

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

ANNUAL FINANCIAL REPORT

2005

CITY OF KOKOMO

HOWARD COUNTY, INDIANA



FILED
11/27/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	(Vacant) Phillip P. Williams	01-01-05 to 01-13-05 01-14-05 to 12-31-06
Mayor	Matthew A. McKillip	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Phillip P. Williams	01-01-05 to 12-31-06
President of the Common Council	Robert L. Hayes, Sr. Gregory A. Sheline	01-01-05 to 12-31-05 01-01-06 to 12-31-06
Superintendent of the Wastewater Utility	Greg Taylor	01-01-05 to 12-31-06



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 FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF KOKOMO, HOWARD 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 Kokomo (City), as of and for the year ended December 31, 2005, which collectively comprise the City's primary government basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position 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 changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis, Schedules of Funding Progress and Schedules of Contributions from the Employer and Other Contributing Entities as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

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

The City has not presented Budgetary Comparison Schedules, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 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.

STATE BOARD OF ACCOUNTS

October 18, 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 KOKOMO, HOWARD COUNTY, INDIANA

We have audited the financial statements of the City of Kokomo (City), as of and for the year ended December 31, 2005, and have issued our report thereon dated October 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 18, 2006

CITY OF KOKOMO, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Kokomo, Indiana has prepared basic financial statements that are presented herein. The components of the basic financial statements include:

- Management's Discussion and Analysis ("MD&A")
- Basic Financial Statements
- Notes to the Financial Statements
- Other Required Supplementary Information ("RSI")

The MD&A is a component of Required Supplementary Information that introduces the basic financial statements and provides an analytical overview of the City of Kokomo's financial activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Kokomo's basic financial statements are comprised of the following elements:

Government-Wide Financial Statements

Government-wide financial statements provide information about the City's overall financial condition. Changes in the City's financial position may be measured over time by increases and decreases in the *Statement of Net Assets*. Information on how the City's net assets changed during the fiscal year is presented in the *Statement of Activities*.

Fund Financial Statements

Fund financial statements focus on individual parts of the City's government and report the City's operations in more detail than the government-wide financial statements. Fund financial statements include the statements for governmental, proprietary, and fiduciary funds. Financial statements for the City's component units are also presented.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. Refer to Note 1 to the financial statements for more detailed information on the elements of the financial statements. Table 1 below summarizes the major features of the basic financial statements.

Table 1: Major Features of the Basic Financial Statements				
	Government-wide	Fund Financial Statements		
	Financial Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	Activities of the City that are not proprietary or fiduciary	Activities of the City that are operated similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> ■ Statement of Net Assets ■ Statement of Activities 	<ul style="list-style-type: none"> ■ Balance Sheet ■ Statement of revenues, expenditures, and other changes in fund balances ■ Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 	<ul style="list-style-type: none"> ■ Statement of Net Assets ■ Statement of Revenues Expenditures and Other Changes in Fund Net Assets ■ Statement of Cash Flows 	<ul style="list-style-type: none"> ■ Statement of fiduciary net assets ■ Statement of changes in fiduciary net assets
Accounting basis and measurement focus	<ul style="list-style-type: none"> ■ Accrual accounting and economic resources focus. 	<ul style="list-style-type: none"> ■ Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included 	<ul style="list-style-type: none"> ■ All assets and liabilities, both financial and capital, and short-term and long-term 	<ul style="list-style-type: none"> ■ Accrual accounting and economic resources focus
Type of asset/liability information	<ul style="list-style-type: none"> ■ All assets and liabilities, both financial and capital, and short-term and long-term 	<ul style="list-style-type: none"> ■ Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included 	<ul style="list-style-type: none"> ■ All assets and liabilities, both financial and capital, and short-term and long-term 	<ul style="list-style-type: none"> ■ All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	<ul style="list-style-type: none"> ■ All revenues and expenses during the year, regardless of when cash is received or paid 	<ul style="list-style-type: none"> ■ Revenues for which cash is received during or soon after the end of the year ■ Expenditures when goods or services have been received and payment is due during the year or soon thereafter 	<ul style="list-style-type: none"> ■ All revenues and expenses during the year, regardless of when cash is received or paid 	<ul style="list-style-type: none"> ■ All revenues and expenses during the year, regardless of when cash is received or paid

CONDENSED FINANCIAL INFORMATION

Condensed Comparative Statement of Net Assets

The City of Kokomo had net assets of \$37,737,950 as of December 31, 2004 and \$85,889,411 as of December 31, 2005. The primary reason for the increase in net assets is the restatement of Capital Assets to include infrastructure and accumulated depreciation on the infrastructure. The City uses its assets to provide services to the citizens of Kokomo and to finance outstanding obligations of the City; consequently, a portion of these net assets of the City is restricted for debt service as well as other restrictive covenants set forth by ordinances. Restricted net assets account for \$6,630,931 of the total net assets as of December 31, 2004 and \$19,104,929 as of December 31, 2005. As stated earlier, restricted net assets represent resources that are subject to external restrictions, ordinances or enabling legislation on how they can be used. Of the remaining net assets as of December 31, 2005, \$75,538,544 is invested in capital assets (shown net of related debt for those assets) and a negative \$8,754,062 is unrestricted.

Table 2 presents Kokomo's condensed comparative statement of net assets as of December 31, 2004 and December 31, 2005. As shown on this table, the City's available cash to finance all governmental activities remained steady at approximately \$16.6 million dollars.

**Table 2. Condensed Comparative Statement of Net Assets
As of December 31, 2004 and 2005**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2005	2004	2005	2004	2005
Assets:						
Cash and cash equivalents	\$ 16,727,195	\$ 16,588,861	\$ 4,348,068	\$ 2,220,855	\$ 21,075,263	\$ 18,809,716
Receivables	2,716,355	4,245,913	1,823,003	2,100,561	4,539,358	6,346,474
Inventories	168,322	210,587	167,928	201,140	336,250	411,727
Restricted cash	-	-	6,630,931	17,487,792	6,630,931	17,487,792
Capital assets	23,238,045	61,419,830	44,729,490	59,366,561	67,967,535	120,786,391
Other assets and deferred debits	595,091	566,842	(290,357)	77,082	304,734	643,924
Total Assets	\$ 43,445,008	\$ 83,032,033	\$ 57,409,063	\$ 81,453,991	\$ 100,854,071	\$ 164,486,024
Liabilities:						
Current Liabilities:						
Accounts payable	\$ 184,343	\$ 210,854	\$ 62,287	\$ 68,833	\$ 246,630	\$ 279,687
Payroll and withholdings payable	421,975	451,156	64,660	69,847	486,635	521,003
Accrued interest payable	89,736	81,489	522,121	495,442	611,857	576,931
Bonds, loans and leases payable	535,000	565,000	1,006,959	2,141,959	1,541,959	2,706,959
Other	6,242	768,591	49,047	46,010	55,289	814,601
Non-Current Liabilities:						
Bonds, loans and leases payable (net)	4,547,344	4,559,000	30,121,051	38,042,784	34,668,395	42,601,784
Deferred amount on refunding	-	-	(757,946)	(592,576)	(757,946)	(592,576)
Compensated absences	945,282	965,347	147,581	200,395	1,092,863	1,165,742
Net pension obligation	25,173,439	30,522,482	-	-	25,173,439	30,522,482
Total Liabilities	\$ 31,903,361	\$ 38,123,919	\$ 31,215,760	\$ 40,472,694	\$ 63,119,121	\$ 78,596,613
Net Assets:						
Invested in capital assets (net of related debt)	\$ 18,155,701	\$ 56,295,830	\$ 13,714,507	\$ 19,242,714	\$ 31,870,208	\$ 75,538,544
Restricted for debt service	-	-	6,630,931	17,487,792	6,630,931	17,487,792
Restricted for employee benefits	-	1,617,137	-	-	-	1,617,137
Unrestricted	(6,614,054)	(13,004,853)	5,847,865	4,250,791	(766,189)	(8,754,062)
Total Net Assets	\$ 11,541,647	\$ 44,908,114	\$ 26,193,303	\$ 40,981,297	\$ 37,734,950	\$ 85,889,411

Condensed Comparative Statement of Activities

Table 3 presents the City's condensed comparative statement of activities for the calendar years ended December 31, 2004 and 2005, as derived from the government-wide Statement of Activities. Over time, increases and decreases in net assets can help measure whether the City's financial position is improving or deteriorating. During calendar year 2005, the net assets of the governmental activities decreased by approximately \$5.6 million, and the net assets of the business-type activities decreased by approximately \$1.5 million. This marks a nearly \$8.7 million dollar improvement over 2004. As the City moves forward, the administration has targeted matching current year revenues with current year expenses. The matching of resources to expenditures will help ensure the long-term financial health of the City and the Utilities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2005	2004	2005	2004	2005
Revenues:						
Program revenues:						
Chargers for services	\$ 2,726,947	\$ 3,567,475	\$ 11,004,600	\$ 11,259,582	\$ 13,731,547	\$ 14,827,057
Operating grants and contributions	12,125,113	11,323,773	-	-	12,125,113	11,323,773
Capital grants and contributions	3,938,019	3,064,224	-	-	3,938,019	3,064,224
Total Program Revenues	18,790,079	17,955,472	11,004,600	11,259,582	29,794,679	29,215,054
General Revenues:						
Property taxes	16,647,622	30,349,494	-	-	16,647,622	30,349,494
Unrestricted grants and contributions	-	-	-	88,269	-	88,269
Other	254,042	364,667	-	-	254,042	364,667
Unrestricted investment earnings	209,343	307,347	140,267	272,643	349,610	579,990
Total General Revenues	17,111,007	31,021,508	140,267	360,912	17,251,274	31,382,420
Total Revenues	35,901,086	48,976,980	11,144,867	11,620,494	47,045,953	60,597,474
Program Expenses:						
Governmental Activities:						
General government	14,278,876	16,691,602			14,278,876	16,691,602
Public safety	26,755,707	27,495,485			26,755,707	27,495,485
Highways and streets	6,139,071	7,544,343			6,139,071	7,544,343
Culture and recreation	3,242,769	2,684,829			3,242,769	2,684,829
Interest on debt	211,207	197,891			211,207	197,891
Total Governmental Activities	50,627,630	54,614,150	-	-	50,627,630	54,614,150
Business-Type Activities:						
Wastewater			12,263,799	13,083,916	12,263,799	13,083,916
Total Program Expenses	50,627,630	54,614,150	12,263,799	13,083,916	62,891,429	67,698,066
Change in net assets	(14,726,544)	(5,637,170)	(1,118,932)	(1,463,422)	(15,845,476)	(7,100,592)
Beginning Net Assets	24,209,986	11,267,259	37,143,630	26,193,303	61,353,616	37,460,562
Restatement of Net Assets:						
Correction of errors for governmental activities (See note IV, I)	1,783,817				1,783,817	-
Correction of errors for business-type activities (See note IV, I)		39,278,025	(8,682,010)	16,251,416	(8,682,010)	55,529,441
Cumulative effect of change in accounting principle (See note IV, I)			(1,149,385)		(1,149,385)	-
Ending Net Assets	\$ 11,267,259	\$ 44,908,114	\$ 26,193,303	\$ 40,981,297	\$ 37,460,562	\$ 85,889,411

Comparative Schedule of Program Expenses and Revenues for Governmental Activities

Table 4 below presents program expenses and revenues for governmental activities. Overall, program revenues were not sufficient to cover program expenses for governmental activities in either 2004 or 2005. It is not feasible for the City to charge an individual fee to residents for services such as public safety, highways and streets, culture and recreation and overall government operations. Therefore, general revenues, mainly taxes, supported the net program expenses of these governmental activities. In total, the City must balance the available revenues generated through direct program revenues and property taxes against the operating requirements of the City.

