

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

EXAMINATION REPORT

OF

CITY OF KNOX

STARKE COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED

08/23/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Raymond C. Walton, Sr. Vacant Jeffery J. Houston	01-01-04 to 03-16-07 03-17-07 to 04-09-07 04-10-07 to 12-31-07
Mayor	Dennis Estok	01-01-04 to 12-31-07
President of the City Council	Linda D. Berndt	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF KNOX, STARKE COUNTY, INDIANA

We have examined the financial information presented herein of the City of Knox (City), for the period of January 1, 2006 to December 31, 2006. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

June 19, 2007

CITY OF KNOX
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 360,610	\$ 1,312,693	\$ 1,077,069	\$ 596,234
Motor Vehicle Highway	162,486	288,643	282,629	168,500
Local Road and Street	19,163	19,403	26,157	12,409
Park and Recreation	27,564	83,194	65,065	45,693
Law Enforcement Continuing Education	2,495	548	1,066	1,977
Riverboat	46,927	23,416	10,703	59,640
County Economic Development Income Tax	366,205	369,615	377,946	357,874
Girl Scout Cabin Maintenance	1,338	3,110	3,145	1,303
Community Center Operation and Maintenance	5,279	45,985	43,849	7,415
Solid Waste Removal	6,564	107,291	113,231	624
Knox Economic Development Commission	83,768	12,756	-	96,524
Knox Redevelopment Commission	1,194	-	-	1,194
Police Equipment	830	100	5	925
Gateway Depot Operation and Maintenance	3,645	8,311	7,287	4,669
Fern Viall Estate	2,689	-	-	2,689
Knox Civic Development Corporation	7,612	284	-	7,896
City Judge Pretrial Diversion	1,287	12,670	12,956	1,001
Work Release	2,165	-	-	2,165
Clerk's Record Perpetuation	7	2,581	511	2,077
Lease Rental Payment	82,260	55,941	92,000	46,201
Fire Lease Payment	7,294	108,008	85,360	29,942
Cumulative Capital Improvement	16,378	13,293	14,000	15,671
Cumulative Capital Development	125,450	59,290	36,130	148,610
Cumulative Fire Fighting Equipment	44,071	23,805	18,173	49,703
Cumulative Sewer Treatment	179,618	50,052	107,757	121,913
IDEM Recycling Grant	-	31,403	31,403	-
Indiana Industrial Development Grant	-	511,276	511,276	-
Proprietary Funds:				
Water Utility - Operating	39,712	250,789	254,620	35,881
Water Utility - Bond and Interest	28,250	112,700	131,473	9,477
Water Utility - Debt Service Reserve	95,880	3,587	-	99,467
Water Utility - Customer Deposit	64,600	20,538	12,802	72,336
Water Utility - Improvement	7,947	1,058,629	1,057,391	9,185
Water Utility - Plant Improvement Grant	-	269,273	269,273	-
Water Utility - Plant Improvement Bond	-	898,454	613,680	284,774
Water Utility - Plant Improvement Retainage	-	5,017	-	5,017
Wastewater Utility - Operating	56,450	320,310	341,340	35,420
Wastewater Utility - Bond and Interest	16,978	155,100	157,173	14,905
Wastewater Utility - Debt Service Reserve	139,774	5,228	-	145,002
Wastewater Utility - Customer Deposit	20,998	16,775	12,195	25,578
Wastewater Utility - Improvement	140,998	-	18,750	122,248
Fiduciary Funds:				
City Court	195,665	547,239	496,101	246,803
Police Officers' Pension	79,295	48,948	47,366	80,877
Users Fees	35,960	93,384	92,607	36,737
Payroll	12,882	953,446	953,425	12,903
Totals	\$ 2,492,288	\$ 7,903,085	\$ 7,375,914	\$ 3,019,459

The accompanying notes are an integral part of the schedules.

CITY OF KNOX
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, health and social services, culture and recreation, and general administrative services.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

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

Note 5. Deposits and Investments

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

State statute (IC 5-13-9) authorizes the City 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.

CITY OF KNOX
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' 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. That report may be obtained by contacting:

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

Funding Policy and Annual Pension Cost

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

Note 7. Holding Corporation

The City has entered into a capital lease with Knox Community Center Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. Lease payments during the year totaled \$92,000.

Note 8. Loans Receivable

A. Stelrema Corporation

The City entered into a \$194,755 Economic Development Loan to provide equipment to Stelrema Corporation on December 20, 2000. The interest rate varies and is to be 60% of the prime rate on December 21 of each year the loan is outstanding. Principal amounts of \$48,689 plus interest are due each December 21 through 2005. Only interest payments were received in 2002, 2003, 2004, 2005, and 2006. The balance outstanding as of December 31, 2006, was \$97,378. Currently, payments are 30 months in arrears.

