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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 CITY OF KENDALLVILLE, NOBLE COUNTY, INDIANA

We have audited the financial statements of the City of Kendallville (City), as of and for the year ended December 31, 2005, and have issued our report thereon dated October 24, 2006. 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 City'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 City'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 City'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

October 24, 2006

CITY OF KENDALLVILLE
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	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 3,194,651	\$ 115,890	\$ 804,862	\$ (2,273,899)	\$ -	\$ (2,273,899)
Public safety	2,636,271	32,327	15,001	(2,588,943)	-	(2,588,943)
Highways and streets	1,252,887	-	-	(1,252,887)	-	(1,252,887)
Culture and Recreation	855,887	-	-	(855,887)	-	(855,887)
Economic development	3,353,615	-	-	(3,353,615)	-	(3,353,615)
Interest on long-term debt	45,281	-	-	(45,281)	-	(45,281)
Total governmental activities	<u>11,338,592</u>	<u>148,217</u>	<u>819,863</u>	<u>(10,370,512)</u>	<u>-</u>	<u>(10,370,512)</u>
Business-type activities:						
Water	1,086,557	1,256,661	-	-	170,104	170,104
Wastewater	1,783,663	1,565,507	-	-	(218,156)	(218,156)
Total business-type activities	<u>2,870,220</u>	<u>2,822,168</u>	<u>-</u>	<u>-</u>	<u>(48,052)</u>	<u>(48,052)</u>
Total primary government	<u>\$ 14,208,812</u>	<u>\$ 2,970,385</u>	<u>\$ 819,863</u>	<u>(10,370,512)</u>	<u>(48,052)</u>	<u>(10,418,564)</u>
General receipts:						
Property taxes				4,843,464	-	4,843,464
Other state sources				2,067,679	-	2,067,679
Other local sources				4,217,779	-	4,217,779
Unrestricted investment earnings				4,706	45,742	50,448
Total general receipts				<u>11,133,628</u>	<u>45,742</u>	<u>11,179,370</u>
Change in net assets				763,116	(2,310)	760,806
Net assets - beginning				<u>2,911,921</u>	<u>1,887,709</u>	<u>4,799,630</u>
Net assets - ending				<u>\$ 3,675,037</u>	<u>\$ 1,885,399</u>	<u>\$ 5,560,436</u>
<u>Assets</u>						
Cash and investments				\$ 1,983,861	\$ 1,507,650	\$ 3,491,511
Restricted assets:						
Cash and investments				<u>1,691,176</u>	<u>377,749</u>	<u>2,068,925</u>
Total assets				<u>\$ 3,675,037</u>	<u>\$ 1,885,399</u>	<u>\$ 5,560,436</u>
<u>Net Assets</u>						
Restricted for:						
Culture and recreation				\$ 445,747	\$ -	\$ 445,747
Debt service				-	273,007	273,007
Other purposes				1,245,429	104,742	1,350,171
Unrestricted				<u>1,983,861</u>	<u>1,507,650</u>	<u>3,491,511</u>
Total net assets				<u>\$ 3,675,037</u>	<u>\$ 1,885,399</u>	<u>\$ 5,560,436</u>