	Program Expenses		Program Revenues		Net Program Revenues/ (Expenses) (a)	
	2004	2005	2004	2005	2004	2005
Primary Government:						
General government	\$ 14,278,876	\$ 16,691,602	\$ 14,486,919	\$ 13,886,401	\$ 208,043	\$ (2,805,201)
Public safety	26,755,707	27,495,485	958,356	742,610	(25,797,351)	(26,752,875)
Highways and streets	6,139,071	7,544,343	2,948,445	2,633,375	(3,190,626)	(4,910,968)
Culture and recreation	3,242,769	2,684,829	746,396	693,086	(2,496,373)	(1,991,743)
Interest on debt	211,207	197,891	-	-	(211,207)	(197,891)
Totals	<u>\$ 50,627,630</u>	<u>\$ 54,614,150</u>	<u>\$ 19,140,116</u>	<u>\$ 17,955,472</u>	<u>\$ (31,487,514)</u>	<u>\$ (36,658,678)</u>

(a) Net Program Expenses are mainly supported by taxes.

Comparative Schedule of Program Expenses and Revenues for Business-Type Activities

Table 5 presents program expenses and revenues for business-type activities. Program revenues generated from business-type activities were insufficient to cover program expenses in both 2004 and 2005. The Kokomo Wastewater Utility establishes user fees sufficient to generate revenues to cover program expenses. Any revenues in excess of program expenses are set-aside in restricted funds, which are used for debt service, reserves and to fund ongoing capital improvements. The City also established a separate stormwater utility with a separate charge effective January 1, 2006.

	Program Expenses		Program Revenues		Net Program Revenues/ (Expenses)	
	2004	2005	2004	2005	2004	2005
Primary Government:						
Wastewater	\$12,263,799	\$13,083,916	\$11,004,600	\$11,259,582	\$(1,259,199)	\$(1,824,334)

FUND ANALYSIS

The following information highlights the activities of the governmental and Business-Type funds:

Governmental Funds

Governmental funds receive money through taxes, licenses and permits, intergovernmental revenues, charges for services provided, fees for fines and forfeits and other revenues (such as interest on investments). These funds are in turn used to provide services for the general government, public safety, highways and streets, sanitation, culture and recreation, redevelopment, repayment of debt and for investments in new capital assets for the City. As of the December 31, 2005, Kokomo's governmental funds reported fund balances of \$15,692,525, an increase of \$36,695 from the beginning of 2005.

General Fund

The fund balance at December 31, 2005 was \$6,454,836, an increase of \$5,465,947 from the beginning of the year. As set out in the 2004 financial recovery plan, the city disbursed less than it received in 2005. The primary reason, as outlined in city

planning, is to rebuild cash balances needed to properly keep the fund in the positive throughout the year by spending less than received.

Other Governmental Funds

The fund balances in other governmental funds decreased by \$5,429,252 in 2005. This indicates that the City funded a portion of the costs of operations from available resources accumulated in prior years. This depletion of resources was contemplated as part of the recovery plan outlined by the City. In that plan, the City has determined that the accumulated cash in certain funds should be depleted in favor of rebuilding a strong reserve in the General Fund. In future years, the other governmental funds will be structured to match current year resources with current year revenue requirements.

Business-Type Funds

The City of Kokomo's proprietary funds, the City of Kokomo Wastewater Utility, reported net assets as of December 31, 2005 of \$41,422,162. Notable items as of December 31, 2005 were unrestricted cash of \$2,220,855 (primarily used to operate the utility) and \$17,487,792 reported as restricted cash (used to satisfy restrictive bond covenants). The utility had \$3,377,486 of current liabilities and \$37,095,208 of long-term liabilities. For the calendar year ended December 31, 2005, the wastewater utility recorded a \$1,504,264 decrease in net assets. This amount represents expenses in excess of revenues. The primary reason for the decrease in net assets was increased expenses related to depreciation and amortization as projects that were previously in progress were completed and are not being depreciated.

BUDGET VARIANCES IN THE GENERAL FUND

Each year, Kokomo prepares an annual budget for all tax-supported ("Controlled") funds. This budget, from time to time, requires adjustments to reflect unexpected changes or to reflect decisions made by the City. The information system used by the City of Kokomo produces the Detail Budget Report that summarizes all budget adjustments and presents a budget to actual comparison for the budget year. This report is part of the required supplementary information of the basic financial statements. In accordance with the provisions of GASB 34, Kokomo should explain any significant budget variations in the MD&A.

In total, the general fund spent \$2,850,029 less than the authorized spending budget for 2005. The original budget for the year was \$37,533,871 with an additional \$2,259 for prior year encumbrances resulting in a total budget of \$37,536,130. Of this amount, the City disbursed \$34,686,101.

CAPITAL ASSET, LONG-TERM DEBT ACTIVITY AND INFRASTRUCTURE

Capital Asset Activity

During 2005, Kokomo disbursed, from governmental funds, approximately \$3,060,000 for capital outlays. During that same period, Kokomo retired or replaced approximately \$907,000 of existing assets. As of December 31, 2005, Kokomo had approximately \$141 million of assets in service or under construction in governmental funds. The depreciated value of these assets, as of December 31, 2005, was \$61,419,830. Table 6 summarizes the capital assets for governmental activities. For further information on the capital asset activity of the City, please refer to the notes to the financial statements provided as part of the basic financial statements.

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 18,502,606	\$ 482,248	\$ -	\$ 18,984,854
Rights of way	-	-	-	-
Construction in progress	1,067,879	577,415	-	1,645,294
Buildings	15,904,280	81,335	(309,692)	15,675,923
Improvements other than buildings	2,883,220	366,915	-	3,250,135
Machinery and equipment	13,552,954	1,122,579	(459,272)	14,216,261
Infrastructure	87,132,518	428,991	(138,982)	87,422,527
Total Assets	139,043,457	3,059,483	(907,946)	141,194,994
Less accumulated depreciation	(76,728,483)	(3,683,378)	636,697	(79,775,164)
Total Net Assets	\$ 62,314,974	\$ (623,895)	\$ (271,249)	\$ 61,419,830

During 2005, Kokomo expensed, from business type funds, \$872,235 for capital outlays. These assets are attributable to the Kokomo Wastewater Utility. As of December 31, 2005, Kokomo had approximately \$108,033,853 worth of assets in service or under construction in the Wastewater Utility. The depreciated value of these assets, as of December 31, 2005, was \$59,366,561. Table 7 summarizes the capital assets for business-type activities. For further information on the capital asset activity of the Wastewater Utility, please refer to the notes to the financial statements provided as part of the basic financial statements.

	Beginning Balance	Increases	Decreases	Ending Balance
Land and other non-depreciable assets	\$ 110,854	\$ -	\$ -	\$ 110,854
Construction in Progress	60,501	228,862	-	289,363
Infrastructure	-	-	-	-
Collection System	41,313,342	96,219	-	41,409,561
Stormwater System	36,787,803	-	-	36,787,803
Buildings	18,457,927	-	-	18,457,927
Improvements other than buildings	704,925	49,100	-	754,025
Machinery and equipment	9,734,298	498,054	(8,032)	10,224,320
Total Assets	107,169,650	872,235	(8,032)	108,033,853
Less accumulated depreciation	(45,987,648)	(2,682,623)	2,979	(48,667,292)
Total Net Assets	<u>\$ 61,182,002</u>	<u>\$ (1,810,388)</u>	<u>\$ (5,053)</u>	<u>\$ 59,366,561</u>

Long-Term Debt

The City of Kokomo has outstanding General Obligation Bonds, outstanding Revenue Bonds, outstanding compensated absences payable, net pension obligations and loans payable from the State Revolving Fund as of 12/31/2005.

The Kokomo Beach General Obligation Bonds were issued to finance the aquatic center and they mature at interest rates ranging from 3.75% to 4.375%. The amount outstanding on these bonds, as of December 31, 2005 was \$4,230,000. During 2005, the City paid \$535,000 toward the retirement of these bonds.

The City of Kokomo also has outstanding revenue bonds used to finance the acquisition and construction of capital assets related to the wastewater utility. The bonds were

issued in 1999 and mature annually at interest rates ranging from 4% to 5%. The amount outstanding on these bonds, as of December 31, 2005 was \$20,525,000. During 2005, the City paid a total of \$2,035,000 toward the repayment of these outstanding revenue bonds.

Next, the City has compensated absences payable of \$965,347 as of December 31, 2005 and the Wastewater Utility had compensated absences payable of \$200,395 as of December 31, 2005. This amount represents accrued time off that is the liability of the City and the Wastewater Utility to pay to employees as the employees use the benefit.

In addition, the City has a pension benefit obligation of \$30,522,482 as of December 31, 2005. This amount represents estimated long term liability benefits due to employees after retirement from the City. This amount is based upon actuarial information provided to the City. The City makes annual payments to retirees through establish pension funds in a similar manner to how the City makes scheduled debt service payments on bond issues and loans.

Finally, the Wastewater Utility has two loans with the Indiana State Revolving Fund to finance improvements to the utility. These loans are outstanding as of December 31, 2005 in the amount of \$19,598,845 and will be in repayment through 2020. Of this amount, \$355,000 was paid in 2005 and another \$355,000 is due in 2006.

For additional information on the Long-Term Liabilities of the City of Kokomo, please refer to note 4E of the Notes to the Financial Statements.

Infrastructure

Kokomo is required to comply with the infrastructure accounting guidelines set forth by Generally Accepted Accounting Principals. The City has completed its compilation of infrastructure assets and posted an adjustment of approximately \$97,000,000 to the statement of net assets. For additional information on the infrastructure of the City, please refer to Note 4H in the Notes to the Financial Statements.

OVERALL ANALYSIS

Financial and project highlights of Kokomo (as a whole) during the calendar year ended December 31, 2005, include the following:

- Attracted a new company, Hynes Industries, and 50 jobs to Kokomo. Also, added Blackhawk Millwright and Tate Soaps and helped Park 100 Foods, a new company in 2004, expand their facilities.
- Provided municipal incentives to DaimlerChrysler (retaining 2,311 jobs and obtaining a \$110 million investment) and Haynes International (adding 53 jobs while retaining 660).
- Presented Delphi Electronics & Safety with a positive proposal and communicated a message of success, which helped retain Delphi in Kokomo. Also modified the City's revolving loan program to help local suppliers of Delphi remain in business.
- Led Kokomo's first international delegation on a trade mission to Japan. The trip was very successful and resulted in a Japanese site selection company visiting Kokomo. As a result, Kokomo has increased exposure to Japanese firms interested in investing in the United States.
- Received an unqualified opinion on the financial audit from the Indiana State Board of Accounts.
- Continued our disciplined financial recovery plan and communication with the public
- Obtained, through intensive lobbying, another \$1 million of federal earmarked funds to redevelop the Continental Steel site into a world-class recreation center.
- Received additional funding to continue Dixon Road improvement project.
- Achieved a \$1.9 million savings in city employee healthcare insurance costs through plan modifications while still providing excellent coverage to our valued employees.
- Completed many beautification projects throughout the community including the first ever hanging flowerpots downtown and planting flowers in all public spaces around downtown. Also replaced concrete with "wow factor" landscaping in traffic islands and many medians around town to include South Washington, North Berkley, North Calumet and Defenbaugh.

