

B31167

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

ANNUAL FINANCIAL REPORT

2006

CITY OF KENDALLVILLE

NOBLE COUNTY, INDIANA



FILED
11/29/2007

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SCHEDULE OF OFFICIALS

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



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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kendallville (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated November 8, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

The Schedules of Funding Progress and Schedule of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, 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 statements. The Combining Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

November 8, 2007



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kendallville (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we considered to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in Section II – Financial Statement Findings 2006-1 of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The City's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and accordingly, we express no opinion on it.

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

STATE BOARD OF ACCOUNTS

November 8, 2007

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

Functions/Programs	Program Receipts				Net Disbursement and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 3,367,114	\$ 149,239	\$ 1,396,815	\$ 789,025	\$ (1,032,035)	\$ -	\$ (1,032,035)
Public safety	3,446,069	34,529	65,934	930,347	(2,415,259)	-	(2,415,259)
Highways and streets	833,809	-	683,554	65,974	(84,281)	-	(84,281)
Culture and recreation	799,534	176,566	128,005	-	(494,963)	-	(494,963)
Economic development	3,131,394	-	366,633	843,394	(1,921,367)	-	(1,921,367)
Interest on long-term debt	38,281	-	-	-	(38,281)	-	(38,281)
Total governmental activities	11,616,201	360,334	2,640,941	2,628,740	(5,986,186)	-	(5,986,186)
Business-type activities:							
Water	2,579,984	1,475,805	-	-	-	(1,104,179)	(1,104,179)
Wastewater	3,901,989	1,509,630	-	-	-	(2,392,359)	(2,392,359)
Total business-type activities	6,481,973	2,985,435	-	-	-	(3,496,538)	(3,496,538)
Total primary government	\$ 18,098,174	\$ 3,345,769	\$ 2,640,941	\$ 2,628,740	(5,986,186)	(3,496,538)	(9,482,724)
General receipts:							
Property taxes					3,607,136	-	3,607,136
Other state sources					129,235	-	129,235
Other local sources					205,550	-	205,550
Bonds and loans					1,517,022	7,325,000	8,842,022
Unrestricted investment earnings					162,275	207,303	369,578
Refunds and reimbursements					69,144	49,296	118,440
Other					223,709	232,532	456,241
Total general receipts					5,914,071	7,814,131	13,728,202
Change in net assets					(72,115)	4,317,593	4,245,478
Net assets - beginning					3,675,037	1,885,399	5,560,436
Net assets - ending					\$ 3,602,922	\$ 6,202,992	\$ 9,805,914
Assets							
Cash and investments					\$ 1,245,751	\$ 2,230,058	\$ 3,475,809
Restricted assets:							
Cash and investments					2,357,171	3,972,934	6,330,105
Total assets					\$ 3,602,922	\$ 6,202,992	\$ 9,805,914
Net Assets							
Restricted for:							
Public safety					\$ 172,529	\$ -	\$ 172,529
Highways and streets					612,160	-	612,160
Culture and recreation					337,591	-	337,591
Economic development					507,373	-	507,373
Debt service					-	174,170	174,170
Capital replacement					-	3,798,764	3,798,764
Other					727,518	-	727,518
Unrestricted					1,245,751	2,230,058	3,475,809
Total net assets					\$ 3,602,922	\$ 6,202,992	\$ 9,805,914

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

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

	General	Highways and Streets	Parks	Redevelopment Community TIF District East Side	Capital Improvement	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 2,363,776	\$ 405,877	\$ 68,681	\$ 189,435	\$ -	\$ 436,214	\$ 3,463,983
Special assessments	-	-	-	-	-	7,326	7,326
Licenses and permits	16,251	-	-	-	-	1,150	17,401
Intergovernmental	1,015,100	774,733	112,761	-	664,255	1,766,423	4,333,272
Charges for services	103,363	-	64,064	-	-	56,575	224,002
Fines and forfeits	450	-	-	-	-	11,008	11,458
Other	167,554	7,999	138,429	58,705	545,772	282,056	1,200,515
Total receipts	3,666,494	1,188,609	383,935	248,140	1,210,027	2,560,752	9,257,957
Disbursements:							
General government	1,476,860	-	-	-	-	919,225	2,396,085
Public safety	2,441,262	-	-	-	-	1,004,807	3,446,069
Highways and streets	-	819,634	-	-	-	14,175	833,809
Culture and recreation	244,319	-	495,337	-	-	59,878	799,534
Economic development	-	-	-	-	-	220,566	220,566
Debt service:							
Principal	-	-	-	-	-	170,000	170,000
Interest	-	-	-	-	-	38,281	38,281
Capital outlay:							
Economic development	-	-	-	1,667,721	1,204,692	38,415	2,910,828
Total disbursements	4,162,441	819,634	495,337	1,667,721	1,204,692	2,465,347	10,815,172
Excess (deficiency) of receipts over disbursements	(495,947)	368,975	(111,402)	(1,419,581)	5,335	95,405	(1,557,215)
Other financing sources (uses):							
Bond anticipation note (BAN) proceeds	-	-	-	1,439,366	-	-	1,439,366
Loan proceeds	-	77,656	-	-	-	-	77,656
Transfers in	-	-	-	-	-	97,500	97,500
Transfers out	-	-	(97,500)	-	-	(110,000)	(207,500)
Total other financing sources (uses)	-	77,656	(97,500)	1,439,366	-	(12,500)	1,407,022
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(495,947)	446,631	(208,902)	19,785	5,335	82,905	(150,193)
Cash and investment fund balance - beginning	1,741,698	74,627	392,932	91,571	413	1,288,584	3,589,825
Cash and investment fund balance - ending	\$ 1,245,751	\$ 521,258	\$ 184,030	\$ 111,356	\$ 5,748	\$ 1,371,489	3,439,632
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because:							
Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.							
							163,290
Net assets of governmental activities							\$ 3,602,922
Cash and Investment Assets - December 31							
Cash and investments	\$ 1,245,751	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,245,751
Restricted assets:							
Cash and investments	-	521,258	184,030	111,356	5,748	1,371,489	2,193,881
Total cash and investment assets - December 31	\$ 1,245,751	\$ 521,258	\$ 184,030	\$ 111,356	\$ 5,748	\$ 1,371,489	\$ 3,439,632
Cash and Investment Fund Balance - December 31							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 172,529	\$ 172,529
Highways and streets	-	521,258	-	-	-	90,902	612,160
Culture and recreation	-	-	184,030	-	-	153,561	337,591
Economic development	-	-	-	111,356	5,748	390,269	507,373
Other	-	-	-	-	-	564,228	564,228
Unrestricted	1,245,751	-	-	-	-	-	1,245,751
Total cash and investment fund balance - December 31	\$ 1,245,751	\$ 521,258	\$ 184,030	\$ 111,356	\$ 5,748	\$ 1,371,489	\$ 3,439,632