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

CITY OF KENDALLVILLE
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	Highways and Streets	Parks	Redevelopment Community TIF District East Side	PFG	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 3,009,769	\$ 705,484	\$ 366,913	\$ 111,830	\$ -	\$ 649,469	\$ 4,843,465
Special assessments	-	-	-	-	-	11,932	11,932
Licenses and permits	19,051	-	-	-	-	690	19,741
Intergovernmental	1,300,695	434,240	289,641	-	-	1,150,485	3,175,061
Charges for services	103,104	-	67,058	-	-	55,965	226,127
Fines and forfeits	1,094	-	-	-	-	4,402	5,496
Other	374,940	119,614	197,723	1,158,951	-	331,845	2,183,073
Total receipts	4,808,653	1,259,338	921,335	1,270,781	-	2,204,788	10,464,895
Disbursements:							
General government	1,607,730	-	-	-	-	1,428,504	3,036,234
Public safety	2,571,657	-	-	-	-	64,614	2,636,271
Highways and streets	-	1,172,768	-	-	-	80,119	1,252,887
Culture and recreation	-	-	835,802	-	-	20,085	855,887
Economic Development	-	-	-	-	-	410,541	410,541
Debt service:							
Principal	-	-	-	-	-	160,000	160,000
Interest	-	-	-	-	-	45,281	45,281
Capital outlay:							
Economic Development	-	-	-	1,198,954	1,638,155	105,965	2,943,074
Total disbursements	4,179,387	1,172,768	835,802	1,198,954	1,638,155	2,315,109	11,340,175
Excess (deficiency) of receipts over disbursements	629,266	86,570	85,533	71,827	(1,638,155)	(110,321)	(875,280)
Other financing sources							
Bond proceeds	-	-	-	-	1,636,813	-	1,636,813
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	629,266	86,570	85,533	71,827	(1,342)	(110,321)	761,533
Cash and investment fund balance - beginning	1,112,432	(11,943)	307,399	19,744	1,755	1,398,905	2,828,292
Cash and investment fund balance - ending	\$ 1,741,698	\$ 74,627	\$ 392,932	\$ 91,571	\$ 413	\$ 1,288,584	\$ 3,589,825
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because:							
Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.							
							85,212
Net assets of governmental activities							<u>\$ 3,675,037</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 1,741,698	\$ -	\$ -	\$ -	\$ -	\$ 242,163	\$ 1,983,861
Restricted assets:							
Cash and investments	-	74,627	392,932	91,571	413	1,046,421	1,605,964
Total cash and investment assets - December 31	\$ 1,741,698	\$ 74,627	\$ 392,932	\$ 91,571	\$ 413	\$ 1,288,584	\$ 3,589,825
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Culture and recreation	\$ -	\$ -	\$ 392,932	\$ -	\$ -	\$ 52,815	\$ 445,747
Other purposes	-	74,627	-	91,571	413	993,606	1,160,217
Unrestricted	1,741,698	-	-	-	-	242,163	1,983,861
Total cash and investment fund balance - December 31	\$ 1,741,698	\$ 74,627	\$ 392,932	\$ 91,571	\$ 413	\$ 1,288,584	\$ 3,589,825

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

CITY OF KENDALLVILLE
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	Total	Internal Service Funds
Operating receipts:				
Metered water receipts:				
Metered sales	\$ 1,076,003	\$ 1,458,697	\$ 2,534,700	\$ -
Fire protection receipts	110,156	-	110,156	-
Penalties	7,538	26,622	34,160	-
Insurance proceeds	-	-	-	746,130
Other	62,964	80,188	143,152	2,981
Total operating receipts	<u>1,256,661</u>	<u>1,565,507</u>	<u>2,822,168</u>	<u>749,111</u>
Operating disbursements:				
Equipment and capital improvements	41,744	446,824	488,568	-
Source of supply and disbursements - operations and maintenance	114,163	-	114,163	-
Water treatment disbursements - operations and maintenance	325,935	-	325,935	-
Transmission and distribution	185,939	-	185,939	-
Collection system - operations and maintenance	-	93,236	93,236	-
Treatment and disposal disbursements - operations and maintenance	-	621,142	621,142	-
Operations and maintenance	-	33,704	33,704	-
Customer accounts	64,890	61,390	126,280	-
Administration and general	274,372	144,694	419,066	-
Insurance disbursements	-	-	-	747,528
Total operating disbursements	<u>1,007,043</u>	<u>1,400,990</u>	<u>2,408,033</u>	<u>747,528</u>
Excess of operating receipts over operating disbursements	<u>249,618</u>	<u>164,517</u>	<u>414,135</u>	<u>1,583</u>
Nonoperating receipts (disbursements):				
Interest and investment receipts	13,473	32,269	45,742	-
Debt service of principal	(70,000)	(370,000)	(440,000)	-
Interest and investment disbursement	(9,514)	(12,673)	(22,187)	-
Total nonoperating receipts (disbursements)	<u>(66,041)</u>	<u>(350,404)</u>	<u>(416,445)</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	183,577	(185,887)	(2,310)	1,583
Cash and investment fund balance - beginning	<u>441,621</u>	<u>1,446,088</u>	<u>1,887,709</u>	<u>83,629</u>
Cash and investment fund balance - ending	<u>\$ 625,198</u>	<u>\$ 1,260,201</u>	<u>\$ 1,885,399</u>	<u>\$ 85,212</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 398,309	\$ 1,109,341	\$ 1,507,650	\$ -
Cash with fiscal agent	-	-	-	-
Restricted assets:				
Cash and investments	<u>226,889</u>	<u>150,860</u>	<u>377,749</u>	<u>85,212</u>
Total cash and investment assets - December 31	<u>\$ 625,198</u>	<u>\$ 1,260,201</u>	<u>\$ 1,885,399</u>	<u>\$ 85,212</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 122,147	\$ 150,860	\$ 273,007	\$ -
Other purposes	104,742	-	104,742	85,212
Unrestricted	<u>398,309</u>	<u>1,109,341</u>	<u>1,507,650</u>	<u>-</u>
Total cash and investment fund balance - December 31	<u>\$ 625,198</u>	<u>\$ 1,260,201</u>	<u>\$ 1,885,399</u>	<u>\$ 85,212</u>