- Established a landlord/rental property ordinance that creates new standards for health, safety and appearance, and provides tougher penalties for landlords who do not maintain their rental properties.
- Received a perfect score and one of the best police department reaccreditations in the nation from the Commission on Accreditation for Law Enforcement Agencies (CALEA).
- Took more criminals off the street with several new initiatives targeting illicit drugs. Added a new interdiction unit and three new drug sniffing dogs. Drug arrests in 2006 are up 16% year to date and were up in 2005 by 13%.
- Launched Kokomo's first government access channel KGOV Channel 2 another project geared to keep citizens more informed about community events and local government while providing public information about current or upcoming projects or programs
- Initiated new bike and walk path programs by declaring several railroad crossings out of service. Out of service crossings include crossings at Defenbaugh and Washington, US 31 across from Damon's restaurant and on West Sycamore.
- Built a one-of-a-kind skate park, with no impact on local taxes. The new facility provides great recreation to local kids and young adults and has become an attraction for visitors from around the Midwest.
- Held Kokomo's first international summit resulting in new initiatives to gain international development. The highlight of the summit was the establishment of a sister-city relationship with Braga Portugal centered on nanotechnology.
- Made improvements to several of our parks by installing new and better playground equipment and more walk paths. This included adding long overdue air conditioning to the Haynes museum.
- The City of Kokomo issued a \$20,000 grant to the Howard County Veterans Council to spur fundraising efforts to restore Kokomo's Soldiers and Sailors Monument in Crown Point Cemetery.
- Modernized our wastewater billing process to include email billing and online payment options.
- Led the initial effort underway to restructure and improve the effectiveness of all Howard County and Kokomo groups involved in Economic Development.

- Negotiated an innovative deal that will result in a new, modern fire station for the city of Kokomo at no cost to the taxpayers.
- Restricted the expansion of sexually oriented businesses by improving local zoning requirements.
- Cleaned-up neighborhoods by addressing three times as many unsightly, unsafe and nuisance properties over 2004.
- Strengthened tax agreements with companies to better protect jobs by instituting, for the first time ever, mandatory payback requirements should the firm shut down local operations.
- Lobbied Congress in order to secure more federal money to restart the clean-up of Continental Steel and continue the Dixon Road project.
- Worked with the State to reduce the local property tax load first by \$15 million and then later by an additional \$5 million.
- Confronted head-on several inherited problems including depleted accounts, skyrocketing healthcare costs, unfunded federal mandates and budgetary miscalculations.
- Improved the matching of current year revenues to current year expenses in the Governmental Funds by approximately \$9.1 million in 2005 (per table 1 above) and maintained the matching of current year revenues to current years expenses in the proprietary funds
- Reduced potential flooding problems by making adjustments to storm and sanitary sewers in a few neighborhoods.
- Focused on neighborhood aesthetic improvements by putting in curbs, grass medians, trees, new pavement, new trash collection systems and new sidewalks.
- Made more than 1,250 drug arrests, shut down 68 meth labs and reduced total crimes by 6% by putting more police officers on the streets, forming 30 neighborhood watch groups and creating a new drug interdiction program.
- Improved Kokomo Airport's operation to keep this strategic economic development asset functioning.
- Installed new sidewalks and walk paths around schools and greatly improved the Washington Street gateway to downtown with all new sidewalks.

ECONOMIC CONDITIONS AND OUTLOOK

Kokomo, *the City of Firsts*, is truly a growing and innovative community and our efforts to improve our quality of life are paying off. All of our City resources are focused on achieving our five strategic goals of growing and diversifying job opportunities, beautifying and making Kokomo a more vibrant community, modernizing Kokomo's public and private infrastructure, making government more open, efficient and proactive and keeping us safe in our homes and neighborhoods. It should also be noted the one of Kokomo's mega employers Delphi filed bankruptcy late in 2005. Delphi's restructuring could have a significant impact on property taxes revenues as well as miscellaneous revenues critical to running city government.

Looking back upon 2004, 2005, and thus far in 2006 the City of Kokomo had significant highlights that are moving our community forward and keeping Kokomo a great place to live, work and raise a family. For more information on Kokomo, the City of Firsts, please visit our web site at www.CityofKokomo.org or call the Mayor's office at (765) 456-7444.

CONTACT THE CITY'S FINANCIAL MANAGEMENT

Questions about this report or requests for additional financial information may be addressed to:

Mayor Matt McKillip
100 South Union Street
Kokomo, Indiana 46901
Telephone: (765) 456-7444
www.cityofkokomo.org

CITY OF KOKOMO
STATEMENT OF NET ASSETS
December 31, 2005

<u>Assets</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 16,588,861	\$ 2,220,855	\$ 18,809,716
Receivables (net of allowances for uncollectibles):			
Taxes	2,121,953	-	2,121,953
Accounts	526,891	2,100,561	2,627,452
Intergovernmental	1,597,069	-	1,597,069
Internal balances	440,865	(440,865)	-
Inventories	210,587	201,140	411,727
Prepaid expense	50,660	5,651	56,311
Deferred debits	68,968	512,296	581,264
Other deposits	6,349	-	6,349
Restricted assets:			
Cash and cash equivalents	-	17,487,792	17,487,792
Capital assets:			
Land, improvements and construction in progress	20,630,148	400,217	21,030,365
Other capital assets, net of depreciation	<u>40,789,682</u>	<u>58,966,344</u>	<u>99,756,026</u>
 Total assets	 <u>83,032,033</u>	 <u>81,453,991</u>	 <u>164,486,024</u>
 <u>Liabilities</u>			
Accounts payable	210,854	68,833	279,687
Accrued payroll and withholdings payable	451,156	69,847	521,003
Claims payable	709,173	46,010	755,183
Intergovernmental payable	99	-	99
Other current payable	5,160	-	5,160
Accrued interest payable	81,489	-	81,489
Deferred revenue - unearned	54,159	-	54,159
Matured unpaid bonds and coupons	-	1,959	1,959
Payable from restricted assets:			
Accrued bond interest	-	495,442	495,442
Revenue bonds - due within one year	-	2,140,000	2,140,000
Noncurrent liabilities:			
Due within one year:			
General obligation bonds payable	565,000	-	565,000
Compensated absences	46,501	200,395	246,896
Capital lease obligations	243,565	-	243,565
Notes and loans payable	-	355,000	355,000
Due in more than one year:			
General obligation bonds payable (net of discounts or premiums)	3,665,000	-	3,665,000
Compensated absences	918,846	-	918,846
Revenue bonds payable (net of discounts or premiums)	-	18,443,938	18,443,938
Deferral of loss on refunding	-	(592,576)	(592,576)
Capital lease obligations	650,435	-	650,435
Notes and loans payable	-	19,243,846	19,243,846
Net pension obligation	<u>30,522,482</u>	<u>-</u>	<u>30,522,482</u>
 Total liabilities	 <u>38,123,919</u>	 <u>40,472,694</u>	 <u>78,596,613</u>
 <u>Net Assets</u>			
Invested in capital assets, net of related debt	56,295,830	19,242,714	75,538,544
Restricted for:			
Debt service	-	17,487,792	17,487,792
Employee benefits	1,617,137	-	1,617,137
Unrestricted	<u>(13,004,853)</u>	<u>4,250,791</u>	<u>(8,754,062)</u>
 Total net assets	 <u>\$ 44,908,114</u>	 <u>\$ 40,981,297</u>	 <u>\$ 85,889,411</u>

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

CITY OF KOKOMO
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 16,691,602	\$ 2,504,811	\$ 8,321,997	\$ 3,059,593	\$ (2,805,201)	\$ -	\$ (2,805,201)
Public safety	27,495,485	489,695	248,284	4,631	(26,752,875)	-	(26,752,875)
Highways and streets	7,544,343	41,430	2,591,945	-	(4,910,968)	-	(4,910,968)
Culture and recreation	2,684,829	531,539	161,547	-	(1,991,743)	-	(1,991,743)
Interest on long-term debt	197,891	-	-	-	(197,891)	-	(197,891)
Total governmental activities	<u>54,614,150</u>	<u>3,567,475</u>	<u>11,323,773</u>	<u>3,064,224</u>	<u>(36,658,678)</u>	<u>-</u>	<u>(36,658,678)</u>
Business-type activities:							
Wastewater	13,083,916	11,259,582	-	-	-	(1,824,334)	(1,824,334)
Total primary government	<u>\$ 67,698,066</u>	<u>\$ 14,827,057</u>	<u>\$ 11,323,773</u>	<u>\$ 3,064,224</u>	<u>(36,658,678)</u>	<u>(1,824,334)</u>	<u>(38,483,012)</u>
General revenues:							
Property taxes					30,349,494	-	30,349,494
Grants and contributions not restricted to specific programs						88,269	88,269
Other miscellaneous					362,853	-	362,853
Unrestricted investment earnings					307,347	272,643	579,990
Transfers					1,814	-	1,814
Total general revenues and transfers					<u>31,021,508</u>	<u>360,912</u>	<u>31,382,420</u>
Change in net assets					<u>(5,637,170)</u>	<u>(1,463,422)</u>	<u>(7,100,592)</u>
Net assets - beginning, as previously stated					11,267,259	26,193,303	37,460,562
Prior period adjustment (see Note IV., H.)					<u>39,278,025</u>	<u>16,251,416</u>	<u>55,529,441</u>
Net assets - beginning as restated					<u>50,545,284</u>	<u>42,444,719</u>	<u>92,990,003</u>
Net assets - ending					<u>\$ 44,908,114</u>	<u>\$ 40,981,297</u>	<u>\$ 85,889,411</u>

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

CITY OF KOKOMO
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005

<u>Assets</u>	General	Other Governmental Funds	Totals
Cash and cash equivalents	\$ 5,351,778	\$ 8,917,848	\$ 14,269,626
Receivables (net of allowances for uncollectibles):			
Taxes	1,893,690	228,263	2,121,953
Accounts	525,865	300	526,165
Intergovernmental	1,185,169	411,900	1,597,069
Total assets	\$ 8,956,502	\$ 9,558,311	\$ 18,514,813
<u>Liabilities and fund balances</u>			
Liabilities:			
Accounts payable	\$ 167,951	\$ 42,903	\$ 210,854
Accrued payroll and withholdings payable	412,715	38,441	451,156
Compensated absences payable	33,509	12,992	46,501
Intergovernmental payable	-	99	99
Deferred revenue - unavailable	1,821,231	233,128	2,054,359
Deferred revenue - unearned	66,260	(12,101)	54,159
Other current payables	-	5,160	5,160
Total liabilities	2,501,666	320,622	2,822,288
Fund balances:			
Reserved for:			
Encumbrances	246,292	1,623,068	1,869,360
Unreserved, reported in:			
General fund	6,208,544	-	6,208,544
Special revenue funds	-	5,302,709	5,302,709
Capital projects funds	-	2,311,912	2,311,912
Total fund balances	6,454,836	9,237,689	15,692,525
Total liabilities and fund balances	\$ 8,956,502	\$ 9,558,311	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			61,419,830
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			2,054,359
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			2,058,002
Long-term liabilities, including bonds payable, lease payable and interest payable, are not due and payable in the current period and, therefore, are not reported in the funds.			(5,205,489)
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.			(918,846)
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			330,215
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.			(30,522,482)
Net assets of governmental activities			\$ 44,908,114