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

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

	Water Utility	Wastewater Utility	Totals	Internal Service Funds
Operating receipts:				
Metered/measured revenue	\$ 1,194,972	\$ 1,509,630	\$ 2,704,602	\$ -
Fire protection receipts	280,833	-	280,833	-
Taxes	-	-	-	143,153
Intergovernmental	-	-	-	8,890
Insurance proceeds	-	-	-	612,236
Other	57,828	224,000	281,828	4,828
	<u>1,533,633</u>	<u>1,733,630</u>	<u>3,267,263</u>	<u>769,107</u>
Total operating receipts				
Operating disbursements:				
Equipment and capital improvements	1,457,029	1,872,614	3,329,643	-
Source of supply and disbursements - operations and maintenance	150,597	-	150,597	-
Water treatment disbursements - operations and maintenance	330,238	-	330,238	-
Transmission and distribution	205,656	-	205,656	-
Collection system - operations and maintenance	-	75,305	75,305	-
Treatment and disposal disbursements - operations and maintenance	-	644,307	644,307	-
Operations and maintenance	-	38,048	38,048	-
Customer accounts	64,282	54,528	118,810	-
Administration and general	283,415	240,815	524,230	-
Insurance disbursements	-	-	-	801,029
	<u>2,491,217</u>	<u>2,925,617</u>	<u>5,416,834</u>	<u>801,029</u>
Total operating disbursements				
Deficiency of operating receipts over operating disbursements	<u>(957,584)</u>	<u>(1,191,987)</u>	<u>(2,149,571)</u>	<u>(31,922)</u>
Nonoperating receipts (disbursements):				
Bond anticipation note (BAN) proceeds	2,500,000	750,000	3,250,000	-
Bond proceeds	-	4,075,000	4,075,000	-
Interest receipts	88,258	119,045	207,303	-
Debt service of bond principal	(70,000)	(95,000)	(165,000)	-
Debt service of BAN principal	-	(750,000)	(750,000)	-
Interest disbursement	(18,767)	(131,372)	(150,139)	-
	<u>2,499,491</u>	<u>3,967,673</u>	<u>6,467,164</u>	<u>-</u>
Total nonoperating receipts				
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	1,541,907	2,775,686	4,317,593	(31,922)
Transfers in	-	-	-	110,000
Excess of receipts and transfers in over disbursements	1,541,907	2,775,686	4,317,593	78,078
Cash and investment fund balance - beginning	625,198	1,260,201	1,885,399	85,212
Cash and investment fund balance - ending	<u>\$ 2,167,105</u>	<u>\$ 4,035,887</u>	<u>\$ 6,202,992</u>	<u>\$ 163,290</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 833,030	\$ 1,397,028	\$ 2,230,058	\$ -
Restricted assets:				
Cash and investments	<u>1,334,075</u>	<u>2,638,859</u>	<u>3,972,934</u>	<u>163,290</u>
Total cash and investment assets - December 31	<u>\$ 2,167,105</u>	<u>\$ 4,035,887</u>	<u>\$ 6,202,992</u>	<u>\$ 163,290</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 131,879	\$ 42,291	\$ 174,170	\$ -
Capital replacement	1,202,196	2,596,568	3,798,764	-
Other	-	-	-	163,290
Unrestricted	<u>833,030</u>	<u>1,397,028</u>	<u>2,230,058</u>	<u>-</u>
Total cash and investment fund balance - December 31	<u>\$ 2,167,105</u>	<u>\$ 4,035,887</u>	<u>\$ 6,202,992</u>	<u>\$ 163,290</u>

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

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

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Fund</u>
Additions:			
Contributions:			
Employer	\$ 172,604	\$ -	\$ -
Other	<u>-</u>	<u>1,139</u>	<u>-</u>
Total contributions	<u>172,604</u>	<u>1,139</u>	<u>-</u>
Investment earnings:			
Interest	<u>3,562</u>	<u>1,748</u>	<u>-</u>
Total additions	<u>176,166</u>	<u>2,887</u>	<u>1,186,939</u>
Deductions:			
Benefits	150,281	-	-
Agency fund deductions	<u>-</u>	<u>-</u>	<u>1,195,248</u>
Total deductions	<u>150,281</u>	<u>-</u>	<u>1,195,248</u>
Excess (deficiency) of total additions over total deductions	25,885	2,887	(8,309)
Cash and investment fund balance - beginning	<u>104,100</u>	<u>85,085</u>	<u>8,481</u>
Cash and investment fund balance - ending	<u>\$ 129,985</u>	<u>\$ 87,972</u>	<u>\$ 172</u>

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Primary Government: City of Kendallville
Blended Component Unit: Economic Improvement District

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

Blended Component Unit

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

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

Related Organizations

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

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

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

The capital improvement fund accounts for economic improvement expenditures of various projects such as assistance with the construction of a new distribution plant for the Performance Food Group (PFG) Company to relocate to Kendallville. The City has committed all of its CEDIT distributions to the Kendallville Local Development Corporation that manages these economic improvement projects until the year 2018.

