

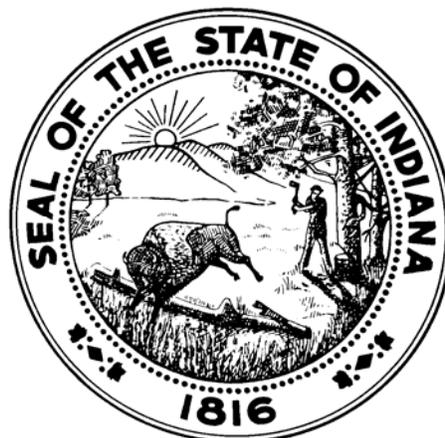
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2006

CITY OF WARSAW

KOSCIUSKO COUNTY, INDIANA



FILED
11/29/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	M. Elaine Call	01-01-04 to 12-31-07
Mayor	Ernest B. Wiggins	01-01-04 to 12-31-07
President of the Common Council	Jerry Patterson	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 WARSAW, KOSCIUSKO 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 Warsaw (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 September 11, 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 Schedules of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of 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

September 11, 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 WARSAW, KOSCIUSKO 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 Warsaw (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 September 11, 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 certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

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 deficiencies described in items 2006-1 and 2006-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies 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, of the significant deficiencies described above, we consider item 2006-1 to be 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 Corrective Action Plan. 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, the City's Common 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

September 11, 2007

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

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 5,475,584	\$ 3,457,018	\$ 23,589	\$ -	\$ (1,994,977)	\$ -	\$ (1,994,977)
Public safety	5,875,303	113,576	-	13,514	(5,748,213)	-	(5,748,213)
Highways and streets	2,966,153	-	594,278	-	(2,371,875)	-	(2,371,875)
Economic development	66,030	-	4,089	-	(61,941)	-	(61,941)
Culture and recreation	2,304,148	185,689	87,365	37,653	(1,993,441)	-	(1,993,441)
Debt service	617,534	-	-	-	(617,534)	-	(617,534)
Total governmental activities	<u>17,304,752</u>	<u>3,756,283</u>	<u>709,321</u>	<u>51,167</u>	<u>(12,787,981)</u>	<u>-</u>	<u>(12,787,981)</u>
Business-type activities:							
Wastewater	5,536,881	4,060,838	-	-	-	(1,476,043)	(1,476,043)
Total primary government	<u>\$ 22,841,633</u>	<u>\$ 7,817,121</u>	<u>\$ 709,321</u>	<u>\$ 51,167</u>	<u>(12,787,981)</u>	<u>(1,476,043)</u>	<u>(14,264,024)</u>
General receipts:							
Property taxes					8,926,902	-	8,926,902
County option income tax					3,394,267	-	3,394,267
Economic development income tax					799,853	-	799,853
Other local sources					543,567	-	543,567
Grants and contributions not restricted to specific programs					1,325,922	-	1,325,922
Unrestricted investment earnings					732,046	58,398	790,444
Transfers					(1,406,115)	1,406,115	-
Total general receipts and transfers					<u>14,316,442</u>	<u>1,464,513</u>	<u>15,780,955</u>
Change in net assets					1,528,461	(11,530)	1,516,931
Net assets - beginning					<u>12,157,816</u>	<u>4,951,980</u>	<u>17,109,796</u>
Net assets - ending					<u>\$ 13,686,277</u>	<u>\$ 4,940,450</u>	<u>\$ 18,626,727</u>
<u>Assets</u>							
Cash and investments					\$ 13,573,847	\$ 3,294,928	\$ 16,868,775
Restricted assets:							
Cash and investments					<u>112,430</u>	<u>1,645,522</u>	<u>1,757,952</u>
Total assets					<u>\$ 13,686,277</u>	<u>\$ 4,940,450</u>	<u>\$ 18,626,727</u>
<u>Net Assets</u>							
Restricted for:							
Debt service					\$ 112,430	\$ 1,603,248	\$ 1,715,678
Other purposes					-	42,274	42,274
Unrestricted					<u>13,573,847</u>	<u>3,294,928</u>	<u>16,868,775</u>
Total net assets					<u>\$ 13,686,277</u>	<u>\$ 4,940,450</u>	<u>\$ 18,626,727</u>