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

CITY OF KOKOMO
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For The Year Ended December 31, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 25,803,545	\$ 3,895,729	\$ 29,699,274
Licenses and permits	60,002	35,132	95,134
Intergovernmental	7,212,079	7,149,205	14,361,284
Charges for services	2,126,713	765,807	2,892,520
Fines and forfeits	52,487	1,714	54,201
Other	<u>887,974</u>	<u>313,307</u>	<u>1,201,281</u>
 Total revenues	 <u>36,142,800</u>	 <u>12,160,894</u>	 <u>48,303,694</u>
Expenditures:			
Current:			
General government	9,062,478	6,072,986	15,135,464
Public safety	21,754,418	93,317	21,847,735
Highways and streets	2,578,655	3,412,263	5,990,918
Culture and recreation	-	2,552,628	2,552,628
Debt service:			
Principal	112,612	535,000	647,612
Interest	7,649	186,994	194,643
Capital outlay	<u>1,800,380</u>	<u>830,101</u>	<u>2,630,481</u>
 Total expenditures	 <u>35,316,192</u>	 <u>13,683,289</u>	 <u>48,999,481</u>
 Excess (deficiency) of revenues over expenditures	 <u>826,608</u>	 <u>(1,522,395)</u>	 <u>(695,787)</u>
Other financing sources (uses):			
Transfers in	3,908,227	44,237	3,952,464
Transfers out	(1,370)	(3,951,094)	(3,952,464)
Capital leases	<u>689,268</u>	<u>-</u>	<u>689,268</u>
 Total other financing sources and uses	 <u>4,596,125</u>	 <u>(3,906,857)</u>	 <u>689,268</u>
Special item:			
Proceeds from sale of assets	<u>43,214</u>	<u>-</u>	<u>43,214</u>
 Net change in fund balances	 5,465,947	 (5,429,252)	 36,695
 Fund balances - beginning	 <u>988,889</u>	 <u>14,666,941</u>	 <u>15,655,830</u>
 Fund balances - ending	 <u>\$ 6,454,836</u>	 <u>\$ 9,237,689</u>	 <u>\$ 15,692,525</u>

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

CITY OF KOKOMO
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (Statement of Revenues, Expenditures and Changes in Fund Balances).	\$ 36,695
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciat expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(1,313,163)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	(271,249)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	581,130
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to govern- mental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	644,364
Net pension obligations are considered long-term obligations of the general government, but are not current expenditures.	(5,349,043)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(299,160)
Net changes in other assets used in governmental activities are not financial resources and, therefore, are not reported in funds.	60,364
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.	<u>272,892</u>
Change in net assets of governmental activities (statement of activities)	<u>\$ (5,637,170)</u>

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

CITY OF KOKOMO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2005

<u>Assets</u>	<u>Wastewater Utility</u>	<u>Internal Service Fund</u>
Current assets:		
Cash and cash equivalents	\$ 2,220,855	\$ 2,319,235
Accounts receivable (net of allowance)	2,100,561	726
Inventories	201,140	-
Prepaid items	5,651	-
Other deposits	-	6,349
Total current assets	<u>4,528,207</u>	<u>2,326,310</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant accounts	<u>17,487,792</u>	-
Deferred charges	<u>512,296</u>	-
Capital assets:		
Land, improvements to land and construction in progress	400,217	-
Other capital assets (net of accumulated depreciation)	<u>58,966,344</u>	-
Total capital assets	<u>59,366,561</u>	-
Total noncurrent assets	<u>77,366,649</u>	-
Total assets	<u>81,894,856</u>	<u>2,326,310</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	68,833	-
Accrued wages payable	69,847	-
Compensated absences	200,395	-
Claims payable	46,010	709,173
Other current payable	-	-
Current liabilities payable from restricted assets:		
Matured unpaid bonds and coupons	1,959	-
Loans payable	355,000	-
Revenue bonds payable	2,140,000	-
Accrued interest payable	<u>495,442</u>	-
Total current liabilities	<u>3,377,486</u>	<u>709,173</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts or premiums)	18,443,938	-
Deferral of gain (loss) on refunding	(592,576)	-
Loan payable	<u>19,243,846</u>	-
Total noncurrent liabilities	<u>37,095,208</u>	-
Total liabilities	<u>40,472,694</u>	<u>709,173</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	19,242,714	-
Restricted for debt service	17,487,792	-
Restricted for employee benefits	-	1,617,137
Unrestricted	<u>4,691,656</u>	-
Total net assets	41,422,162	<u>\$ 1,617,137</u>
Amounts reported for business-type activities in the statement of net assets are different because:		
Internal service 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 net assets.	<u>(440,865)</u>	
Net assets of business-type activities	<u>\$ 40,981,297</u>	

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

CITY OF KOKOMO
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended December 31, 2005

	<u>Wastewater Utility</u>	<u>Internal Service Fund</u>
Operating revenues:		
Penalties	\$ 241,907	\$ -
Charge for services	-	8,894,338
Measured revenue:		
Residential and commercial	10,738,545	-
Sewer tap fees	205,175	-
Other	<u>11,768</u>	<u>299,612</u>
Total operating revenues	<u>11,197,395</u>	<u>9,193,950</u>
Operating expenses:		
Collection system - operations and maintenance	2,402,791	-
Treatment and disposal expense - operations and maintenance	2,763,200	-
Lab services - operations and maintenance	209,379	-
Administration and general	1,732,718	-
Sanitary engineering - operations and maintenance	565,869	-
Pretreatment - operations and maintenance	270,959	-
Stormwater - operations and maintenance	518,638	-
Sewer Improvement	82,278	-
Undistributed expense:		
Employee pensions and benefits	-	8,930,907
Insurance	135,267	-
Depreciation and amortization	2,682,623	-
Miscellaneous expenses	<u>354,202</u>	<u>-</u>
Total operating expenses	<u>11,717,924</u>	<u>8,930,907</u>
Operating income (loss)	<u>(520,529)</u>	<u>263,043</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	272,643	50,691
Miscellaneous revenue	21,345	-
Interest expense	(1,152,927)	-
Miscellaneous expense	<u>(213,065)</u>	<u>-</u>
Total nonoperating revenue (expenses)	<u>(1,072,004)</u>	<u>50,691</u>
Income (loss) before contributions and transfers	(1,592,533)	313,734
Capital contributions	<u>88,269</u>	<u>-</u>
Change in net assets	<u>(1,504,264)</u>	<u>313,734</u>
Total net assets - as previously stated	26,473,914	1,303,403
Prior period adjustment (See Note IV., H.)	<u>16,452,512</u>	<u>-</u>
Total net assets - beginning as restated	<u>42,926,426</u>	<u>1,303,403</u>
Total net assets - ending	<u>\$ 41,422,162</u>	<u>\$ 1,617,137</u>
Change in net assets	\$ (1,504,264)	
Some amounts reported for business-type activities in the statement of activities are different because:		
The net revenue (expense) of certain internal service funds is reported with business-type activities.	<u>40,842</u>	
Change in net assets of business-type activities	<u>\$ (1,463,422)</u>	

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

CITY OF KOKOMO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2005

	<u>Wastewater Utility</u>	<u>Internal Service Fund</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 10,898,076	\$ 9,193,224
Payments to suppliers	(4,514,039)	(8,232,569)
Payments to employees	(4,697,140)	-
Other receipts (payments)	21,345	-
	<u>1,708,242</u>	<u>960,655</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Proceeds from capital debt	11,254,500	-
Bond issue costs paid	(366,159)	-
Acquisition and construction of capital assets	(555,104)	-
Principal paid on capital debt	(2,390,000)	-
Interest paid on capital debt	(1,216,235)	-
	<u>6,727,002</u>	<u>-</u>
Net cash provided by capital and related financing activities		
Cash flows from investing activities:		
Interest received	294,404	50,691
	<u>294,404</u>	<u>50,691</u>
Net increase in cash and cash equivalents		
	8,729,648	1,011,346
Cash and cash equivalents, January 1 (Including \$6,630,931, reported in restricted accounts)		
	<u>10,978,999</u>	<u>1,307,889</u>
Cash and cash equivalents, December 31 (Including \$17,487,792, reported in restricted accounts)		
	<u>\$ 19,708,647</u>	<u>\$ 2,319,235</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income	\$ (520,529)	\$ 263,043
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	2,682,623	-
Nonoperating revenue (expense)	21,345	-
(Increase) decrease in assets:		
Accounts receivable	(299,319)	(726)
Inventories	(33,212)	-
Prepaid items	(3,080)	-
Increase (decrease) in liabilities:		
Claims payable	(3,037)	709,173
Accounts payable	6,546	-
Accrued wages payable	5,187	-
Other current payables		(10,835)
Interfund services provided and used	(201,096)	-
Compensated absence payable	52,814	-
Intergovernmental payables	-	-
	<u>2,228,771</u>	<u>697,612</u>
Total adjustments		
Net cash provided by operating activities	<u>\$ 1,708,242</u>	<u>\$ 960,655</u>

Supplemental Information: Capital assets include \$88,269 in capital contributions

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

CITY OF KOKOMO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2005

<u>Assets</u>	Pension Trust Funds	Private-Purpose Trust Fund	Agency Funds
Cash and cash equivalents	\$ 1,641,660	\$ 1,379,756	\$ 2,344,256
Receivables:			
Loans	-	308,825	-
Taxes	151,977	-	-
Intergovernmental	12,304	-	-
Total receivables	164,281	308,825	-
Total assets	<u>1,805,941</u>	<u>1,688,581</u>	<u>\$ 2,344,256</u>
 <u>Liabilities</u>			
Trust payable	-	-	\$ 349,573
Accounts payable	250	1,150	-
Payroll withholdings payable	-	-	1,994,683
Deferred revenue - unavailable	145,854	-	-
Total liabilities	<u>146,104</u>	<u>1,150</u>	<u>\$ 2,344,256</u>
 <u>Net Assets</u>			
Held in trust for:			
Employees' pension benefits and other purposes	<u>1,659,837</u>	<u>1,687,431</u>	
Total net assets	<u>\$ 1,659,837</u>	<u>\$ 1,687,431</u>	

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

CITY OF KOKOMO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For The Year Ended December 31, 2005

<u>Additions</u>	Pension Trust Funds	Private-Purpose Trust Fund
Taxes	\$ 2,071,775	\$ -
Contributions:		
Employer	4,606,345	-
Plan members	28,358	-
Miscellaneous	-	83,102
Total contributions	6,706,478	83,102
Investment income:		
Interest	25,224	-
Total additions	6,731,702	83,102
<u>Deductions</u>		
Benefits	6,938,541	-
Administrative expense	-	53,543
Total deductions	6,938,541	53,543
Excess (deficiency) of revenues over expenditures	(206,839)	29,559
Net assets - beginning	1,866,676	1,657,872
Net assets - ending	\$ 1,659,837	\$ 1,687,431

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

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

The accompanying financial statements present the activities of the primary government. There are no significant component units which require inclusion.