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

The pension trust funds account for the activities of the 1925 police officer's pension and 1937 firefighter's pension funds which accumulate resources for pension benefit payments.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the cemetery.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are cost reimbursements between the health and vision insurance fund and other city funds and charges for services between the utility funds and other city departments. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Capital Assets

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

3. Long-Term Debt

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

4. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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

II. Stewardship, Compliance and Accountability

Budgetary Information

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

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

B. Interfund Transfers

Transfer From	Transfer To	2006
Parks	Other governmental	\$ 97,500
Other governmental	Internal Service	<u>110,000</u>
Total		<u>\$ 207,500</u>

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

C. Segment Information

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Condensed Statement of Cash and Investment Net Assets

	2006
Cash and investment assets:	
Cash and investments	\$ 2,230,058
Restricted assets	3,972,934
 Total cash and investment assets	 \$ 6,202,992
 Cash and investment net assets:	
Restricted for:	
Debt service	\$ 174,170
Capital replacement	3,798,764
Unrestricted	2,230,058
 Total cash and investment net assets	 \$ 6,202,992

Condensed Statement of Receipts, Disbursements
and Changes in Cash and Investment Net Assets

	2006
Operating receipts (pledged against bond)	\$ 3,267,263
Operating disbursements	(5,416,834)
Deficiency of operating receipts under operating disbursements	(2,149,571)
 Nonoperating receipts (disbursements):	
Bond anticipation note (BAN) proceeds	3,250,000
Bond proceeds	4,075,000
Interest received	207,303
Debt service of bond principal	(165,000)
Debt service of BAN principal	(750,000)
Interest disbursed	(150,139)
Total nonoperating receipts	6,467,164
Excess of receipts over disbursements and nonoperating receipts	4,317,593
 Beginning cash and investment net assets	 1,885,399
 Ending cash and investment net assets	 \$ 6,202,992

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; (excluding postemployment benefits); 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.

Medical Benefits to Employees, Retirees, and Dependents

The City 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 health/vision 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 \$25,000 per year and aggregate claims in excess of \$600,873 for 2006. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

Unemployment Compensation

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

Job Related Illnesses or Injuries to Employees

During 2004, the City joined with other governmental entities to form the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for approximately 740 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of Worker's Compensation. The City pays an annual premium to the risk pool for its Worker's Compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Subsequent Events

In March 2007, the City issued \$6,000,000 of water revenue bonds to finance the cost of additions, extensions and improvements to the water distribution system. In March 2007, the 2006 water bond anticipation notes (BAN'S) of \$2,500,000 were repaid.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Major Fund Description Change

The PFG major fund in the prior audit report has been renamed capital improvement fund to better describe the transactions in this fund. This fund encompasses all capital improvement expenditures made with CEDIT distributions for economic development which includes PFG and other projects.

D. Rate Structure – Enterprise Funds

Water Utility

On December 14, 2004, the City Council adopted Ordinance 1026 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on May 17, 2005.

Wastewater Utility

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

E. Loans Receivable – Indiana Economic Development Corporation

The City has loaned money to various companies for economic development and revitalization over the years. At December 31, 2006, only one company, Aluminum Recovery Technologies, Inc., still had an outstanding balance owed to the City of \$236,084.94.

F. Pension Plans

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

a. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

CITY OF KENDALLVILLE
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 City'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 City and the Utilities is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

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

Funding Policy and Annual Pension Cost

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

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

c. 1937 Firefighters' Pension Plan

Plan Description

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

Funding Policy and Annual Pension Cost

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

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 139,617	\$ 161,700	\$ 3,200
Interest on net pension obligation	(3,587)	63,600	18,400
Adjustment to annual required contribution	4,088	(69,400)	(20,100)
Annual pension cost	140,118	155,900	1,500
Contributions made	121,227	88,573	-
Increase in net pension obligation	18,891	67,327	1,500
Net pension obligation, beginning of year	(49,475)	942,893	272,820
Net pension obligation, end of year	\$ (30,584)	\$ 1,010,220	\$ 274,320

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	6.25%	No covered payroll	No covered payroll
Plan members	3%	No covered payroll	No covered payroll
Actuarial valuation date	07-01-06	01-01-06	01-01-06
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	30 years	30 years
Amortization period (from date)	07-01-97	01-01-05	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

Actuarial Assumptions

Investment rate of return	7.25%	6%	6%
Projected future salary increases:			
Total	5%	4%	4%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	0%	0%
Cost-of-living adjustments	2%	2.75/4%*	2.75/4%*

*2.75% converted members; 4% nonconverted members

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 95,927	111%	\$ (22,218)
	06-30-05	89,741	130%	(49,475)
	06-30-06	140,118	87%	(30,584)
1925 Police Officers' Pension Plan	12-31-03	245,900	0%	728,300
	12-31-04	230,100	7%	942,893
	12-31-05	155,900	57%	1,010,200
1937 Firefighters' Pension Plan	12-31-03	42,400	0%	230,420
	12-31-04	42,400	0%	272,820
	12-31-05	1,500	0%	274,320

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2006, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	8	1

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

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

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

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$195,307, \$183,959, and \$183,959, respectively, equal to the required contributions for each year.