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

CITY OF WARSAW
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	Aviation Fuel Trust	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 5,416,295	\$ -	\$ 3,510,607	\$ 8,926,902
Licenses and permits	40,813	-	-	40,813
Intergovernmental	3,834,523	-	2,446,007	6,280,530
Charges for services	204,164	2,920,354	540,423	3,664,941
Fines and forfeits	34,953	-	15,576	50,529
Other	823,270	1,000	451,343	1,275,613
	<u>10,354,018</u>	<u>2,921,354</u>	<u>6,963,956</u>	<u>20,239,328</u>
Total receipts				
Disbursements:				
General government	1,517,482	2,459,035	1,217,387	5,193,904
Public safety	5,749,852	-	31,598	5,781,450
Highways and streets	2,294,705	-	538,492	2,833,197
Culture and recreation	-	-	2,064,163	2,064,163
Urban redevelopment and housing	-	-	66,030	66,030
Debt service:				
Principal	-	-	560,400	560,400
Interest	-	-	57,134	57,134
Capital outlay:				
General government	-	-	302,865	302,865
Public safety	-	-	116,963	116,963
Culture and recreation	-	-	144,511	144,511
Urban redevelopment and housing	-	-	248,330	248,330
	<u>9,562,039</u>	<u>2,459,035</u>	<u>5,347,873</u>	<u>17,368,947</u>
Total disbursements				
Excess of receipts over disbursements	<u>791,979</u>	<u>462,319</u>	<u>1,616,083</u>	<u>2,870,381</u>
Other financing sources (uses):				
Transfers in	12,000	-	598,379	610,379
Transfers out	-	(460,000)	(1,556,494)	(2,016,494)
	<u>12,000</u>	<u>(460,000)</u>	<u>(958,115)</u>	<u>(1,406,115)</u>
Total other financing sources (uses)				
Excess of receipts and other financing sources over disbursements and other financing uses	803,979	2,319	657,968	1,464,266
Cash and investment fund balance - beginning	<u>4,727,580</u>	<u>84,880</u>	<u>7,309,106</u>	<u>12,121,566</u>
Cash and investment fund balance - ending	<u>\$ 5,531,559</u>	<u>\$ 87,199</u>	<u>\$ 7,967,074</u>	13,585,832
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.				<u>100,445</u>
Net assets of governmental activities				<u>\$ 13,686,277</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 5,531,559	\$ 87,199	\$ 7,854,644	\$ 13,473,402
Restricted assets:				
Cash and investments	-	-	112,430	112,430
Total cash and investment assets - December 31	<u>\$ 5,531,559</u>	<u>\$ 87,199</u>	<u>\$ 7,967,074</u>	<u>\$ 13,585,832</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ -	\$ -	\$ 112,430	\$ 112,430
Unrestricted	<u>5,531,559</u>	<u>87,199</u>	<u>7,854,644</u>	<u>13,473,402</u>
Total cash and investment fund balance - December 31	<u>\$ 5,531,559</u>	<u>\$ 87,199</u>	<u>\$ 7,967,074</u>	<u>\$ 13,585,832</u>