Related Organizations

The primary government's officials are also responsible for appointing members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments. The primary government appoints the board members of the Board of Zoning Appeals, City Hall Review Commission, City Traffic Commission, Community Development Block Grant Citizen's Review Committee, Economic Development Commission, Family Self Sufficiency Task Force, Historic Review Board, Housing Authority Board, Howard County Alcoholic Beverage Commission, Howard County/City of Kokomo Cooperative Flood Mitigation and Storm Water, Human Rights Commission, Kokomo-Howard County Visitors and Convention Bureau, Kokomo Community Arts Commission, Kokomo-Howard County Emergency Management Advisory Council, Kokomo Job Training Redevelopment Commission, Mayor's Community Based Council – Substance Abuse Prevention, Mayor's Veteran's Advisory Council, and Urban Enterprise Association.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the primary government receives cash.

The primary government 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 primary government reports the following major proprietary funds:

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

Additionally, the primary government reports the following fund types:

The internal service fund accounts for self-group medical insurance 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.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit developing companies in the Kokomo area.

Agency funds account for assets held by the primary government as an agent for payroll withholding entities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial 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 business-type activities and enterprise funds, subject to this same limitation. The primary government has elected not to follow subsequent private-sector guidance.

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the primary government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The primary government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the primary government to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Interfund Transactions and Balances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund receivables/payables (i.e., the current and noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "interfund services provided/used." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the primary government in June and in December. State statutes (IC 6-1.1-17-16) require the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15.

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 that become delinquent if not paid by May 10 and November 10, respectively. Delinquent property taxes outstanding at year end for governmental and/or proprietary funds, net of allowances for uncollectible accounts, are recorded as a receivable with an offset to deferred revenue since the amounts are not considered available.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because they are maintained separately and their use is limited by ordinance or applicable bond covenants.

6. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

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.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 5,000	Straight-line	10 to 50 years
Equipment	5,000	Straight-line	5 to 20 years
Roads – collectors and residential	5,000	Straight-line	20 years
Storm water drains	5,000	Straight-line	40 years
Wastewater distribution and collection systems	5,000	Straight-line	50 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

7. Compensated Absences

The City uses paid time off to provide for absences of eligible employees. The paid time off replaced vacation, sick, and personal time but will continue to be based on years of completed service. Paid time off will be accumulated on actual hours worked per week and the years of completed service. The accumulations of paid time off may be carried over from year to year with a maximum carry over of 480 hours. Excess accumulations over the maximum of 480 hours will be reduced in December of each year through a payout if the employee uses at least ten days of paid time off hours during the calendar year or 50% of available time earned, whichever is less. Accumulated paid time off is paid to employees through cash payments upon termination.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

1. The governmental fund balance sheet includes a reconciliation between the fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this difference are as follows:

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capital assets, not being depreciated:	
Land	\$18,984,854
Construction in progress	1,645,294
Capital assets, being depreciated (net of depreciation)	
Buildings	7,969,536
Improvements other than buildings	2,418,078
Machinery and equipment	4,757,433
Infrastructure being depreciated	<u>25,644,635</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$61,419,830</u>
2. Another element of that reconciliation explains that "internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets." The details of this difference are as follows:	
Fund balance	\$ 1,617,137
Internal balance	<u>440,865</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets - governmental activities	<u>\$ 2,058,002</u>
3. Another element of that reconciliation explains that "long-term liabilities, including bonds payable, lease payable and interest payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:	
Bonds payable	\$ (4,230,000)
Capital lease obligations, long term	(894,000)
Interest payable	<u>(81,489)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ (5,205,489)</u>
4. Another element of that reconciliation explains that "other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this are as follows:	
Inventories	\$ 210,587
Prepaid expense	50,660
Deferred debits	<u>68,968</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 330,215</u>
5. Another element of that reconciliation explains that "net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds". The details of this difference are as follows:	

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Net pension obligation – 1925 Police Officers' Pension Plan	\$ (11,526,278)
Net pension obligation – 1937 Firefighters' Pension Plan	<u>(18,996,204)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u><u>\$ (30,522,482)</u></u>
B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities	
1. The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:	
Capital outlay per fund statements	\$ 2,630,481
Contribution of capital assets	48,942
Capital outlay items costing less than the capitalization threshold	(309,208)
Depreciation expense	<u>(3,683,378)</u>
Net adjustment decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u><u>\$(1,313,163)</u></u>
2. The net effect of various transactions involving capital assets (i.e., sales trade-ins, and donations) is to decrease net assets. The details of this difference are as follows:	
Disposal of capital assets	\$ (907,946)
Accumulated depreciation of disposed capital assets	<u>636,697</u>
Net adjustment decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u><u>\$ (271,249)</u></u>
3. Another element of the reconciliation states that "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this difference are as follows:	
Deferred revenue unavailable, ending balance	\$ 2,054,359
Deferred revenue unavailable, beginning balance	<u>(1,473,229)</u>
Net adjustment increases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u><u>\$ 581,130</u></u>
4. Another element of the reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the	

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Principal repayments:	
General obligation bonds	\$ 535,000
Capital lease financing	112,612
Other debt related costs:	
Change in accrued interest on bonds and leases	8,247
Amortization of bond issue costs	<u>(11,495)</u>
Net adjustment increases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u><u>\$ 644,364</u></u>

5. Another element of that reconciliation states that "net pension obligations are considered long-term obligations of the general government, but are not current expenditures." The details of this difference are as follows:

Net pension obligation, beginning	\$ (25,173,439)
Net pension obligation, ending	<u>(30,522,482)</u>
Net adjustment decreases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u><u>\$ (5,349,043)</u></u>

6. Another element of that reconciliation states "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this difference are as follows:

Beginning compensated absences payable (due beyond one year)	\$ 619,686
Ending compensated absences payable (due beyond one year)	<u>(918,846)</u>
Net adjustment increases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u><u>\$ (299,160)</u></u>

7. Another element of that reconciliation states "Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported with governmental funds." The details of this difference are as follows:

Change in net assets per funds statement	\$ 313,734
Net revenue reported as business-type activities	<u>(40,842)</u>
Net adjustment decreases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u><u>\$ 272,892</u></u>

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Another element of the reconciliation states "Net changes in other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The net effect is as follows:

Change in prepaids	\$ 18,099
Net revenue reported as business-type activities	<u>42,265</u>
 Net adjustment increases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	 \$ <u>60,364</u>

III. 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. All annual appropriations lapse at fiscal year end.

On or before August 31, the City Controller submits to the Common Council 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 Common Council to obtain taxpayer comments. In September of each year, the Common Council through the passage of an ordinance approves the budget for the next year. Copies of the budget 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 City Controller receives approval of the Indiana Department of Local Government Finance.

The primary government's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the Common Council. 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.

Expenditures exceeded appropriations for the following funds or the following departments within the General Fund, which required legally, approved budgets.

B. Expenditures in Excess of Appropriations

For the year ended December 31, 2005, expenditures exceeded budgeted appropriations in the following funds, by the amounts below:

Fund	Amount
Local Road and Street	\$ 1,670
Economic Development Income Tax	<u>2,034,708</u>
Total	<u>\$ 2,036,378</u>

These expenditures were funded by current revenues.

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Deficit Fund Equity

At December 31, 2005, the following funds reported deficits in fund equity, which are violations of State statute:

	Deficit
Governmental funds:	
Flood Hazard Mitigation	\$ 52,817
Firefighter's Grant	4,192
Internet Crime	85
COPS Grant	3,424
Bullet Proof Vest	8,726
Criminal Justice Grant	28,058

Fund equity deficits arose primarily from expenditures or expenses exceeding revenues due to the underestimate of current requirements; these deficits will be repaid from future revenues.

IV. 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 First National Bank in the amount of \$23,520,152 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor - City of Kokomo'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:

	Primary Government Market Value
<u>Investment Type</u>	
Repurchase agreements	\$ 23,520,152

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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.

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 city 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 city must follow state statute and limit the stated final maturities of the investments to no more than two years.

<u>Investment Type</u>	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
Repurchase agreements	<u>\$ 23,520,152</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

<u>Standard and Poor's Rating</u>	<u>Moody's Rating</u>	<u>Investment Pools</u>
AAA	Aaa	<u>\$ 23,520,152</u>

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 18,502,606	\$ 482,248	\$ -	\$ 18,984,854
Construction in progress	<u>1,067,879</u>	<u>577,415</u>	<u>-</u>	<u>1,645,294</u>
 Total capital assets, not being depreciated	 <u>19,570,485</u>	 <u>1,059,663</u>	 <u>-</u>	 <u>20,630,148</u>
Capital assets, being depreciated:				
Buildings	15,904,280	81,335	309,692	15,675,923
Improvements other than buildings	2,883,220	366,915	-	3,250,135
Machinery and equipment	13,552,954	1,122,579	459,272	14,216,261
Infrastructure being depreciated	<u>87,132,518</u>	<u>428,991</u>	<u>138,982</u>	<u>87,422,527</u>
 Totals	 <u>119,472,972</u>	 <u>1,999,820</u>	 <u>907,946</u>	 <u>120,564,846</u>

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities (continued):				
Less accumulated depreciation for:				
Buildings	7,645,190	365,219	304,022	7,706,387
Improvements other than buildings	674,669	157,388	-	832,057
Machinery and equipment	8,910,175	881,328	332,675	9,458,828
Infrastructure being depreciated	<u>59,498,449</u>	<u>2,279,443</u>	<u>-</u>	<u>61,777,892</u>
 Totals	 <u>76,728,483</u>	 <u>3,683,378</u>	 <u>636,697</u>	 <u>79,775,164</u>
 Total capital assets, being depreciated, net	 <u>42,744,489</u>	 <u>(1,683,558)</u>	 <u>271,249</u>	 <u>40,789,682</u>
 Total governmental activities capital assets, net	 <u>\$ 62,314,974</u>	 <u>\$ (623,895)</u>	 <u>\$ 271,249</u>	 <u>\$ 61,419,830</u>
 Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 110,854	\$ -	\$ -	\$ 110,854
Construction in progress	<u>60,501</u>	<u>228,862</u>	<u>-</u>	<u>289,363</u>
 Total capital assets, not being depreciated	 <u>171,355</u>	 <u>228,862</u>	 <u>-</u>	 <u>400,217</u>
 Capital assets, being depreciated:				
Collection system	41,313,342	96,219	-	41,409,561
Stormwater system	36,787,803	-	-	36,787,803
Buildings	18,457,927	-	-	18,457,927
Improvements other than buildings	704,925	49,100	-	754,025
Machinery and equipment	<u>9,734,298</u>	<u>498,054</u>	<u>8,032</u>	<u>10,224,320</u>
 Totals	 <u>106,998,295</u>	 <u>643,373</u>	 <u>8,032</u>	 <u>107,633,636</u>
 Less accumulated depreciation for:				
Collection system	18,346,699	726,644	-	19,073,343
Stormwater system	20,335,291	876,879	-	21,212,170
Buildings	4,234,078	451,681	-	4,685,759
Improvements other than buildings	14,417	14,990	-	29,407
Machinery and equipment	<u>3,057,163</u>	<u>612,429</u>	<u>2,979</u>	<u>3,666,613</u>
 Totals	 <u>45,987,648</u>	 <u>2,682,623</u>	 <u>2,979</u>	 <u>48,667,292</u>
 Total capital assets, being depreciated, net	 <u>61,010,647</u>	 <u>(2,039,250)</u>	 <u>5,053</u>	 <u>58,966,344</u>
 Total business-type activities capital assets, net	 <u>\$ 61,182,002</u>	 <u>\$ (1,810,388)</u>	 <u>\$ 5,053</u>	 <u>\$ 59,366,561</u>