CITY OF KENDALLVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 1,915,675	\$ 1,983,503	\$ (67,828)	97%	\$ 1,768,157	(4%)
07-01-05	2,008,091	2,467,118	(459,027)	81%	2,005,253	(23%)
07-01-06	2,150,935	2,428,526	(277,591)	89%	1,945,007	(14%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 25,675	\$ 2,387,900	\$ (2,362,225)	1%	\$ -	*
01-01-02	59,784	2,401,000	(2,341,216)	2%	-	*
01-01-03	118,137	2,453,300	(2,335,163)	5%	-	*
01-01-04	224,967	2,335,500	(2,110,533)	10%	-	*
01-01-05	51,969	2,255,500	(2,203,531)	2%	-	*
01-01-06	13,776	2,261,800	(2,248,024)	1%	-	*

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)
01-01-01	\$ 75,839	\$ 324,900	\$ (249,061)	23%	\$ 31,200	(798%)
01-01-02	78,448	350,300	(271,852)	22%	32,300	(842%)
01-01-03	83,332	358,300	(274,968)	23%	33,300	(826%)
01-01-04	87,324	387,500	(300,176)	23%	34,000	(883%)
01-01-05	89,880	398,700	(308,820)	23%	34,400	(898%)
01-01-06	90,324	44,400	45,924	203%	-	*

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

CITY OF KENDALLVILLE
 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	
1925 Police Officers' Pension Plan	\$ 230,000	100%	0%	
	240,800	0%	100%	
	251,300	0%	100%	
	267,600	0%	100%	
	266,800	6%	94%	
	161,700	55%	45%	

1937 Firefighters' Pension Plan				
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed		
		City	State	
1937 Firefighters' Pension Plan	\$ 37,600	0%	100%	
	42,100	0%	100%	
	46,300	0%	100%	
	50,900	0%	100%	
	54,000	0%	100%	
	3,200	0%	100%	

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

	Law Enforcement	Cemetery	Storm	Firefighting	Aviation	Cemetery	Hazardous
	Continuing Education	Operating	Sewer		Commission	Contingency	Materials Trailer
Receipts:							
Taxes	\$ -	\$ 50,000	\$ -	\$ -	\$ 80,265	\$ -	\$ -
Special assessments	-	-	-	-	-	-	-
Licenses and permits	1,150	-	-	-	-	-	-
Intergovernmental	-	-	-	-	4,984	-	-
Charges for services	1,879	29,626	-	25,070	-	-	-
Fines and forfeits	11,008	-	-	-	-	-	-
Other	786	1,782	2,826	3,376	58,093	384	5,288
Total receipts	14,823	81,408	2,826	28,446	143,342	384	5,288
Disbursements:							
General government	-	16,087	-	-	107,438	-	-
Public safety	2,476	-	-	181	-	-	5,674
Highways and streets	-	-	14,175	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
Economic development	-	-	-	-	-	-	-
Total disbursements	2,476	16,087	14,175	181	107,438	-	5,674
Excess (deficiency) of receipts over disbursements	12,347	65,321	(11,349)	28,265	35,904	384	(386)
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	12,347	65,321	(11,349)	28,265	35,904	384	(386)
Cash and investment fund balance - beginning	5,621	71,441	96,888	90,513	64,630	8,528	17,565
Cash and investment fund balance - ending	\$ 17,968	\$ 136,762	\$ 85,539	\$ 118,778	\$ 100,534	\$ 8,912	\$ 17,179
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	17,968	136,762	85,539	118,778	100,534	8,912	17,179
Total cash and investment assets - December 31	\$ 17,968	\$ 136,762	\$ 85,539	\$ 118,778	\$ 100,534	\$ 8,912	\$ 17,179
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Public safety	\$ 17,968	\$ -	\$ -	\$ 118,778	\$ -	\$ -	\$ 17,179
Highways and streets	-	-	85,539	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Other	-	136,762	-	-	100,534	8,912	-
Total cash and investment fund balance - December 31	\$ 17,968	\$ 136,762	\$ 85,539	\$ 118,778	\$ 100,534	\$ 8,912	\$ 17,179

CITY OF KENDALLVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Arson Prevention	Police Public Awareness	Special Siren	Redevelopment Commission Donation	Economic Development Steering Committee	HUD Program Income	CDBG Miscellaneous Income
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	9	5	4,489	2,749	612	-	34,188
Total receipts	9	5	4,489	2,749	612	-	34,188
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	-	-	-	5,599	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
Economic development	-	-	-	2,251	-	6	-
Total disbursements	-	-	-	2,251	5,599	6	-
Excess (deficiency) of receipts over disbursements	9	5	4,489	498	(4,987)	(6)	34,188
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(110,000)
Total other financing sources (uses)	-	-	-	-	-	-	(110,000)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	9	5	4,489	498	(4,987)	(6)	(75,812)
Cash and investment fund balance - beginning	16	301	4,585	14,092	15,598	6	180,056
Cash and investment fund balance - ending	\$ 25	\$ 306	\$ 9,074	\$ 14,590	\$ 10,611	\$ -	\$ 104,244
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	25	306	9,074	14,590	10,611	-	104,244
Total cash and investment assets - December 31	\$ 25	\$ 306	\$ 9,074	\$ 14,590	\$ 10,611	\$ -	\$ 104,244
Cash and Investment Fund Balance - December 31							
Restricted for:							
Public safety	\$ 25	\$ 306	\$ 9,074	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	-	-	14,590	10,611	-	104,244
Other	-	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ 25	\$ 306	\$ 9,074	\$ 14,590	\$ 10,611	\$ -	\$ 104,244

CITY OF KENDALLVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Police Reserve	Fourth of July Festival	Redevelopment Commission TIF	Police K-9	Grant Proceeds	Kid City Project
Receipts:						
Taxes	\$ -	\$ -	\$ 96,059	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	784,791	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	5,266	14,408	22,493	1,438	-	13,315
Total receipts	5,266	14,408	118,552	1,438	784,791	13,315
Disbursements:						
General government	-	-	-	-	782,360	13,340
Public safety	2,280	-	-	1,617	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	10,069	-	-	-	-
Economic development	-	-	214,967	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Economic development	-	-	-	-	-	-
Total disbursements	2,280	10,069	214,967	1,617	782,360	13,340
Excess (deficiency) of receipts over disbursements	2,986	4,339	(96,415)	(179)	2,431	(25)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	2,986	4,339	(96,415)	(179)	2,431	(25)
Cash and investment fund balance - beginning	1,710	20,621	252,800	1,376	92,564	8,971
Cash and investment fund balance - ending	<u>\$ 4,696</u>	<u>\$ 24,960</u>	<u>\$ 156,385</u>	<u>\$ 1,197</u>	<u>\$ 94,995</u>	<u>\$ 8,946</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	4,696	24,960	156,385	1,197	94,995	8,946
Total cash and investment assets - December 31	<u>\$ 4,696</u>	<u>\$ 24,960</u>	<u>\$ 156,385</u>	<u>\$ 1,197</u>	<u>\$ 94,995</u>	<u>\$ 8,946</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ 4,696	\$ -	\$ -	\$ 1,197	\$ -	\$ -
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	24,960	-	-	-	-
Economic development	-	-	156,385	-	-	-
Other	-	-	-	-	94,995	8,946
Total cash and investment fund balance - December 31	<u>\$ 4,696</u>	<u>\$ 24,960</u>	<u>\$ 156,385</u>	<u>\$ 1,197</u>	<u>\$ 94,995</u>	<u>\$ 8,946</u>