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

CITY OF WARSAW
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

	Wastewater Utility	Internal Service Funds
Operating receipts:		
Customer sales	\$ 3,875,267	\$ -
Insurance proceeds	-	1,729,663
Other	<u>185,571</u>	<u>172,251</u>
Total operating receipts	<u>4,060,838</u>	<u>1,901,914</u>
Operating disbursements:		
Equipment and capital improvements	514,605	-
Treatment and disposal disbursements - operations and maintenance	1,867,908	-
Customer accounts	150,443	-
Administration and general	475,760	-
Insurance	70,481	-
Contractual services	538,894	-
Insurance disbursements	<u>-</u>	<u>1,839,699</u>
Total operating disbursements	<u>3,618,091</u>	<u>1,839,699</u>
Excess of operating receipts over operating disbursements	<u>442,747</u>	<u>62,215</u>
Nonoperating receipts (disbursements):		
Interest and investment receipts	58,398	1,980
Debt service of principal	(1,015,000)	-
Interest and investment disbursement	<u>(903,790)</u>	<u>-</u>
Total nonoperating receipts (disbursements)	<u>(1,860,392)</u>	<u>1,980</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(1,417,645)	64,195
Capital contributions	-	-
Transfers in	<u>1,406,115</u>	<u>-</u>
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(11,530)	64,195
Cash and investment fund balance - beginning	<u>4,951,980</u>	<u>36,250</u>
Cash and investment fund balance - ending	<u>\$ 4,940,450</u>	<u>\$ 100,445</u>
<u>Cash and Investment Assets - December 31</u>		
Cash and investments	\$ 3,294,928	\$ 100,445
Restricted assets:		
Cash and investments	<u>1,645,522</u>	<u>-</u>
Total cash and investment assets - December 31	<u>\$ 4,940,450</u>	<u>\$ 100,445</u>
<u>Cash and Investment Fund Balance - December 31</u>		
Restricted for:		
Debt service	\$ 1,603,248	\$ -
Capital outlay	42,274	-
Other purposes	-	100,445
Unrestricted	<u>3,294,928</u>	<u>-</u>
Total cash and investment fund balance - December 31	<u>\$ 4,940,450</u>	<u>\$ 100,445</u>

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

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

	Pension Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Employer	\$ 275,257	\$ -
Plan members	1,807	-
State	424,376	-
Other	<u>1,102</u>	<u>-</u>
Total contributions	<u>702,542</u>	<u>-</u>
Investment earnings:		
Interest	61,072	-
Agency fund additions	<u>-</u>	<u>7,642,470</u>
Total additions	<u>763,614</u>	<u>7,642,470</u>
Deductions:		
Benefits	617,032	-
Administrative and general	1,633	-
Agency fund deductions	<u>-</u>	<u>7,640,151</u>
Total deductions	<u>618,665</u>	<u>7,640,151</u>
Excess of total additions over total deductions	144,949	2,319
Cash and investment fund balance - beginning	<u>1,196,102</u>	<u>105,310</u>
Cash and investment fund balance - ending	<u><u>\$ 1,341,051</u></u>	<u><u>\$ 107,629</u></u>

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

CITY OF WARSAW
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Primary Government: City of Warsaw

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

Related Organizations

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments. The primary government appoints the board members of the Warsaw 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. 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 aviation fuel trust fund accounts for receipts and disbursements of the purchase and sale of aviation fuel at the airport.

CITY OF WARSAW
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City reports the following major proprietary funds:

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 medical benefits provided to employees, retirees, and dependents on a cost-reimbursement basis.

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

Agency funds account for assets held by the City as an agent for payroll deductions, park security deposits and for sales tax payable to State government and serve as control of 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 payments-in-lieu of taxes and other charges between City governmental activities and the business type activities. 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

CITY OF WARSAW
NOTES TO FINANCIAL STATEMENTS
(Continued)

disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

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

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.

CITY OF WARSAW
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 WARSAW
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

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. 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.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, were as follows:

Transfer From	Transfer To	2006
General Fund	Other governmental	\$ 12,000
Other governmental	Aviation Fuel Trust Fund	460,000
	Other governmental	138,379
	Wastewater Utility Fund	1,406,115
Total		\$ 2,016,494

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

C. Restatements and Reclassifications

For the year ended December 31, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the City. The Self-Insurance Fund and the Employee Benefit Trust Fund, previously reported as separate funds, have been combined and reported as one Self-Insurance Fund, an internal service fund.

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; and natural disasters.