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

CITY OF KENDALLVILLE
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2005

	Pension Trust Funds	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>	<u> </u>
Additions:			
Contributions:			
Employer	\$ 91,797	\$ -	\$ -
Other	<u>-</u>	<u>1,913</u>	<u>-</u>
Total contributions	<u>91,797</u>	<u>1,913</u>	<u>-</u>
Investment earnings:			
Interest	<u>892</u>	<u>1,432</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>-</u>	<u>1,133,052</u>
Total additions	<u>92,689</u>	<u>3,345</u>	<u>1,133,052</u>
Deductions:			
Benefits	130,438	4,825	-
Agency fund deductions	<u>-</u>	<u>-</u>	<u>1,136,331</u>
Total deductions	<u>130,438</u>	<u>4,825</u>	<u>1,136,331</u>
Deficiency of total additions over total deductions	(37,749)	(1,480)	(3,279)
Cash and investment fund balance - beginning	<u>141,849</u>	<u>86,565</u>	<u>11,760</u>
Cash and investment fund balance - ending	<u>\$ 104,100</u>	<u>\$ 85,085</u>	<u>\$ 8,481</u>

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Primary Government
Blended Component Unit

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

Blended Component Units

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the City's governing body or the component unit provides services entirely to the City. The component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

<u>Component Unit</u>	<u>Description/Inclusion Criteria</u>	<u>Fund Included In</u>
Economic Improvement District	The Economic Improvement District is a significant blended component unit of the City. The Economic Improvement District is fiscally dependent on the primary government. Although it is legally separate from the City, the Economic Improvement District is reported as if it were a part of the City because it provides services entirely or almost entirely to the City.	City's Funds Ledger

Related Organization

The City's officials are also responsible for appointing the members of the board of another organization, but the City's accountability for this organization does not extend beyond making the appointments. The City appoints the board members of the Kendallville Housing Authority.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis display information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 City 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 highway and streets fund accounts for the repair, construction, operation, and maintenance of streets. The motor vehicle highway and local roads and streets funds have been combined to form the highways and streets fund.

The parks fund accounts for recreation activities in the city. The park and recreation and the special parks donations funds have been combined to form the parks fund.

County redevelopment community TIF district east side accounts for redevelopment improvements on the east side of the city.

The PFG fund accounts for the bond issue and expenditures for the PFG company relocate and expand their company.

The City 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.

Additionally, the City reports the following fund types:

The internal service fund accounts for health insurance and employment security provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds, which accumulate resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for other governments and service as control accounts for certain cash transactions during the time they are a liability to the City.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 City 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 City 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. Nonelimination 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.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 City'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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds).

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.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Statement of Activities – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit(s) 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

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.

On or before August 31, the fiscal officer of the City 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 City receives approval of the Indiana Department of Local Government Finance.

The City'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.

CITY OF KENDALLVILLE
 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. At December 31, 2005, the bank balance held at Campbell and Fetter in the amount of \$3,216,692 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor - City of Kendallville's name. The remaining 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

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the City had the following investments:

Investment Type	Primary Government Market Value
Repurchase agreements	<u>\$ 3,216,692</u>

Investment Policies

Indiana Code 5-13-9 authorizes the City 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 unit 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 City 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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit'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.

B. Segment Information

The City issued revenue bonds to finance Water and Wastewater Utility improvements. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for the Water and Wastewater Utility is presented below.