CITY OF KENDALLVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	City Beautification	Sports Complex	Debt Service	CCI	Aviation Construction	General Improvement
Receipts:						
Taxes	\$ -	\$ -	\$ 192,388	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	7,326
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	11,948	34,353	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	1,336	51,351	3,945	1,154	278	-
Total receipts	1,336	51,351	208,281	35,507	278	7,326
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	664	49,145	-	-	-	-
Economic development	-	-	-	-	-	-
Debt service:						
Principal	-	-	170,000	-	-	-
Interest	-	-	38,281	-	-	-
Capital outlay:						
Economic development	-	-	-	17,967	-	-
Total disbursements	664	49,145	208,281	17,967	-	-
Excess (deficiency) of receipts over disbursements	672	2,206	-	17,540	278	7,326
Other financing sources (uses):						
Transfers in	-	97,500	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	97,500	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	672	99,706	-	17,540	278	7,326
Cash and investment fund balance - beginning	5,000	23,223	-	40,810	7,168	197,621
Cash and investment fund balance - ending	5,672	122,929	-	58,350	7,446	204,947
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	5,672	122,929	-	58,350	7,446	204,947
Total cash and investment assets - December 31	5,672	122,929	-	58,350	7,446	204,947
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-	-
Culture and recreation	5,672	122,929	-	-	-	-
Economic development	-	-	-	58,350	-	-
Other	-	-	-	-	7,446	204,947
Total cash and investment fund balance - December 31	5,672	122,929	-	58,350	7,446	204,947

CITY OF KENDALLVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Economic Improvement District	FEMA Grant Fire Department	Street Lighting	Cemetery Chapel	County Economic Development Income Tax	Totals
Receipts:						
Taxes	\$ 17,502	\$ -	\$ -	\$ -	\$ -	\$ 436,214
Special assessments	-	-	-	-	-	7,326
Licenses and permits	-	-	-	-	-	1,150
Intergovernmental	-	930,347	-	-	-	1,766,423
Charges for services	-	-	-	-	-	56,575
Fines and forfeits	-	-	-	-	-	11,008
Other	1,690	50,537	182	56	20	282,056
Total receipts	19,192	980,884	182	56	20	2,560,752
Disbursements:						
General government	-	-	-	-	-	919,225
Public safety	-	992,579	-	-	-	1,004,807
Highways and streets	-	-	-	-	-	14,175
Culture and recreation	-	-	-	-	-	59,878
Economic development	-	-	-	-	-	220,566
Debt service:						
Principal	-	-	-	-	-	170,000
Interest	-	-	-	-	-	38,281
Capital outlay:						
Economic development	18,191	-	-	-	-	38,415
Total disbursements	18,191	992,579	-	-	-	2,465,347
Excess (deficiency) of receipts over disbursements	1,001	(11,695)	182	56	20	95,405
Other financing sources (uses):						
Transfers in	-	-	-	-	-	97,500
Transfers out	-	-	-	-	-	(110,000)
Total other financing sources (uses)	-	-	-	-	-	(12,500)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,001	(11,695)	182	56	20	82,905
Cash and investment fund balance - beginning	44,471	15,001	5,181	1,630	597	1,288,584
Cash and investment fund balance - ending	<u>\$ 45,472</u>	<u>\$ 3,306</u>	<u>\$ 5,363</u>	<u>\$ 1,686</u>	<u>\$ 617</u>	<u>\$ 1,371,489</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	45,472	3,306	5,363	1,686	617	1,371,489
Total cash and investment assets - December 31	<u>\$ 45,472</u>	<u>\$ 3,306</u>	<u>\$ 5,363</u>	<u>\$ 1,686</u>	<u>\$ 617</u>	<u>\$ 1,371,489</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ 3,306	\$ -	\$ -	\$ -	\$ 172,529
Highways and streets	-	-	5,363	-	-	90,902
Culture and recreation	-	-	-	-	-	153,561
Economic development	45,472	-	-	-	617	390,269
Other	-	-	-	1,686	-	564,228
Total cash and investment fund balance - December 31	<u>\$ 45,472</u>	<u>\$ 3,306</u>	<u>\$ 5,363</u>	<u>\$ 1,686</u>	<u>\$ 617</u>	<u>\$ 1,371,489</u>

CITY OF KENDALLVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 INTERNAL SERVICE FUNDS
 As of and for the Year Ended December 31, 2006

	Employment Security	Health/Vision Insurance	Totals
Operating receipts:			
Taxes	\$ -	\$ 143,153	\$ 143,153
Intergovernmental	-	8,890	8,890
Insurance proceeds	-	612,236	612,236
Other	-	4,828	4,828
	<u>-</u>	<u>769,107</u>	<u>769,107</u>
Total operating receipts			
Operating disbursements:			
Insurance disbursements	<u>987</u>	<u>800,042</u>	<u>801,029</u>
Deficiency of receipts over disbursements	<u>(987)</u>	<u>(30,935)</u>	<u>(31,922)</u>
Transfers in	<u>-</u>	<u>110,000</u>	<u>110,000</u>
Excess (deficiency) of receipts and transfers in over disbursements	(987)	79,065	78,078
Cash and investment fund balance - beginning	<u>51,849</u>	<u>33,363</u>	<u>85,212</u>
Cash and investment fund balance - ending	<u>\$ 50,862</u>	<u>\$ 112,428</u>	<u>\$ 163,290</u>
<u>Cash and Investment Assets - December 31</u>			
Restricted assets:			
Cash and investments	<u>\$ 50,862</u>	<u>\$ 112,428</u>	<u>\$ 163,290</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Other	<u>\$ 50,862</u>	<u>\$ 112,428</u>	<u>\$ 163,290</u>