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 688,512
Public safety	284,234
Public works, including depreciation of general infrastructure assets	2,243,117
Culture and recreation	374,874
Community development	<u>92,641</u>
 Total depreciation expense - governmental activities	 <u><u>\$ 3,683,378</u></u>
 Business-type activities:	
Wastewater	<u><u>\$ 2,682,623</u></u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
Governmental:				
Airport runway extension No. 3-18-08	\$ 260,000	\$ 213,835	\$ 46,165	\$ -
Airport runway extension No. 3-18-10	945,225	945,203	22	-
Airport runway extension No. 3-18-11	132,860	94,910	37,950	-
Airport runway extension No. 3-18-12	260,860	184,598	76,262	-
Round-about (Boulevard and Park)	500,000	88,565	411,435	-
Park - Walkpath	<u>1,099,170</u>	<u>118,183</u>	<u>980,987</u>	<u>-</u>
 Total governmental	 <u><u>\$ 3,198,115</u></u>	 <u><u>\$ 1,645,294</u></u>	 <u><u>\$ 1,552,821</u></u>	 <u><u>\$ -</u></u>
 Proprietary:				
Wastewater miscellaneous Improvement project	<u><u>\$ 485,000</u></u>	<u><u>\$ 289,363</u></u>	<u><u>\$ 195,637</u></u>	<u><u>\$ -</u></u>

D. Interfund Balances and Activity

Interfund Transfers

Interfund transfers at December 31, 2005, were as follows:

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Transfer From	Transfer To		
	General Fund	Nonmajor Governmental	Total
General fund	\$ -	\$ 1,370	\$ 1,370
Nonmajor governmental	3,908,227	42,867	3,951,094
Totals	<u>\$ 3,908,227</u>	<u>\$ 44,237</u>	<u>\$ 3,952,464</u>

The primary government typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the general fund to the debt service fund for current-year debt service requirements.

E. Leases

1. Operating Leases

The primary government has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for equipment. Rental expenditures for these leases were \$1,698. The following is a schedule by years of future minimum rental payments as of December 31, 2005:

2006	\$ 12,024
2007	12,024
2008	10,980
2009	7,848
2010	<u>1,308</u>
Total	<u>\$ 44,184</u>

2. Capital Leases

The primary government has entered into various capital leases for equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2005, are as follows:

2006	\$ 272,055
2007	241,989
2008	151,794
2009	151,794
2010	<u>151,793</u>
Total minimum lease payments	969,425
Less amount representing interest	<u>75,425</u>
Present value of net minimum lease payments	<u>\$ 894,000</u>

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Assets acquired through capital leases still in effect are as follows:

	Governmental Activities
Machinery and equipment	\$ 1,050,051
Accumulated depreciation	48,832
Total	\$ 1,001,219

F. Long-Term Liabilities

1. General Obligation Bonds

The primary government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the primary government. General obligation bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Seashore pool complex	3.750% to 4.375%	\$ 4,230,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2006	\$ 565,000	\$ 166,650
2007	590,000	144,913
2008	620,000	121,012
2009	655,000	95,813
2010	690,000	69,100
2011-2015	1,110,000	48,312
Totals	\$ 4,230,000	\$ 645,800

2. Revenue Bonds

The primary government issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Purpose	Interest Rates	Amount
1999 Sewage Works Refunding Bonds	4.25% to 5.00%	\$ 9,255,000
2005 Sewage Works Revenue Bonds	4.00% to 4.50%	<u>11,270,000</u>
Total		<u>\$ 20,525,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Business-Type Activities	
	Principal	Interest
2006	\$ 2,140,000	\$ 732,967
2007	2,245,000	813,333
2008	2,370,000	699,582
2009	2,500,000	579,458
2010	455,000	480,832
2011-2015	2,585,000	2,109,606
2016-2020	3,225,000	1,514,070
2021-2025	4,065,000	730,010
2026-2030	<u>940,000</u>	<u>31,838</u>
Totals	<u>\$ 20,525,000</u>	<u>\$ 7,691,696</u>

3. Notes and Loans Payable

The primary government has entered into loans for improvements to the wastewater treatment plant. Under terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of capital improvements at the Wastewater Treatment Plant. Funds are loaned to the city as construction costs are accrued to the maximum allowed. The 1999 loan established a maximum draw of \$11,970,000 and the 2001 loan established a maximum draw of \$8,670,000. As of December 31, 2005, the loan principal balances were \$11,925,000 and \$7,673,845, respectively. Annual debt service requirements to maturity for the loans, including interest of \$6,833,399, are as follows:

2006	\$ 1,043,275
2007	1,045,850
2008	1,032,813
2009	1,024,775
2010	1,928,687
2011-2015	9,641,738
2016-2020	9,639,200
2021	<u>1,075,907</u>
Total	<u>\$ 26,432,245</u>

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation	\$ 4,765,000	\$ -	\$ 535,000	\$ 4,230,000	\$ 565,000
Capital leases	317,344	689,268	112,612	894,000	243,565
Compensated absences	945,282	20,065	-	965,347	46,501
Net pension obligation	<u>25,173,439</u>	<u>5,349,043</u>	<u>-</u>	<u>30,522,482</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 31,201,065</u>	<u>\$ 6,058,376</u>	<u>\$ 647,612</u>	<u>\$ 36,611,829</u>	<u>\$ 855,066</u>
Business-type activities:					
Revenue bonds payable:					
Wastewater Utility	\$ 11,290,000	\$ 11,270,000	\$ 2,035,000	\$ 20,525,000	\$ 2,140,000
Bond discount	-	(15,500)	-	(15,500)	-
Bond premium	<u>111,067</u>	<u>-</u>	<u>36,629</u>	<u>74,438</u>	<u>-</u>
Total revenue bonds payable	11,401,067	11,254,500	2,071,629	20,583,938	2,140,000
Less deferred amount on refunding	(757,946)	-	(165,370)	(592,576)	-
Notes payable	19,724,984	228,862	355,000	19,598,846	355,000
Compensated absences	<u>147,581</u>	<u>52,814</u>	<u>-</u>	<u>200,395</u>	<u>200,395</u>
Total business-type activities long-term liabilities	<u>\$ 30,515,686</u>	<u>\$ 11,536,176</u>	<u>\$ 2,261,259</u>	<u>\$ 39,790,603</u>	<u>\$ 2,695,395</u>

Compensated absences for governmental activities typically have been liquidated from the general fund.

G. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

Revenue bond operations and maintenance account \$ 17,487,792

H. Prior Period Adjustment

For the year ended December 31, 2005, certain changes have been made to the financial statements to more appropriately reflect financial activity of the primary government. The following schedule presents a summary of restated beginning balances by fund type. New Funds represents the inclusion of existing funds which were not presented in the prior report. Prior period adjustments represent the final addition of the City's infrastructure (roadways, alleys, and right of ways) and accumulated depreciation for governmental funds, and the correction in the internal service balance.

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

In the proprietary funds, prior period adjustments represent the addition of the Storm Water Utility assets and accumulated depreciation and the correction of the internal service balance.

Fund Type	Balance as Reported December 31, 2004	Prior Period Adjustments	Balance as Restated January 1, 2005
Governmental - land	\$ 3,746,014	\$ 14,756,592	\$ 18,502,606
Governmental - capital assets	37,231,562	82,241,410	119,472,972
Governmental - accumulated depreciation	(18,807,410)	(57,921,073)	(76,728,483)
Governmental - internal balances	280,611	201,096	481,707
Business type - capital assets	70,210,492	36,787,803	106,998,295
Business type - accumulated depreciation	(25,652,357)	(20,335,291)	(45,987,648)
Business type - internal balances	(280,611)	(201,096)	(481,707)

V. Other Information

A. Risk Management

The primary government 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.

Medical Benefits to Employees, Retirees, and Dependents (Excluding Postemployment Benefits)

The primary government has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the 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 \$50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund based primarily upon the percentage of each fund's payroll as it relates to total payroll, and are reported as quasi-external fund transactions.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the balance of claim liabilities during the year are as follows:

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

	2005
Unpaid claims, beginning of fiscal year	\$ 514,653
Incurred claims and changes in estimates	7,637,701
Claim payments	7,443,181
Unpaid claims, end of fiscal year	\$ 709,173

B. Postemployment Benefits

In addition to the pension benefits described below, the primary government provides postemployment health, dental and vision benefits, as authorized by Indiana Code 5-10-8, to all police, firefighters and one employee belonging to AFSCME who retired from the City. Currently, 104 retirees meet these eligibility requirements. The primary government provides 95%, 88%, and 75%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis.

C. Pension Plans

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

a. Public Employees' Retirement Fund

Plan Description

The primary government 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 primary government 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

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

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

Information to segregate the assets/liabilities and the actuarial study figures between the primary government and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the primary government and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds.

b. 1925 Police Officers' Pension Plan

Plan Description

The primary government 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 primary government'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 primary government 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. The NPO is considered an obligation of the City and is reflected in the Statement of Net Assets.

c. 1937 Firefighters' Pension Plan

Plan Description

The primary government 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 primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 606,293	\$ 4,685,300	\$ 6,417,400
Interest on net pension obligation	(26,410)	608,700	1,090,600
Adjustment to annual required contribution	<u>30,096</u>	<u>(1,063,300)</u>	<u>(1,905,200)</u>
Annual pension cost	609,979	4,230,700	5,602,800
Contributions made	<u>637,427</u>	<u>1,721,478</u>	<u>2,762,979</u>
Increase (decrease) in net pension obligation	(27,448)	2,509,222	2,839,821
Net pension obligation, beginning of year	<u>(364,277)</u>	<u>9,017,056</u>	<u>16,156,383</u>
Net pension obligation, end of year	<u>\$ (391,725)</u>	<u>\$ 11,526,278</u>	<u>\$ 18,996,204</u>

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	5.25%	41%	49%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-05	01-01-05	01-01-05
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)	07-1-97	12-31-77	12-31-77
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market

<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 KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 616,827	83%	\$ (299,159)
	06-30-04	509,454	113%	(364,277)
	06-30-05	609,979	125%	(391,725)
1925 Police Officers' Pension Plan	12-31-02	4,349,700	53%	6,180,010
	12-31-03	4,258,500	33%	9,017,056
	12-31-04	4,230,700	41%	11,526,278
1937 Firefighters' Pension Plan	12-31-02	5,904,100	58%	12,247,917
	12-31-03	5,747,500	32%	16,156,383
	12-31-04	5,602,800	49%	18,996,204

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

	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Retires and beneficiaries currently receiving benefits	11	75
Terminated employees entitled to but not yet receiving benefits	2	10

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

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The primary government 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 KOKOMO
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 primary government 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 primary government are established by the Board of Trustees of PERF. The primary government's contributions to the plan for the years ending December 31, 2005, 2004, and 2003, were \$1,904,535, \$1,818,182, and \$1,780,443, respectively, equal to the required contributions for each year.