CITY OF WARSAW
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Medical Benefits to Employees, Retirees, and Dependents

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 Self-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 \$60,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls 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 fund's gross wages, and are reported as quasi-external interfund transactions.

B. Holding Corporation

The City has entered into a capital lease with the City of Warsaw, Indiana Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during the year totaled \$862,000.

C. Subsequent Events

During 2007, the City entered into a capital lease agreement to purchase a new sewer cleaner for \$290,000. Also, during 2007, the City's Common Council adopted resolutions to approve temporary loans from the General Fund to the Park Fund, \$300,000, and to the General Bond Fund, \$78,946. These temporary loans were to meet cash flow needs. Due to property tax reassessment, the County has been delayed in distributing taxes during 2007.

D. Contingent Liabilities

In lieu of paying \$184,560, the City has entered into a settlement agreement with the Indiana Department of Environmental Management regarding wastewater discharge. As part of the agreement, the City will extend service to the Town of Leesburg. The City estimates this extension of services will cost \$400,000.

E. Postemployment Benefits

In addition to the pension benefits described below, the City provides postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the City on or after attaining age 55 with at least 20 years of service and to all retired police officers and firefighters who are eligible for their pension benefits. Currently, 11 retirees meet these eligibility requirements. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, disbursements of \$111,290 were recognized for postemployment benefits. This amount is net of \$18,315 in retiree contributions.

CITY OF WARSAW
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Rate Structure – Enterprise Funds

Wastewater Utility

The current rate structure was approved by the City Council on September 18, 2006, and took effect on January 1, 2007.

G. Pension Plans

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

a. Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

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.

CITY OF WARSAW
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 under funding 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 under funding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Annual required contribution	\$ 161,267	\$ 387,800	\$ 287,600
Interest on net pension obligation	(5,788)	160,200	120,000
Adjustment to annual required contribution	<u>6,595</u>	<u>(174,600)</u>	<u>(130,800)</u>
Annual pension cost	162,074	373,400	276,800
Contributions made	<u>139,476</u>	<u>121,476</u>	<u>176,314</u>
Increase in net pension obligation	22,598	251,924	100,486
Net pension obligation, beginning of year	<u>(79,829)</u>	<u>2,373,285</u>	<u>1,778,030</u>
Net pension obligation, end of year	<u>\$ (57,231)</u>	<u>\$ 2,625,209</u>	<u>\$ 1,878,516</u>

CITY OF WARSAW
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	3.88%	276%	*
Plan members	3%	6%	6%
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

* = Not applicable since there are no current members.

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 100,004	127%	\$ (60,544)
	06-30-05	121,634	116%	(79,829)
	06-30-06	162,074	115%	(57,231)
1925 Police Officers' Pension Plan	12-31-03	490,100	50%	2,093,985
	12-31-04	504,000	45%	2,373,285
	12-31-05	373,400	33%	2,625,209
1937 Firefighters' Pension Plan	12-31-03	397,000	58%	1,609,662
	12-31-04	398,900	58%	1,778,030
	12-31-05	276,800	64%	1,878,516

CITY OF WARSAW
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	15	11
Terminated employees entitled to but not yet receiving benefits	-	-
Current active employees	1	-

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

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

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

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

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 \$620,193, \$593,557, and \$569,748, respectively, equal to the required contributions for each year.

CITY OF WARSAW
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 2,745,221	\$ 2,464,184	\$ 281,037	111%	\$ 3,139,164	9%
07-01-05	2,856,391	2,850,404	5,987	100%	3,408,875	0%
07-01-06	2,848,905	3,066,681	(217,776)	93%	3,718,641	(6%)