CITY OF KENDALLVILLE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2006

	Police	Fire	Totals
Additions:			
Contributions:			
Employer	\$ 167,138	\$ 5,466	\$ 172,604
Investment receipts:			
Interest	317	3,245	3,562
Total additions	167,455	8,711	176,166
Deductions:			
Benefits	125,647	24,634	150,281
Excess (deficiency) of total additions over total deductions	41,808	(15,923)	25,885
Cash and investment fund balance - beginning	13,776	90,324	104,100
Cash and investment fund balance - ending	\$ 55,584	\$ 74,401	\$ 129,985

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

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 16,948,314
Construction in progress	181,181
Infrastructure	10,496,622
Buildings	3,659,860
Improvements other than buildings	12,521,229
Machinery and equipment	<u>4,448,265</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 48,255,471</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 33,480
Construction in progress	1,154,356
Buildings	461,913
Improvements other than buildings	9,408,649
Machinery and equipment	<u>1,201,410</u>
 Total Water Utility capital assets	 <u>12,259,808</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	1,435,723
Construction in progress	215,580
Buildings	432,091
Improvements other than buildings	13,894,794
Machinery and equipment	<u>357,229</u>
 Total Wastewater Utility capital assets	 <u>16,335,417</u>
 Total business-type activities, capital assets not being depreciated	 <u>\$ 28,595,225</u>

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

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Notes and loans payable:		
Airport Hangar Loan	\$ 213,901	\$ 22,740
TIF Bond Anticipation Loan	1,331,366	-
Bonds payable:		
General obligation bonds:		
Fire Station and Renovation of City Hall	<u>705,000</u>	<u>-</u>
Total governmental activities long-term debt	<u>\$ 2,250,267</u>	<u>\$ 22,740</u>
Business-type Activities:		
Water Utility		
Notes and loans payable:		
Bond Anticipation Notes of 2006	\$ 2,500,000	\$ 2,500,000
Revenue bonds:		
Refunding Bonds of 1998	<u>85,000</u>	<u>70,000</u>
Total for Water Utility	<u>\$ 2,585,000</u>	<u>\$ 2,570,000</u>
Wastewater Utility		
Revenue bonds:		
Improvement Bonds of 2006	<u>\$ 4,025,000</u>	<u>\$ 65,000</u>
Total business-type activities long-term debt:	<u>\$ 6,610,000</u>	<u>\$ 2,635,000</u>

CITY OF KENDALLVILLE
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Bank reconciliations of the fund balances to the bank account balances did not reconcile at December 31, 2006, and have not reconciled since April 2004. This has been reported in prior Reports B25494 and B28733.

We found numerous issues which caused the above situation:

- Bank and book transfers were not always posted correctly and these errors were not identified and corrected.
- Investments transactions were not always posted correctly and these errors were not identified and corrected.
- Timing issues between the bank and the books were not always identified in the reconciling process.
- Bank and book differences were not always identified and corrected in the reconciling process.

Per our recommendations, corrections were made to the funds ledger in February 2007 to bring the City's records into balance for January 31, 2007. The City also implemented new reconciling procedures and consolidated eight bank accounts into two bank accounts per our recommendations.

Corrections were made to the September 2007 reconciliation and funds ledger in October 2007 to again bring the City's records into balance for September 30, 2007. We reviewed reconciling procedures with the City.

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)

ACCOUNTS RECEIVABLE CONTROL

The accounts receivable control did not reconcile to the detailed consumer ledger balances in 2006. This situation was corrected, based on our recommendations in 2007 and as of September 30, 2007, the accounts receivable control account agreed with the detailed consumer ledger.

When utility records are kept on a cash or single-entry basis, a separate control account should be carried on General Ledger Sheet, General Form 315, in the front of the Consumer's Ledger. This account will be debited with the total monthly billing to all customers for utility services including penalties and sales tax. This account will be credited with the total accounts receivable collections, penalties and sales tax shown by the Register of Daily Cash Receipts - Consumers. Under normal conditions the individual active accounts of customers should at all times show debit balances and at the end of each month the individual active accounts should be added and the total so obtained checked against the balance of the control account. If any adjustments are necessary to be made either to the control or to the individual active accounts, proper explanation should be recorded in the records. When any adjustment is made to a customer's account in order to correct

CITY OF KENDALLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

an error in a previous charge or credit, a like entry should be made to the control account; debiting the control to increase the charge and crediting the control to decrease the charge in order to keep the total of the individual active accounts in agreement with the control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

PAYROLL FUND DEFICIT

The payroll fund had a balance of \$171.81 at December 31, 2006, with \$23,905.77 in outstanding obligations due and payable in the subsequent year. If these obligations were paid prior to year end, there would be a deficit balance of \$23,733.96 in the Payroll Fund.

This deficit balance was mostly caused by two situations:

1. incorrect manual entries made to the payroll withholding fund for direct deposits payments which were already posted automatically in the software, thus causing double postings and
2. incorrect payment of IRS penalties and interest out of the payroll fund, which is just a holding account for payroll withholdings.

All of the errors occurred during the period 2004 to 2007 and were not detected because the payroll account balances within this fund were not monitored. The unit did not have software that reported balances by account and a manual subsidiary ledger was not prepared. We advised the unit keep a manual monthly reconciliation of each payroll withholding account until the City fully converts to its new software which accomplishes the task of reporting each payroll account balance.