CITY OF KOKOMO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 12,576,717	\$ 13,189,503	\$ (612,786)	95%	\$ 10,456,906	(6%)
07-01-04	12,706,058	14,382,031	(1,675,973)	88%	10,730,507	(16%)
07-01-05	13,208,002	17,188,130	(3,980,128)	77%	11,917,028	(33%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-00	\$ 514,211	\$ 41,779,100	\$ (41,264,889)	1%	\$ 443,800	(9,298%)
01-01-01	1,663,150	42,046,100	(40,382,950)	4%	344,700	(11,715%)
01-01-02	4,032,578	42,432,300	(38,399,722)	10%	359,300	(10,687%)
01-01-03	3,218,920	40,186,700	(36,967,780)	8%	492,700	(7,503%)
01-01-04	1,804,258	40,515,600	(38,711,342)	4%	253,400	(15,277%)
01-01-05	740,369	39,003,200	(38,262,831)	2%	217,100	(17,625%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-00	\$ 474,298	\$ 57,675,700	\$ (57,201,402)	1%	\$ 924,500	(6,187%)
01-01-01	1,659,107	59,030,300	(57,371,193)	3%	916,800	(6,258%)
01-01-02	4,326,643	58,305,800	(53,979,157)	7%	838,400	(6,438%)
01-01-03	4,012,592	53,611,600	(49,599,008)	7%	1,031,100	(4,810%)
01-01-04	2,058,079	54,613,700	(52,555,621)	4%	724,500	(7,254%)
01-01-05	1,126,307	50,867,700	(49,741,393)	2%	529,600	(9,392%)

CITY OF KOKOMO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan			
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-99	\$ 3,866,700	31%	25%
12-31-00	4,168,700	69%	30%
12-31-01	4,311,600	65%	62%
12-31-02	4,517,500	17%	34%
12-31-03	4,537,200	0%	31%
12-31-04	4,685,300	0%	37%

1937 Firefighters' Pension Plan			
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-99	\$ 5,665,100	24%	21%
12-31-00	5,858,700	55%	26%
12-31-01	6,176,200	19%	53%
12-31-02	6,301,600	24%	31%
12-31-03	6,300,100	0%	29%
12-31-04	6,417,400	8%	35%

CITY OF KOKOMO
AUDIT RESULTS AND COMMENTS

ERRORS ON CLAIMS

As reported in prior Report B25937, the City is using a system where claims originate in several departments. No documentation was presented to indicate that oversight is being exercised for the correctness of disbursements.

The following deficiencies were noted on claims during the audit period:

Approved claim forms were not prepared for any disbursements. In some cases, the City was using a Field Purchase Order. The Field Purchase Orders do not contain all information required by the prescribed claim form.

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

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

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

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

DISBURSEMENTS WITHOUT APPROPRIATIONS

Disbursements in the amount of \$ 2,034,708 were made in 2005 from the City's Economic Development Income Tax Fund for capital projects.

We found no evidence of appropriations for this fund in 2005. Additionally, we saw no evidence of the encumbrance of appropriations from 2004.

Indiana Code 36-4-8-2 states, in part: "Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if: (1) an appropriation has been made for that purpose and the appropriation is not exhausted; . . ."

CITY OF KOKOMO
AUDIT RESULTS AND COMMENTS
(Continued)

TRANSFER OF FUNDS

A transfer of \$530,220 was made in 2005 from the Storm Water Sewer Construction Fund to the General Fund and not repaid by December 31, 2005. This transfer was considered permanent by the City.

Indiana Code 36-1-8-4 concerning temporary transfers 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 the department of local government finance."

CONDITION OF RECORDS - CENTRAL GARAGE INVENTORY

Detailed records of the inventory of the Central Garage presented for audit did not support the balance in the ledger. The variance totaled \$125,032.

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)

EMERGENCY MEDICAL SERVICES ACCOUNTS RECEIVABLE

The Emergency Medical Services accounts receivable listing did not support the calculated accounts receivable balance. A listing of the accounts receivable at December 31, 2005, was not printed and the system used to enter the billings and payments is not date sensitive. The December 31, 2005, report could not be recreated at a later date, as subsequent payments had been posted to the system.

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)

PRESCRIBED FORMS NOT IN USE - APPROVAL OF FORMS

As reported in prior Report B25937, the City of Kokomo was using forms which had been conditionally approved for use in lieu of prescribed forms.

CITY OF KOKOMO
AUDIT RESULTS AND COMMENTS
(Continued)

On December 9, 2004, the City submitted 18 forms for approval to the State Board of Accounts. The State Board of Accounts gave conditional approval for these forms on December 13, 2004. Most of the forms did not correlate with a prescribed form. In all instances it took more than one print-out to obtain the required information contained on the prescribed form. Many of the forms needed to replace prescribed forms had not been included in the request for approval. None of the forms contained wording to indicate that the form was "Approved by the State Board of Accounts for the City of Kokomo, 2004," which was a condition of approval.

Based on the foregoing, these forms do not provide the required information of a prescribed form. If more than one form or printout is required to provide the information of a prescribed form, the City of Kokomo should request the multiple forms for use of the prescribed, with adequate explanation of what forms are replacing the prescribed form.

Officials need to have the forms the system produces approved by the State Board of Accounts and designate which prescribed form the system produced form replaces. If it requires more than one system generated form to produce the same information contained on the prescribed form, the unit will need to disclose all system generated forms needed to replace the prescribed form.

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)

OVERPAYMENT COLLECTIONS

As reported in prior Report B25937, overpayments of \$8,448.08 were made to employees for the buyout of paid time off, due to errors in the related computations. As of July, 2006, the City has not made any attempts to collect these overpayments.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

LEAVE TIME POLICY

As reported in prior Report B25937, several newly hired department heads were given the same amount of vacation time as an employee with five years of service. This does not comply with the approved vacation leave policy. The policy bases the vacation leave time on the number of years of service.

All employees should be given the amount of leave stated in the City's approved leave policy.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (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 46204-2765

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 KOKOMO, HOWARD COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Kokomo (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 18, 2006

CITY OF KOKOMO
 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 AGRICULTURE</u>			
Pass-Through Indiana Department of Education Child and Adult Care Food Program	10.558	FY 2005	\$ <u>31,878</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grant Community Development Block Grants/Entitlement Grants	14.218		
		B-05-MC-18-0014	203,285
		B-04-MC-18-0014	1,192,000
		B-03-MC-18-0014	<u>323,924</u>
Total for Federal Grantor Agency			<u>1,719,209</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant Bulletproof Vest Partnership Program	16.607	FY2004	<u>322</u>
Pass-Through Indiana Criminal Justice Institute Crime Victim Assistance	16.575	03ST075	4,083
		05VA048	<u>5,194</u>
Total for Program			<u>9,277</u>
Byrne Formula Grant Program	16.579		
		2003-DB-BX-0026	20,541
		2004-DB-BX-0018	<u>75,558</u>
Total for Program			<u>96,099</u>
Local Law Enforcement Block Grant Program	16.592		
		2003-LB-BX-1251	7,109
		2004-LB-BX-1295	<u>12,789</u>
Total for Program			<u>19,898</u>
Total for Federal Grantor Agency			<u>125,596</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Safety Cluster Federal Transit - Formula Grants	20.507		
		IN-90-X335-00	36,833
		IN-90-X457-00	110,465
		IN-90-X475-00	<u>593,815</u>
Total for Program			<u>741,113</u>
State and Community Highway Safety	20.600	OP-05-02 T-03 P-73	<u>17,405</u>
Safety Incentive Grants for Use of Seatbelts	20.604	IN-05-02 T-03 P-17	<u>7,929</u>
Total for Cluster			<u>766,447</u>

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

CITY OF KOKOMO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2005
(Continued)

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 (continued)</u>			
Direct Grant			
Airport Improvement Program	20.106		
		3-18-0044-08	164,890
		3-18-0044-10	17,180
		3-18-0044-11	4,000
		3-18-0044-12	<u>184,598</u>
Total for Program			<u>370,668</u>
Total for Federal Grantor Agency			<u>1,137,115</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Clean Water State Revolving Funds	66.458	CS-182293-02	<u>42,057</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana Family and Social Services Administration Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	FY2005	<u>20,976</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security Homeland Security Grant Program	97.004	PO-14	<u>149,592</u>
Hazard Mitigation Grant	97.039	FEMA-1487-DR-IN	<u>362,393</u>
Assistance to Firefighters Grant	97.044	EMW-2002-FG-10492	<u>1,970</u>
Total for Federal Grantor Agency			<u>513,955</u>
Total federal awards expended			<u>\$ 4,357,233</u>

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

CITY OF KOKOMO
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Kokomo (primary government) 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 KOKOMO
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
14.218	Community Development Block Grants/Entitlement Grants
97.039	Hazard Mitigation Grant

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 KOKOMO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF KOKOMO
EXIT CONFERENCE

The contents of this report were discussed on October 23, 2006, with Matthew A. McKillip, Mayor; Phillip P. Williams, Controller; Jonathon L. Mayes, Corporate Counsel; and Thu Caven, Deputy Controller. The official response has been made a part of this report and may be found on pages 70 through 75.

The contents of this report were discussed on October 26, 2006, with Greg Sheline, President of the Common Council; Mike Karickhoff, Councilman; Robert L. Hayes, Sr., Councilman; Corbin K. King, Council Attorney; Phil Williams, Controller; and Jonathan L. Mayes, Corporate Counsel.



November 3, 2006

Indiana State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, Indiana 46204-2738

RE: *Official Response to 2005 Indiana State Board of Accounts Audit Results*

Please accept this correspondence as a response, pursuant to Indiana Code section 5-11-5-1(b), to Audit Results and Comments produced on October 23, 2006 during the City's exit conference with the Examiner. We are proud that after 8 years of qualified audit opinions the City of Kokomo received its second consecutive (2004 and 2005) unqualified audit opinion, meaning no material deficiencies exists in our accounting practices and procedures.

This response to the State Board of Accounts' 2005 audit relies on information contained in records maintained by the City of Kokomo and knowledge conveyed from the administration's department heads and employees. The City's response reflect a true and accurate representation to the best of our knowledge and belief according to the information we have received.

ERRORS ON CLAIMS

The State Board of Account comments that the approved claim forms were not prepared for any disbursements. The City's current computer system, installed in 2003, does not produce the State Board of Accounts' required claims report. We have discussed this with the software vendor, and the City would incur a great amount of expenses to customize the current system to produce this one report. As a result, we believe that it is in the best interest of the taxpayers that we develop an alternative remedy in house. The City has already completed this remedy.