Condensed Statement of Cash and Investment Net Assets	
	2005
Cash and investment assets:	
Cash and investments	\$ 1,507,650
Restricted assets	<u>377,749</u>
Total cash and investment assets	<u>\$ 1,885,399</u>
Cash and investment net assets:	
Restricted for: construction and debt	\$ 377,749
Unrestricted	<u>1,507,650</u>
Total cash and investment net assets	<u>\$ 1,885,399</u>

Condensed Statement of Receipts, Disbursements and Changes in Cash and Investment Net Assets	
	2005
Receipts (pledged against bond)	\$ 2,794,285
Operating disbursements	<u>(1,891,582)</u>
Excess (deficiency) of receipts over disbursements	<u>902,703</u>
Nonoperating receipts (disbursements):	
Interest received	45,742
Interest disbursed	(22,187)
Acquisition and construction of capital assets	(488,568)
Principal paid on capital debt	<u>(440,000)</u>
Total nonoperating receipts (disbursements)	<u>(905,013)</u>
Deficiency of receipts over disbursements and nonoperating disbursements	(2,310)
Beginning cash and investment net assets	<u>1,887,709</u>
Ending cash and investment net assets	<u>\$ 1,885,399</u>

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

The City 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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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. Risk financing is not utilized for the other risks of loss.

Public Entity Risk Pool

During 2004, the City joined with other governmental entities to form the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of Worker's Compensation. 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.

Group Health Insurance

The City has chosen to establish a risk financing fund for risk associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is accounted for in the Health Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$20,000 per year and an aggregate claim in excess of \$581,111. Settled claims resulting from this risk did not exceed commercial insurance coverage for the past three years. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon the percentage of each fund's current payroll as it relates to total payroll, and are reported as quasiexternal transactions. Provisions are also made for unexpected and unusual claims.

Unemployment Insurance

The City has chosen to establish a risk financing fund for risk associated with unemployment compensation. The risk financing is accounted for in the Employment Security Fund, an internal service fund, where assets are set aside for claim settlements.

B. Subsequent Events

In 2006, the City will issued \$4,0075,000 of wastewater revenue bonds to finance the cost of additions, extensions and improvements to wastewater plant.

C. Economic Development Expenditures

In 2003, the City committed \$200,000 of County Economic Development Income Tax funds per year for ten years to the Kendallville Local Development Corporation. The funds are to be used for the construction of a distribution plant for Performance Food Group (PFG).

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Loans Receivable – Indiana Department of Commerce

The City has loaned money to various companies for economic development and revitalization. The balance of loans receivable at December 31, 2005, was \$2,873.

E. Rate Structure – Enterprise Funds

Water Utility

On December 21, 2004, the City Council adopted Ordinance No. 1026 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on March 14, 2004.

Wastewater Utility

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

F. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City 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 City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 89,516	\$ 267,600	\$ 50,900
Interest on net pension obligation	(1,611)	97,800	22,900
Adjustment to annual required contribution	<u>1,836</u>	<u>(163,200)</u>	<u>(38,200)</u>
Annual pension cost	89,741	202,200	35,600
Contributions made	<u>116,998</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net pension obligation	(27,257)	202,200	35,600
Net pension obligation, beginning of year	<u>(22,218)</u>	<u>1,449,300</u>	<u>339,600</u>
Net pension obligation, end of year	<u>\$ (49,475)</u>	<u>\$ 1,651,500</u>	<u>\$ 375,200</u>

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	5.5%	No Covered Payroll	150%
Plan members	3%	No Covered Payroll	6%
Actuarial valuation date	07-01-05	01-01-04	01-01-04
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	40 years	40 years
Amortization period (from date)	07-01-97	12-31-77	12-31-77
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

<u>Actuarial Assumptions</u>	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	7.25%	7%	7%
Projected future salary increases:			
Total	5%	5%	5%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	1%	1%
Cost-of-living adjustments	2%	0%	0%

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 112,489	88%	\$ (11,427)
	06-30-04	95,927	111%	(22,218)
	06-30-05	89,741	122%	(49,475)
1925 Police Officers' Pension Plan	12-31-01	202,500	0%	1,248,700
	12-31-02	200,600	0%	1,449,300
	12-31-03	202,200	0%	1,651,500
1937 Firefighters' Pension Plan	12-31-01	32,100	0%	305,700
	12-31-02	33,900	0%	339,600
	12-31-03	35,600	0%	375,200

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2005, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	9	-
Current active employees	-	1

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

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

CITY OF KENDALLVILLE
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 Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2005, 2004, and 2003, were \$183,958, \$183,958, and \$183,954, respectively, equal to the required contributions for each year.