We recommended an entry to correct this situation up to September 30, 2007, in the amount of \$24,389.

Payroll deductions will be accumulated in the payroll fund, and then disbursed from this fund at the proper time to the various receiving agencies by payroll warrants. It is suggested the payroll fund ledger sheet be supported by subsidiary ledger sheets for each type of payroll deduction in order to see that no unidentified balance is allowed to accumulate in the payroll fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

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)

CITY OF KENDALLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

Penalties and interest totaling \$7,659.81 were paid to the Internal Revenue Service in 2004 and 2005 for late filings of 2003 and 2004.

Officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CDBG EXPENDITURES FOR SELF-INSURANCE

A transfer from the CDBG Miscellaneous Income Fund 210 was made to the General Fund and then subsequently to the Self-Insurance Fund in 2005 for \$150,000. A transfer from CDBG Fund 210 was made to the Self-Insurance Fund in 2006 for \$110,000. The City did not provide written authority from Indiana Department of Commerce (IDOC) which is now called the Indiana Economic Development Corporation (IEDC), for spending this federal program income.

We recommended that the City obtain retroactive authority from the IEDC for these transfers or transfer the \$260,000 back to the CDBG Fund 210. The City chose instead to reimburse the \$260,000 to the CDBG Miscellaneous Income Fund 210 from the City's General Fund 101 on October 4, 2007. The money was reimbursed out of the General Fund 101 without the appropriate appropriation or Council Resolution.

The CDBG Miscellaneous Income Fund 210 money was originally from Loan Recovery money from HUD/CDBG Grants from the early 1990's and from 1999 and was federally identified as CFDA 14.228. The original grant agreement from 1999 for the Aluminum Recovery Technologies Loan states that the Grantee (City) needs to obtain permission/approval prior to spending these program income funds (loan recovery monies) from the IDOC (now IEDC). Aluminum Recovery Technologies will be making \$236,084.94 in repayment of their loan to the City over the time period of 2007-2009. It would be prudent for the City to get written documentation from IEDC on what the City may spend this money on as well as the procedures and or authorizations necessary to do so. Contact should be made to the IEDC.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

IC 36-4-8-2 and IC 36-5-4-2 and the uniform system provide that no disbursement shall be made except as authorized by an appropriation contained in the budget or in a subsequent modification of the budget. This, of course, does not apply to proprietary (utility) and certain fiduciary (agency) funds. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CITY OF KENDALLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

DISBURSEMENT DEFICIENCIES

We noted several deficiencies when reviewing claims and divided these deficiencies into two categories: travel paid via credit cards and promotion of city expenses.

Travel is being paid via credit cards and it was noted that several payments:

- Lacked identification of who is traveling and for what purpose.
- Lacked detailed invoices for all hotel bills and food purchases.
- Included excessive tipping (>25%) on several food purchases.
- Noted one food claim that exceeded amount on travel policy for dinner expense which is capped at \$18.

Numerous expenses were paid out of inappropriate funds and accounts. These expenses should be paid out of the City General Fund 101-1.00-334.00 as "promotion of city expenses." These expenses included:

- Gift certificates purchased for City employees as gifts.
- Food and beverages purchased for City employees not on travel status.
- Flowers or plants purchased for funerals and illnesses.
- Food and beverages purchased for meetings or memorial services.
- Entertainment being purchased for employees in travel situations.

The City of Kendallville did pass a Home Rule Ordinance, 666, on May 4, 1982, (see City Code Section 2-337) for the purpose of promotion of business, but they are not charging the appropriate disbursements to this General Fund account category.

Care should be taken that no interest, carrying charges, or penalties are incurred due to late payments. All claims filed in connection with use of the credit cards must be itemized as provided in IC 5-11-10 before being approved and paid. If the claims are not itemized or properly documented, they should be returned to the employee user for correction. If any interest or penalty is incurred due to late filing or the furnishing of documentation by an employee, the employee should be held responsible for paying the interest or penalty charges. It goes without saying; all costs incurred and charged with the credit cards must be business related and not personal in nature. We feel a reasonable "tip" or gratuity is allowable where service has been provided. Such items as cleaning, pressing, laundry, personal telephone calls, etc., are personal and should not be paid from public funds. (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2000)

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF KENDALLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

IC 36-7-2-7 allows cities and towns to promote economic development and tourism. Such statute replaced a prior law which authorized cities and towns to budget and appropriate funds from the General fund to pay the expense of, or to reimburse city or town officials as the case may be, for expenses incurred in promoting the best interest of the city or town. Accordingly, a Home Rule ordinance needs to be adopted in accordance with IC 36-1-3 in order to enable a city or town to pay for such expenses. Additionally, an appropriation for such expenses must also be obtained. (Cities and Towns Bulletin and Uniform Compliance Guidelines, December 2005)

CAPITAL ASSETS

Capital asset records for 2006 were not posted and made available until the very end of the audit in October 2007. When reviewing the records, it was discovered there was no detail for the 2006 beginning balances nor were there schedules of additions and deletions so we reviewed transactions from 2004 to 2006 to determine completeness. We used 2004 because this is when the City hired an asset valuation company to prepare asset records. Large posting errors were found when the City converted from Excel spreadsheets prepared by the asset valuation company into an Access database report. When doing this conversion, certain infrastructure items which were categorized as Land and Improvements totaling approximately \$14 million were left off of the records and posting errors in the Water and Wastewater Utilities were made of approximately \$2 million each for water and wastewater lines. We advised officials of these posting errors and the records were corrected during the audit.

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

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties have not been recorded regularly with the County Recorder nor were they certified to the County Auditor regularly which would've resulted in a lien against the property.

As of October 10, 2007, the City has recorded the liens with the County Recorder. We recommended that the City set up a scheduled timetable to file the liens and certify the liens.