The remedy we have put in place, we believe, will satisfy the State Board of Accounts' concerns, save taxpayers thousands of dollars, and we will continue to work with the Examiner to make any additional, necessary modifications. The updated procedure and policies require the approved claim forms to be part of the scanning/imaging on all blanket purchase orders where the account is not obvious. Furthermore, though the City has decentralized accounts payable, the Controller's Office continues reviewing and approving the claims for payment, including proper imaging of the itemized invoice, proper signature on invoices, proper payment amount, ensuring recordation to the proper account and adequate appropriation for the claims.

DISBURSEMENTS WITHOUT APPROPRIATIONS

The State Board of Accounts comments that during the 2005 fiscal year, the City of Kokomo released EDIT funds without appropriation or encumbrance. The City understands that

Matt McKillip, Mayor

City Hall 100 South Union Street Kokomo, Indiana 46901 • Tel: (765) 456.7444 • Fax: (765) 456.7571
e-mail: mayor@cityofkokomo.org "City of Firsts" web: www.cityofkokomo.org

the State Board of Accounts cannot render legal opinions, as the accountants who have audited the City of Kokomo are not attorneys. We also understand that the EDIT statutes and Indiana Code are sufficiently unclear allowing reasonable legal minds to disagree. We are not alone in our understanding of EDIT law. In speaking with various other municipalities around the state, we have learned that many municipalities handle EDIT differently based on different interpretations of the EDIT statutes. In fact, one municipality's City Council never even appropriates EDIT funds, let alone require annual appropriations. Therefore, the City respectfully requests the state board of account remove this comment from the final audit report.

In its comments, the State Board of Accounts directed the City of Kokomo to Indiana Code section 36-4-8-2 as the basis for its comment regarding EDIT appropriation, which states as follows:

Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted;
- (2) the warrant is for a salary fixed by statute or ordinance;
- (3) the warrant is for a claim allowed under section 5 of this chapter;
- (4) he is ordered to issue the warrant under section 3 of this chapter;
- (5) the warrant is for payment of a judgment that the city must pay; or
- (6) the warrant is for interest due on city bonds.

At this time, the City of Kokomo does not dispute that the City cannot release funds without appropriations. In fact, the Kokomo City Council indeed unanimously appropriated \$5,300,000.00 in EDIT funds for the 2004-2005 EDIT Capital Improvement Plan (CIP) with Ordinance 6302 on May 11, 2004. To date, the City of Kokomo has spent only \$4,099,684.75 on projects contained in the City's 2004-2005 CIP. Since the City Council appropriated funds, the City has complied with Section 36-4-8-2. As a result, this comment should be removed.

We believe the EDIT statutes indicate that EDIT appropriations are not required annually. Indiana Code section 6-3.5-7-15 requires the City to adopt a CIP. Indiana law also requires, among other things, that the CIP "must encompass a period of no less than two (2) years." IND. CODE § 6-3.5-7-15. If the Indiana General Assembly truly required annual appropriations of EDIT funds, the General Assembly would have required the CIP not to exceed one (1) year. Because of this two (2) year minimum, we believe this indicates annual appropriations are not required, therefore this comment should be removed.

Furthermore, there is no specific statute in the Indiana Code that states EDIT funds must be annually appropriated. In fact, there are Indiana Statutes that outline funding as it relates to capital projects. Given EDIT is a capital project fund and has a capital project plan that must be prepared at least every two years, highlighting capital projects which could span two or more years, these statutes are applicable.

EDIT funds are intended for capital projects. IND. CODE § 6-3.5-7-13.1. As such, capital projects funds, once appropriated for specific projects, shall not lapse until those projects are completed:

Appropriations of money from the capital projects fund and proceeds of bonds, notes, and other written obligations issued by or in the name of any:

- (1) county, township, city, incorporated town;
- (2) school corporation, state educational institution, or state supported institution of higher learning; or
- (3) other political, municipal, public or quasi-public corporation, special assessment or taxing district, or any authorized body of that corporation or district;

for a specific project shall not lapse at the end of the year in which the appropriation was made, but shall remain in full force and effect without re-appropriation until the purpose for which the appropriation was made has been accomplished or abandoned.

IND. CODE § 5-1-2-1 (emphasis supplied). The City of Kokomo, in cooperation with the Kokomo City Council, provided a list of specific projects in its 2004 CIP indicating how the City would use EDIT funds once appropriated. The Kokomo City Council appropriated the funds with Ordinance 6302. Therefore, under Section 5-1-2-1, it appears the appropriation would not lapse until the City accomplished or abandoned those specific projects. As a result, this comment should be removed.

One may look to statutes discussing budget spending for assistance. Generally, funds appropriated in the budget for the City of Kokomo revert at the end of the fiscal year. However, budget funds are appropriations of general funds and generally do not include capital projects which are commonly funded and spelled out in other funds such as EDIT.

In summary, the City respectfully requests the Indiana State Board of Accounts to remove this comment. If this comment is removed, the City further asks that this section of the response also be removed from the public disclosure. The City believes that reasonable legal minds may disagree as to the interpretation of Indiana's EDIT statutes. Despite this "gray" area in Indiana law, the City's administration is working with the City Council to resolve this matter for the benefit of Kokomo and its citizens. As a result, removal of this comment is appropriate.

TRANSFER OF FUNDS

The State Board of Accounts comments that a 2005 transfer of \$530,220 from the Storm Water Sewer Construction Fund to the General Fund and not repaid by December 31, 2005. This comment seems to imply that the Examiner believes the intent of the transfer should have been temporary and that the City was using the Storm Water Sewer Construction Fund for project work. In 2004, the City's administration inherited a financial disaster considered one of the

worst in the State. As a result, the City lost the ability to fund a third of its budget, and would have ended 2004 and 2005 with a negative cash balance. Due to the financial crisis, the City put into place many steps to remedy the cash shortage including appeals to the State, massive spending cuts, and permanent transfers from other accounts. One of the accounts was the Storm Water Sewer Construction fund, which had not been used for several years as sewer projects are funded via the utility.

The Kokomo City Council unanimously passed Resolution 2461 on June 14, 2005 permanently transferring funds from the Storm Water Sewer Construction fund to the general fund. The intent of the transfer was never temporary, and in fact, during the Council's public meeting, the Council discussed how the wastewater and storm water utilities are designated to cover projects related to storm and sewer construction, not the dormant Storm Water Sewer Construction fund. The City does not intend to transfer the funds back to the dormant Storm Water Sewer Construction fund, as the funds would merely sit dormant in the fund and not be used for any projects. It is the fiscal philosophy of this administration that letting taxpayer funds sit dormant would not be a prudent way to handle taxpayer's money.

CONDITION OF RECORDS – CENTRAL GARAGE INVENTORY

The State Board of Accounts comments that detailed inventory records that the Central Garage presented for the audit did not support the balance in the general ledger. The City discovered this issue as a part of its 2004 GASB 34 compliance project. Our Central Garage director is working diligently to address this issue and has developed a solution that not only addresses the problem, but also improves the garage's efficiency while saving taxpayers' money. The City is working with an onsite parts supplier (NAPA Kokomo) to record a complete inventory. NAPA completed this inventory on September 14, 2006. The central garage staff is currently verifying the NAPA inventory. The City should complete this in the very near future, and the Controller's office will make the appropriate adjustments to the general ledger balance. The City is planning to perform another inventory as part of the year-end 2006 processes.

EMERGENCY MEDICAL SERVICES ACCOUNTS RECEIVABLE

The State Board of Accounts comments that the City did not print an accounts receivable statement on December 31, 2005 from the EMS computer system, for the emergency medical services billing. Additionally, the report could not be recreated at a later date. The fiscal year 2005 was the first full year of emergency medical services billing for the City. As a result, the City developed many procedures during the initial learning stages. In this case, in the City's procedure for a year-end printout was not required as we were unaware the system lacked the capability to produce such a report retroactively. Since the Examiner has brought this issue to the attention of the City, we have changed the year-end procedure to include production of such report for the emergency medical service billing.

PRESCRIBED FORMS NOT IN USE – APPROVAL OF FORMS

The State Board of Accounts comments that the City uses conditionally approved forms in lieu of prescribed forms. This is a comment also raised after the 2004 audit. The City submitted all the necessary forms and reports from the new accounting software for approval by the State Board of Accounts in late 2004. The City received preliminary approval of the forms pending the field auditor's review. After the field auditor reviewed the City's forms, the field auditor asked the City to work with her to document which reports produced out of the City's system tie to required forms of the State Board of Accounts. After reviewing the requirements set forth by the State Board of Accounts with our software vendor the City has determined that, it is too costly to customize the current system to resolve this issue in early 2006 therefore the City will take no additional action on this comment. The City will continue to work with the field auditor to tie required State Board of Accounts forms to internal reports.

OVERPAYMENT COLLECTIONS

The State Board of Accounts commented that in 2004, the City overpaid employees during the buyout of Paid Time Off (PTO). After reviewing this audit comment, the City realized that the State Board of Accounts used a policy that went into affect in January 2005 for a conversion that took place in December 2004. However, the City did employ a process for conversion that was jointly developed by our Human Resources Department and a committee of City employees. This 2004 comment was also contained in the 2005 audit comments.

The PTO conversion for the City process resulted from conversations between the State Board of Accounts and the City's human resources department in early 2004 regarding issues the examiner found with our payments of sick pay, vacation pay, and personal days. After much discussion, the City decided to convert to a PTO system for the benefit of City employees and the City of Kokomo. This presented a large and complex issue, as City employees had accrued large amounts of sick time, vacation time, and personal time under the old system.

The conversion process that was developed and implemented is outlined below:

- The process required converting sick time at the rate of one (1) day per month and three (3) personal days per year. This conversion was easily made.
- To determine the number of vacation days to which the employee was entitled, the City divided the current number of vacation days for that employee by twelve (12), producing a monthly amount. Next, City employees received seniority credit that the month in which the conversation occurred. For example, an employee who earned twenty-seven (27) vacation days each year then had the twenty-seven (27) days divided by twelve (12) months, resulting in 2.25 days of vacation days per month. If that employee's seniority date was anytime in the month of August, they were given credit for eight (8) months, multiplied by 2.25 days. This equaled eighteen (18) vacation days converted to PTO system.

The process as outlined above allowed the City to convert fairly to the PTO system while remaining responsible stewards of taxpayer dollars. The City believes the conversion was successfully and accurately completed and does not agree with the State Board of Account's comments. Therefore, the City respectfully believes corrections are not necessary.

LEAVE TIME POLICY

The State Board of Accounts comments that the City's department heads received the same amount of vacation as an employee with five years of service even though the department head had not worked for the City five or more years. After researching the past practices and policies of the City, prior City administrations provided department heads with the same vacation time, allowing the City to attract quality people for leadership positions. A memo from a prior administration outlines this policy, and the City shared this memo with the State Board of Accounts on several occasions. The City has added this policy as a part of its written policies contained in the City's employee handbook.

In closing, I thank the Indiana State Board of Accounts for their efforts in helping the City receive its second unqualified audit in as many years. In addition, I would like to thank the State Board of Accounts for their hard work throughout the audit and for the feedback presented to me during the exit conference. Should you have further questions, please feel free to contact our offices.

Sincerely,



Matt McKillip
Mayor of Kokomo