CITY OF KENDALLVILLE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,879,680	\$ 2,009,199	\$ (129,519)	94%	\$ 1,844,696	(7%)
07-01-04	1,915,675	1,983,503	(67,828)	97%	1,768,157	(4%)
07-01-05	2,008,091	2,467,118	(459,027)	81%	2,005,253	(23%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 39,990	\$ 2,350,200	\$ (2,310,210)	2%	\$ -	*
01-01-00	25,675	2,359,600	(2,333,925)	1%	-	*
01-01-01	59,784	2,387,900	(2,328,116)	3%	-	*
01-01-02	118,137	2,401,000	(2,282,863)	5%	-	*
01-01-03	224,967	2,453,300	(2,228,333)	9%	-	*
01-01-04	51,969	2,335,500	(2,335,500)	2%	-	*

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 65,481	\$ 275,600	\$ (210,119)	24%	\$ 29,100	(722%)
01-01-00	75,839	290,100	(214,261)	26%	30,000	(714%)
01-01-01	78,448	324,900	(246,452)	24%	31,200	(790%)
01-01-02	83,332	350,300	(266,968)	24%	32,300	(827%)
01-01-03	87,324	358,300	(270,976)	24%	33,300	(814%)
01-01-04	89,880	387,500	(387,500)	23%	34,000	(875%)

*The City does not have any covered payroll for this plan.

CITY OF KENDALLVILLE
 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

	Law Enforcement Continuing Education	Cemetery Operating	Storm Sewer	Firefighting	Aviation Commission	Cemetery Contingency	Hazardous Material Trailer	Arson Prevention	Police Public Awareness
Receipts:									
Taxes	\$ -	\$ 76,905	\$ 29,586	\$ -	\$ 80,637	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-	-	-	-
Licenses and permits	690	-	-	-	-	-	-	-	-
Intergovernmental	-	5,680	1,362	-	5,600	-	-	-	-
Charges for services	2,123	28,782	-	25,060	-	-	-	-	-
Fines and forfeits	4,402	-	-	-	-	-	-	-	-
Other	52	97,117	3,265	4,483	43,360	6,649	5,351	-	5
Total receipts	7,267	208,484	34,213	29,543	129,597	6,649	5,351	-	5
Disbursements:									
General government	-	138,742	-	-	92,497	55,175	-	-	-
Public safety	4,971	-	-	-	-	-	3,109	-	-
Highways and streets	-	-	80,119	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-	-
Debt service:									
Principal	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
Capital outlay:									
Economic Development	-	-	-	-	-	-	-	-	-
Total disbursements	4,971	138,742	80,119	-	92,497	55,175	3,109	-	-
Excess (deficiency) of revenue over disbursements	2,296	69,742	(45,906)	29,543	37,100	(48,526)	2,242	-	5
Cash and investment fund balance - beginning	3,325	1,699	142,794	60,970	27,530	57,054	15,323	16	296
Cash and investment fund balance - ending	\$ 5,621	\$ 71,441	\$ 96,888	\$ 90,513	\$ 64,630	\$ 8,528	\$ 17,565	\$ 16	\$ 301
<u>Cash and Investment Assets - December 31</u>									
Cash and investments	\$ -	\$ 71,441	\$ -	\$ -	\$ 64,630	\$ 8,528	\$ -	\$ -	\$ -
Restricted assets:									
Cash and investments	5,621	-	96,888	90,513	-	-	17,565	16	301
Total cash and investment assets - December 31	\$ 5,621	\$ 71,441	\$ 96,888	\$ 90,513	\$ 64,630	\$ 8,528	\$ 17,565	\$ 16	\$ 301
<u>Cash and Investment Fund Balance - December 31</u>									
Restricted for:									
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other purposes	5,621	-	96,888	90,513	-	-	17,565	16	301
Unrestricted	-	71,441	-	-	64,630	8,528	-	-	-
Total cash and investment fund balance - December 31	\$ 5,621	\$ 71,441	\$ 96,888	\$ 90,513	\$ 64,630	\$ 8,528	\$ 17,565	\$ 16	\$ 301

CITY OF KENDALLVILLE
 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)