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

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

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

CITY OF KENDALLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

- (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.
- (c) The officer shall record a copy of each list or each individual instrument with the county recorder."
- "(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . ."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

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

Compliance

We have audited the compliance of the City of Kendallville (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2006.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

The City's response to the findings identified in our audit is described in the accompanying Official Response section of the report. We did not audit the City's response and, accordingly, we express no opinion on it.

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

STATE BOARD OF ACCOUNTS

November 8, 2007

CITY OF KENDALLVILLE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2006

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct Grant			
Airport Improvement Program	20.106		
3-18-0042-10			\$ 80,427
3-18-0042-11			74,196
3-18-0042-12			613,700
Total for federal grantor agency			768,323
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grant			
Assistance to Firefighters Grant	97.044		
EMW-2005-FG-06249			930,347
Total federal awards expended			\$ 1,698,670

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

CITY OF KENDALLVILLE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

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

CITY OF KENDALLVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
97.044	Assistance to Firefighters Grant

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

FINDING 2006-1, BANK ACCOUNT RECONCILIATIONS

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)

CITY OF KENDALLVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Bank reconciliations of the fund balances to the bank account balances did not reconcile at December 31, 2006, and have not reconciled since April 2004. This has been reported in prior Reports B25494 and B28733.

We found numerous issues which caused the above situation:

- Bank and book transfers were not always posted correctly and these errors were not identified and corrected.
- Investments transactions were not always posted correctly and these errors were not identified and corrected.
- Timing issues between the bank and the books were not always identified in the reconciling process.
- Bank and book differences were not always identified and corrected in the reconciling process

If this situation is not resolved, the City will not know what the correct amount of money is in their funds ledger.

Per our recommendations, corrections were made to the funds ledger in February 2007 to bring the City's records into balance for January 31, 2007. The City also implemented new reconciling procedures and consolidated eight bank accounts into two bank accounts per our recommendations.

Corrections were made to the September 2007 reconciliation and funds ledger in October 2007 to again bring the City's records into balance for September 30, 2007. We reviewed reconciling procedures with the City.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF KENDALLVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

City of Kendallville

234 S. Main Street

Kendallville, IN 46755-1795

November 8, 2007

CITY OF KENDALLVILLE

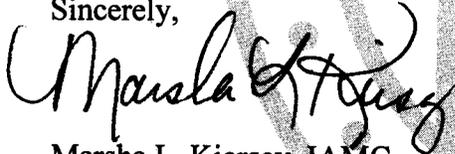
CORRECTIVE ACTION PLAN:

SECTION II – FINANCIAL STATEMENT FINDINGS 2006-1

Bank Account Reconciliation – The Bank Account Reconciliation problem has been corrected. New policies and procedures are in place to assist with the reconciliation. The multiple bank accounts have been closed into one account. Corrections have been made to the funds to bring the accounts into balance with the bank. Keystone Software, a proprietary software approved by the State Board of Accounts, has been installed in the Clerk's Office to assist with posting errors in the Payroll area.

Thank you for your professionalism and assistance in addressing the deficiency.

Sincerely,



Marsha L. Kiersey, IAMC
Clerk-Treasurer

CITY OF KENDALLVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 8, 2007, with W. Suzanne Handshoe, Mayor; Marsha L. Kiersey, Clerk-Treasurer; James C. Dazey II, Common Council member; and James E. Liechty, Common Council member. The official response has been made a part of this report and may be found on pages 53 and 54.

City of Kendallville

234 S. Main Street
Kendallville, IN 46755-1795

November 14, 2007

Mr. Bruce Hartman
State Board of Accounts
302 West Washington St
4th Floor Room E418
Indianapolis IN 46204

CITY OF KENDALLVILLE OFFICIAL RESPONSE

Dear Mr. Hartman;

Bank Account Reconciliation – The Bank Account Reconciliation problem has been corrected. New policies and procedures are in place to assist with the reconciliation. The multiple bank accounts have been closed into one account. Corrections have been made to the funds to bring the accounts into balance with the bank.

Accounts Receivable Control – The Accounts Receivable problem has been corrected. Recommendations by State Auditors have been put into place. We are presently filling out a Daily Balancing of Cash Receipts – Consumers. Month End Reports are being run when the Utility Bill Cards are finished running for the month.

Payroll Fund Deficit – The Payroll Fund Deficit problem has been corrected. Recommendations by State Auditors have been put into place. The Komputrol Software, which was being used for Payroll, was set up with all Payroll Clearing accounts going into one fund. Keystone Software, a proprietary software approved by the State Board of Accounts, has been installed in the Clerk's Office to assist with posting errors in the Payroll area. All Payroll Clearing accounts are set up as individual fund accounts.

Penalties, Interest and Other Charges – The Penalties, Interest and Other Charges problem has been corrected. New policies and procedures are in place to make sure that the City does not pay any penalties in the future.

CDBG Expenditures for Self-Insurance – The CDBG Expenditure problem has been corrected. The money was paid back to the CDBG Fund. In the future, expenditures from the fund will be approved by the IEDC prior to expenditures being made from the fund.

Disbursements – The Disbursements problem is being corrected. New policies and procedures are in place to make sure that city employees follow credit card procedures. Employees are being warned when using their card that tips over 20 % is not acceptable.

The Accounts Payable Clerk has been advised to scrutinize receipts more closely. If detailed receipts are not provided she will contact the employee for solution to the situation either by receiving payment from the employee or the employee will obtain a detailed copy of the receipt

Employees and Department Heads have been made aware that expenditures for entertainment; gift certificates; funeral flowers; food and beverages for meetings, memorial services and parties are to be taken from the Mayors Promotional Account.

The City is in the process of revising its Travel Policy.

Capital Assets – The Capital Assets problem has been corrected. Capital Assets will be posted at the time of purchase of the asset. Construction In Progress (CIP) records are now being compiled for long term projects.

Thank you for your professionalism and assistance in addressing the deficiency.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marsha L. Kiersey".

Marsha L. Kiersey, IAMC
Clerk-Treasurer