1925 Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 458,451	\$ 4,893,500	\$ (4,435,049)	9%	\$ 161,800	(2,741%)
01-01-02	573,577	4,720,300	(4,146,723)	12%	168,300	(2,464%)
01-01-03	710,277	4,472,500	(3,762,223)	16%	173,300	(2,171%)
01-01-04	756,816	4,960,100	(4,203,284)	15%	178,500	(2,355%)
01-01-05	772,154	4,344,900	(3,572,746)	18%	137,900	(2,591%)
01-01-06	693,880	4,871,000	(4,177,120)	14%	140,600	(2,971%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 412,729	\$ 3,934,600	\$ (3,521,871)	10%	\$ 81,000	(4,348%)
01-01-02	493,122	4,138,000	(3,644,878)	12%	42,100	(8,658%)
01-01-03	580,066	2,971,800	(2,391,734)	20%	86,600	(2,762%)
01-01-04	583,404	4,110,900	(3,527,496)	14%	44,600	(7,909%)
01-01-05	577,720	3,562,200	(2,984,480)	16%	-	N/A
01-01-06	502,222	4,022,700	(3,520,478)	12%	-	N/A

N/A = Not available

CITY OF WARSAW
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS

	<u>Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
1925 Police Pension Plan	12-31-00	\$ 504,500	71%
	12-31-01	529,600	56%
	12-31-02	530,900	61%
	12-31-03	573,400	42%
	12-31-04	609,600	37%
	12-31-05	387,800	31%
1937 Firefighters' Pension Plan	12-31-00	400,600	84%
	12-31-01	418,800	62%
	12-31-02	443,000	66%
	12-31-03	462,000	50%
	12-31-04	480,000	48%
	12-31-05	287,600	61%

CITY OF WARSAW
 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

	Motor Vehicle Highway	Local Road and Street	County Economic Development Income Tax	Cemetery	Law Enforcement Continuing Education	Park and Recreation	Park Nonreverting Operating
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ 294,430	\$ -	\$ 1,208,889	\$ -
Intergovernmental	470,094	124,184	799,853	21,277	-	87,365	-
Charges for services	-	-	-	84,909	-	165,958	9,366
Fines and forfeits	-	-	-	-	13,576	-	-
Other	-	-	-	-	-	13,545	-
Total receipts	470,094	124,184	799,853	400,616	13,576	1,475,757	9,366
Disbursements:							
General government	-	-	-	378,551	-	-	-
Public safety	-	-	-	-	6,130	-	-
Highways and streets	327,386	199,144	-	-	-	-	-
Culture and recreation	-	-	-	-	-	1,384,938	10,409
Urban redevelopment and housing	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Total disbursements	327,386	199,144	-	378,551	6,130	1,384,938	10,409
Excess (deficiency) of receipts over disbursements	142,708	(74,960)	799,853	22,065	7,446	90,819	(1,043)
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	(817,481)	-	-	-	-
Total other financing sources (uses)	-	-	(817,481)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	142,708	(74,960)	(17,628)	22,065	7,446	90,819	(1,043)
Cash and investment fund balance - beginning	390,826	221,287	17,628	201,776	8,550	562,241	13,794
Cash and investment fund balance - ending	<u>\$ 533,534</u>	<u>\$ 146,327</u>	<u>\$ -</u>	<u>\$ 223,841</u>	<u>\$ 15,996</u>	<u>\$ 653,060</u>	<u>\$ 12,751</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ 533,534	\$ 146,327	\$ -	\$ 223,841	\$ 15,996	\$ 653,060	\$ 12,751
Restricted assets:							
Cash and investments	-	-	-	-	-	-	-
Total cash and investment assets - December 31	<u>\$ 533,534</u>	<u>\$ 146,327</u>	<u>\$ -</u>	<u>\$ 223,841</u>	<u>\$ 15,996</u>	<u>\$ 653,060</u>	<u>\$ 12,751</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	533,534	146,327	-	223,841	15,996	653,060	12,751
Total cash and investment fund balance - December 31	<u>\$ 533,534</u>	<u>\$ 146,327</u>	<u>\$ -</u>	<u>\$ 223,841</u>	<u>\$ 15,996</u>	<u>\$ 653,060</u>	<u>\$ 12,751</u>

CITY OF WARSAW
 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)