	Special Siren	Redevelopment Commission Donation	Economic Development Steering Committee	HUD Program Income	CBDG Miscellaneous Income	Police Reserve	Forth of July Festival	Redevelopment Commission TIF
Receipts:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160,752
Special assessments	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	288,254	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Other	14,866	318	12,795	-	61,820	2,126	15,910	4,706
Total receipts	14,866	318	12,795	288,254	61,820	2,126	15,910	165,458
Disbursements:								
General government	-	-	-	-	240,000	-	-	-
Public safety	43,769	-	-	-	-	9,578	-	-
Highways and streets	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	10,598	-
Urban redevelopment and housing	-	-	6,638	342,836	-	-	-	61,067
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay:								
Economic Development	-	-	-	-	-	-	-	-
Total disbursements	43,769	-	6,638	342,836	240,000	9,578	10,598	61,067
Excess (deficiency) of revenue over disbursements	(28,903)	318	6,157	(54,582)	(178,180)	(7,452)	5,312	104,391
Cash and investment fund balance - beginning	33,488	13,774	9,441	54,588	358,236	9,162	15,309	148,409
Cash and investment fund balance - ending	\$ 4,585	\$ 14,092	\$ 15,598	\$ 6	\$ 180,056	\$ 1,710	\$ 20,621	\$ 252,800
<u>Cash and Investment Assets - December 31</u>								
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:								
Cash and investments	4,585	14,092	15,598	6	180,056	1,710	20,621	252,800
Total cash and investment assets - December 31	\$ 4,585	\$ 14,092	\$ 15,598	\$ 6	\$ 180,056	\$ 1,710	\$ 20,621	\$ 252,800
<u>Cash and Investment Fund Balance - December 31</u>								
Restricted for:								
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,621	\$ -
Other purposes	4,585	14,092	15,598	6	180,056	1,710	-	252,800
Unrestricted	-	-	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ 4,585	\$ 14,092	\$ 15,598	\$ 6	\$ 180,056	\$ 1,710	\$ 20,621	\$ 252,800

CITY OF KENDALLVILLE
 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)

	Police K-9	Grant Proceeds	Kid City Project	City Beautification	Sports Complex	Debt Service	CCI	Aviation Construction
Receipts:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 261,501	\$ -	\$ -
Special assessments	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	804,862	-	-	-	-	29,726	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Other	88	-	15,960	5,000	32,710	3,091	736	47
Total receipts	88	804,862	15,960	5,000	32,710	264,592	30,462	47
Disbursements:								
General government	-	796,151	7,089	-	-	-	-	-
Public safety	3,187	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	9,487	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Debt service:								
Principal	-	-	-	-	-	160,000	-	-
Interest	-	-	-	-	-	45,281	-	-
Capital outlay:								
Economic Development	-	-	-	-	-	-	50,000	-
Total disbursements	3,187	796,151	7,089	-	9,487	205,281	50,000	-
Excess (deficiency) of revenue over disbursements	(3,099)	8,711	8,871	5,000	23,223	59,311	(19,538)	47
Cash and investment fund balance - beginning	4,475	83,853	100	-	-	(59,311)	60,348	7,121
Cash and investment fund balance - ending	<u>\$ 1,376</u>	<u>\$ 92,564</u>	<u>\$ 8,971</u>	<u>\$ 5,000</u>	<u>\$ 23,223</u>	<u>\$ -</u>	<u>\$ 40,810</u>	<u>\$ 7,168</u>
<u>Cash and Investment Assets - December 31</u>								
Cash and investments	\$ -	\$ 92,564	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ -
Restricted assets:								
Cash and investments	1,376	-	8,971	-	23,223	-	40,810	7,168
Total cash and investment assets - December 31	\$ 1,376	\$ 92,564	\$ 8,971	\$ 5,000	\$ 23,223	\$ -	\$ 40,810	\$ 7,168
<u>Cash and Investment Fund Balance - December 31</u>								
Restricted for:								
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ 23,223	\$ -	\$ -	\$ -
Other purposes	1,376	-	8,971	-	-	-	40,810	7,168
Unrestricted	-	92,564	-	5,000	-	-	-	-
Total cash and investment fund balance - December 31	\$ 1,376	\$ 92,564	\$ 8,971	\$ 5,000	\$ 23,223	\$ -	\$ 40,810	\$ 7,168

CITY OF KENDALLVILLE
 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)