CITY OF KNOX
NOTES TO FINANCIAL INFORMATION
(Continued)

B. Starke County Development Foundation

The City entered into a \$237,000 Economic Development Loan with Starke County Development Foundation, Inc., on October 1, 2005. Payments (60 months) plus interest are due starting December 1, 2010 and ending November 1, 2015. The principal balance on this loan at December 31, 2006, was \$237,000.

CITY OF KNOX
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2006

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.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 180,483
Buildings	2,206,521
Improvements other than buildings	944,241
Machinery and equipment	<u>2,405,885</u>
 Total governmental activities, capital assets not being depreciated	 \$ <u>5,737,130</u>
 Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 6,175
Construction in progress	43,250
Buildings	83,908
Improvements other than buildings	3,914,080
Machinery and equipment	<u>101,792</u>
 Total Water Utility capital assets	 <u>4,149,205</u>
 Wastewater Utility:	
Capital assets, not being depreciated:	
Land	700
Buildings	670,747
Improvements other than buildings	5,085,949
Machinery and equipment	<u>414,037</u>
 Total Wastewater Utility capital assets	 <u>6,171,433</u>
 Total business-type activities capital assets	 \$ <u>10,320,638</u>

CITY OF KNOX
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For The Year Ended December 31, 2006

Description of Asset Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Knox Community Center	\$ 780,000	\$ 45,000
Fire Truck	253,848	59,234
Notes and loans payable:		
Park Mowers	<u>6,522</u>	<u>2,135</u>
Total governmental activities long-term debt	<u>\$ 1,040,370</u>	<u>\$ 106,369</u>
Business-type Activities:		
Water Utility		
Revenue bonds:		
1988 Waterworks Improvement Bonds	\$ 1,238,000	\$ 32,000
2006 Waterworks Revenue Bonds	<u>870,000</u>	<u>30,000</u>
Total Water Utility	<u>2,108,000</u>	<u>62,000</u>
Wastewater Utility		
Notes and loans payable:		
1991 FmHA Loan	1,736,000	40,000
Revenue bonds:		
1998 Wastewater Refunding Bonds	<u>60,000</u>	<u>29,000</u>
Total Wastewater Utility	<u>1,796,000</u>	<u>69,000</u>
Total business-type activities long-term debt:	<u>\$ 3,904,000</u>	<u>\$ 131,000</u>

CITY OF KNOX
EXAMINATION RESULTS AND COMMENTS

EXPENSE REIMBURSEMENT ITEMIZATION

Some payments were observed which were not supported by adequate documentation such as claims and invoices.

Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with Indiana Code 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for whom amounts are claimed, including the nature, name and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ORDINANCES AND RESOLUTIONS

The City of Knox Water Ordinances 1988 and 2006 and Wastewater Ordinances 1991 and 1998 require monthly transfers to the Bond and Interest Fund to meet bond payments. However, the Water and Wastewater Bond and Interest Fund did not have a sufficient balance to meet this obligation.

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

RECEIPT DEPOSITS (CITY COURT)

Over 73% of receipts tested were deposited later than the next business day.

The type of payment received (cash or check) as noted on receipts issued did not always agree with the duplicate deposit slips (total amount of cash and checks). Further examination disclosed that this may have been the result of personal checks being cashed from cash collections on hand.

CITY OF KNOX
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-13-6-1(d) states in part: "A city or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories selected by the city or town as provided in an ordinance adopted by the city or the town and approved as depositories of state funds."

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS (CITY COURT)

The following deficiencies, relating to the recordkeeping were present during our period of examination:

The subsidiary ledgers for Trust Funds and Cash Bonds did not agree with the totals in the Court Cash Book.

Included in the records of the court are trust and cash bonds over five years old that should be disbursed to the attorney general.

A similar comment was in prior Report B27497.

The total of unpaid items as indicated by the subsidiary ledgers must agree with the respective balances shown by the Court Cash Book. (Accounting and Uniform Compliance Guidelines Manuals for City and Town Courts, Chapter 3)

All fees and funds five or more years old, including old outstanding checks, should be scheduled on forms provided by the Attorney General and paid over to him as required by Indiana Code 32-34-1-20(c)(5).

CITY OF KNOX
EXIT CONFERENCE

The contents of this report were discussed on June 14, 2007, with Mary E. Kesvornas, Clerk of the Knox City Court; and on June 19, 2007, with Jeffery J. Houston, Clerk-Treasurer; and Dennis Estok, Mayor. The officials concurred with our findings.