	Riverboat	Donation	Unsafe Building	Aviation	Redevelopment District General	Grants	Rainy Day
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ 31,986	\$ 56,590	\$ -	\$ -
Intergovernmental	78,125	-	-	2,312	4,089	727,687	-
Charges for services	-	-	-	90,630	-	30,559	-
Fines and forfeits	-	-	2,000	-	-	-	-
Other	-	87,655	-	-	-	48,064	-
Total receipts	78,125	87,655	2,000	124,928	60,679	806,310	-
Disbursements:							
General government	49,586	-	-	522,687	-	260,102	-
Public safety	-	-	2,500	-	-	22,968	-
Highways and streets	11,962	-	-	-	-	-	-
Culture and recreation	-	116,066	-	-	-	552,750	-
Urban redevelopment and housing	14,461	-	-	-	27,856	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Total disbursements	76,009	116,066	2,500	522,687	27,856	835,820	-
Excess (deficiency) of receipts over disbursements	2,116	(28,411)	(500)	(397,759)	32,823	(29,510)	-
Other financing sources (uses):							
Transfers in	-	-	-	437,000	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	437,000	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	2,116	(28,411)	(500)	39,241	32,823	(29,510)	-
Cash and investment fund balance - beginning	184,911	79,047	11,480	888,809	4,812	54,148	57,881
Cash and investment fund balance - ending	<u>\$ 187,027</u>	<u>\$ 50,636</u>	<u>\$ 10,980</u>	<u>\$ 928,050</u>	<u>\$ 37,635</u>	<u>\$ 24,638</u>	<u>\$ 57,881</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 187,027	\$ 50,636	\$ 10,980	\$ 928,050	\$ 37,635	\$ 24,638	\$ 57,881
Restricted assets:							
Cash and investments	-	-	-	-	-	-	-
Total cash and investment assets - December 31	<u>\$ 187,027</u>	<u>\$ 50,636</u>	<u>\$ 10,980</u>	<u>\$ 928,050</u>	<u>\$ 37,635</u>	<u>\$ 24,638</u>	<u>\$ 57,881</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	187,027	50,636	10,980	928,050	37,635	24,638	57,881
Total cash and investment fund balance - December 31	<u>\$ 187,027</u>	<u>\$ 50,636</u>	<u>\$ 10,980</u>	<u>\$ 928,050</u>	<u>\$ 37,635</u>	<u>\$ 24,638</u>	<u>\$ 57,881</u>

CITY OF WARSAW
 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)

	Cemetery Permanent Maintenance	Housing Revolving Loan	General Obligation Bond	Redevelopment Bond	Cumulative Capital Improvement	Cumulative Building and Firefighting Equipment	Redevelopment Construction Allocation Capital
Receipts:							
Taxes	\$ -	\$ -	\$ 210,777	\$ -	\$ -	\$ 186,992	\$ 223,823
Intergovernmental	-	-	15,232	-	44,353	13,514	31,006
Charges for services	23,630	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	44,071	45,817	326	-	-	-	-
Total receipts	67,701	45,817	226,335	-	44,353	200,506	254,829
Disbursements:							
General government	6,461	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment and housing	-	23,713	-	-	-	-	-
Debt service:							
Principal	-	-	175,000	125,000	-	-	-
Interest	-	-	43,755	13,379	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	116,963	-
Culture and recreation	-	-	-	-	61,443	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Total disbursements	6,461	23,713	218,755	138,379	61,443	116,963	-
Excess (deficiency) of receipts over disbursements	61,240	22,104	7,580	(138,379)	(17,090)	83,543	254,829
Other financing sources (uses):							
Transfers in	-	-	-	138,379	-	-	-
Transfers out	-	-	-	-	(12,000)	-	(138,379)
Total other financing sources (uses)	-	-	-	138,379	(12,000)	-	(138,379)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	61,240	22,104	7,580	-	(29,090)	83,543	116,450
Cash and investment fund balance - beginning	1,029,082	142,903	104,850	-	142,498	741,582	489,240
Cash and investment fund balance - ending	<u>\$ 1,090,322</u>	<u>\$ 165,007</u>	<u>\$ 112,430</u>	<u>\$ -</u>	<u>\$ 113,408</u>	<u>\$ 825,125</u>	<u>\$ 605,690</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ 1,090,322	\$ 165,007	\$ -	\$ -	\$ 113,408	\$ 825,125	\$ 605,690
Restricted assets:							
Cash and investments	-	-	112,430	-	-	-	-
Total cash and investment assets - December 31	<u>\$ 1,090,322</u>	<u>\$ 165,007</u>	<u>\$ 112,430</u>	<u>\$ -</u>	<u>\$ 113,408</u>	<u>\$ 825,125</u>	<u>\$ 605,690</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
Debt service	\$ -	\$ -	\$ 112,430	\$ -	\$ -	\$ -	\$ -
Unrestricted	1,090,322	165,007	-	-	113,408	825,125	605,690
Total cash and investment fund balance - December 31	<u>\$ 1,090,322</u>	<u>\$ 165,007</u>	<u>\$ 112,430</u>	<u>\$ -</u>	<u>\$ 113,408</u>	<u>\$ 825,125</u>	<u>\$ 605,690</u>