	General Improvement	Economic Improvement District	FEMA Grant Fire Department	Street Lighting	Excess Levy	Cemetery Chapel	County Economic Development Income Tax	Totals
Receipts:								
Taxes	\$ -	\$ 40,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 649,469
Special assessments	11,932	-	-	-	-	-	-	11,932
Licenses and permits	-	-	-	-	-	-	-	690
Intergovernmental	-	-	15,001	-	-	-	-	1,150,485
Charges for services	-	-	-	-	-	-	-	55,965
Fines and forfeits	-	-	-	-	-	-	-	4,402
Other	-	1,220	-	121	-	37	12	331,845
Total receipts	11,932	41,308	15,001	121	-	37	12	2,204,788
Disbursements:								
General government	-	-	-	-	98,850	-	-	1,428,504
Public safety	-	-	-	-	-	-	-	64,614
Highways and streets	-	-	-	-	-	-	-	80,119
Culture and recreation	-	-	-	-	-	-	-	20,085
Urban redevelopment and housing	-	-	-	-	-	-	-	410,541
Debt service:								
Principal	-	-	-	-	-	-	-	160,000
Interest	-	-	-	-	-	-	-	45,281
Capital outlay:								
Economic Development	-	55,965	-	-	-	-	-	105,965
Total disbursements	-	55,965	-	-	98,850	-	-	2,315,109
Excess (deficiency) of revenue over disbursements	11,932	(14,657)	15,001	121	(98,850)	37	12	(110,321)
Cash and investment fund balance - beginning	185,689	59,128	-	5,060	98,850	1,593	585	1,398,905
Cash and investment fund balance - ending	\$ 197,621	\$ 44,471	\$ 15,001	\$ 5,181	\$ -	\$ 1,630	\$ 597	\$ 1,288,584
Cash and Investment Assets - December 31								
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 242,163
Restricted assets:								
Cash and investments	197,621	44,471	15,001	5,181	-	1,630	597	1,046,421
Total cash and investment assets - December 31	\$ 197,621	\$ 44,471	\$ 15,001	\$ 5,181	\$ -	\$ 1,630	\$ 597	\$ 1,288,584
Cash and Investment Fund Balance - December 31								
Restricted for:								
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,844
Other purposes	197,621	44,471	15,001	5,181	-	1,630	597	1,002,577
Unrestricted	-	-	-	-	-	-	-	242,163
Total cash and investment fund balance - December 31	\$ 197,621	\$ 44,471	\$ 15,001	\$ 5,181	\$ -	\$ 1,630	\$ 597	\$ 1,288,584

CITY OF KENDALLVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 INTERNAL SERVICE FUNDS
 As of and for the Year Ended December 31, 2005

	<u>Employment Security</u>	<u>Health/Vision Insurance</u>	<u>Total</u>
Operating receipts:			
Insurance proceeds	\$ -	746,130	\$ 746,130
Other	-	<u>2,981</u>	<u>2,981</u>
Total operating receipts	<u>-</u>	<u>749,111</u>	<u>749,111</u>
Operating disbursements:			
Insurance disbursements	<u>6,953</u>	<u>740,575</u>	<u>747,528</u>
Excess (deficiency) of receipts over disbursements	<u>(6,953)</u>	<u>8,536</u>	<u>1,583</u>
Cash and investment fund balance - beginning	<u>58,802</u>	<u>24,827</u>	<u>83,629</u>
Cash and investment fund balance - ending	<u>\$ 51,849</u>	<u>\$ 33,363</u>	<u>\$ 85,212</u>
<u>Cash and Investment Assets - December 31</u>			
Restricted assets:			
Cash and investments	<u>\$ 51,849</u>	<u>\$ 33,363</u>	<u>\$ 85,212</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Other purposes	<u>\$ 51,849</u>	<u>\$ 33,363</u>	<u>\$ 85,212</u>

CITY OF KENDALLVILLE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2005

	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	<u>\$ 89,894</u>	<u>\$ 1,903</u>	<u>\$ 91,797</u>
Investment receipts:			
Interest	<u>439</u>	<u>453</u>	<u>892</u>
Total additions	<u>90,333</u>	<u>2,356</u>	<u>92,689</u>
Deductions:			
Benefits	<u>128,526</u>	<u>1,912</u>	<u>130,438</u>
Excess (deficiency) of total additions over total deductions	(38,193)	444	(37,749)
Cash and investment fund balance - beginning	<u>51,969</u>	<u>89,880</u>	<u>141,849</u>
Cash and investment fund balance - ending	<u><u>\$ 13,776</u></u>	<u><u>\$ 90,324</u></u>	<u><u>\$ 104,100</u></u>

CITY OF KENDALLVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2005

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 16,748,316
Land improvements	8,719,452
Infrastructure	11,285,222
Buildings	3,622,221
Improvements other than buildings	49,119
Machinery and equipment	<u>5,645,163</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 46,069,493</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 33,480
Construction in progress	10,000
Buildings	461,912
Improvements other than buildings	8,367,328
Machinery and equipment	<u>1,121,414</u>
 Total Water Utility capital assets	 <u>9,994,134</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	1,433,724
Construction in progress	103,156
Buildings	416,938
Improvements other than buildings	9,734,581
Machinery and equipment	<u>299,229</u>
 Total Wastewater Utility capital assets	 <u>11,987,628</u>
 Total business-type activities capital assets	 <u>\$ 21,981,762</u>

CITY OF KENDALLVILLE
 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:		
Notes and loans payable	\$ 255,697	\$ 19,693
Bonds payable:		
General obligation bonds:		
Fire station and renovation of city hall	875,000	-
Total governmental activities long-term debt	\$ 1,130,697	\$ 19,693
Business-type Activities:		
Water Utility		
Revenue bonds:		
Acquired or construction of assets	\$ 155,000	\$ 70,000
Wastewater Utility		
Revenue bonds:		
Acquired or construction of assets	45,000	45,000
Total business-type activities long-term debt	\$ 200,000	\$ 115,000

CITY OF KENDALLVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF INVESTMENTS
 For The Year Ended December 31, 2005

Fund	Purchase Price of Investment
General	\$ 600,000
Aviation	20,000
Aviation in Progress	5,100
Water Operating	300,000
Water Improvement	60,000
Sewer Operating	425,000
Local Road and Street	15,000
Storm Sewer	52,000
Cemetery Operating	7,000
Cemetery Contingency	450
Cemetery Endowment	79,300
KCPRF	1,500
Rural Fire Fighting	42,750
Redevelopment Commission Donation	1,000
Police K-9	350
Economic Development Steering Committee	5,000
HMS & E	5,600
4 th of July	20,600
Redevelopment Commission TIF Downtown	35,000
Economic Improvement District	20,000
Special - Beyer	5,000
Special - Donation	10,000
Special - Cole	1,000
Special - Nature Center	1,000
Special - Programs	1,000
Special - Festival	50,000
Police Public Awareness	120
Cumulative Capital Investment	20,000
Law Enforcement Continuing Ed.	2,100
CEDIT	40
General Improvement	96,100

CITY OF KENDALLVILLE
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS - ACCOUNTS RECEIVABLE CONTROL

The Accounts Receivable detail in the Book Totals Report did not agree with the control account in the Trial Balance. The differences at December 31, 2005, for the Water and Wastewater Utilities were \$9,699 and \$(17,779), respectively. This was mentioned in Audit Report B25494.

At all times, the manual and/or 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)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not presented for audit or were incorrect. The funds ledger balance was \$53,235 more than the bank balance. The Clerk-Treasurer was advised to perform monthly bank reconciliations so that the bank and funds ledger will be in agreement. This was mentioned in Audit Report B25494.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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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 46204-2765

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 CITY OF KENDALLVILLE, NOBLE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Kendallville (City) 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 year ended December 31, 2005. The City'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 City's management. Our responsibility is to express an opinion on the City'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 City'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 City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the City 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 City'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.

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)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City'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

October 24, 2006

CITY OF KENDALLVILLE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 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
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct grant			
Airport Improvement Program	20.106		
3-18-0042-09			\$ 16,196
3-18-0042-10			<u>694,364</u>
Total for federal grantor agency			<u>710,560</u>
<u>U.S. DEPARTMENT OF HOUSING AND URDAN DEVELOPMENT</u>			
Pass-Through Indiana Department of Commerce			
Community Development Block Grants/States Program	14.228		
CF-03-124			<u>262,152</u>
Total federal awards expended			<u>\$ 972,712</u>

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

CITY OF KENDALLVILLE
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 City of Kendallville (City) 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.

CITY OF KENDALLVILLE
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?	no
Reportable conditions 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
20.106	Airport Improvement 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.

CITY OF KENDALLVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF KENDALLVILLE
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2006, with Marsha L. Kiersey, Clerk-Treasurer; and W. SuzAnne Handshoe, Mayor.