CITY OF WARSAW
 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)

	Park Nonreverting Capital	Redevelopment Northern TIF Allocation	Redevelopment Winona- Interurban TIF	Cumulative Capital Development	Aviation Depreciation	Totals
Receipts:						
Taxes	\$ -	\$ 1,015,962	\$ 669	\$ 280,489	\$ -	\$ 3,510,607
Intergovernmental	-	6,647	-	20,269	-	2,446,007
Charges for services	10,365	-	-	-	125,006	540,423
Fines and forfeits	-	-	-	-	-	15,576
Other	-	182,804	-	29,061	-	451,343
Total receipts	10,365	1,205,413	669	329,819	125,006	6,963,956
Disbursements:						
General government	-	-	-	-	-	1,217,387
Public safety	-	-	-	-	-	31,598
Highways and streets	-	-	-	-	-	538,492
Culture and recreation	-	-	-	-	-	2,064,163
Urban redevelopment and housing	-	-	-	-	-	66,030
Debt service:						
Principal	-	260,400	-	-	-	560,400
Interest	-	-	-	-	-	57,134
Capital outlay:						
General government	-	-	-	207,366	95,499	302,865
Public safety	-	-	-	-	-	116,963
Culture and recreation	-	-	-	83,068	-	144,511
Urban redevelopment and housing	-	105,208	-	143,122	-	248,330
Total disbursements	-	365,608	-	433,556	95,499	5,347,873
Excess (deficiency) of receipts over disbursements	10,365	839,805	669	(103,737)	29,507	1,616,083
Other financing sources (uses):						
Transfers in	-	-	-	-	23,000	598,379
Transfers out	-	(588,634)	-	-	-	(1,556,494)
Total other financing sources (uses)	-	(588,634)	-	-	23,000	(958,115)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	10,365	251,171	669	(103,737)	52,507	657,968
Cash and investment fund balance - beginning	35,569	830,299	-	954,708	141,185	7,309,106
Cash and investment fund balance - ending	\$ 45,934	\$ 1,081,470	\$ 669	\$ 850,971	\$ 193,692	\$ 7,967,074
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ 45,934	\$ 1,081,470	\$ 669	\$ 850,971	\$ 193,692	\$ 7,854,644
Restricted assets:						
Cash and investments	-	-	-	-	-	112,430
Total cash and investment assets - December 31	\$ 45,934	\$ 1,081,470	\$ 669	\$ 850,971	\$ 193,692	\$ 7,967,074
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112,430
Unrestricted	45,934	1,081,470	669	850,971	193,692	7,854,644
Total cash and investment fund balance - December 31	\$ 45,934	\$ 1,081,470	\$ 669	\$ 850,971	\$ 193,692	\$ 7,967,074

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

	<u>Police Pension</u>	<u>Firefighter Pension</u>	<u>Totals</u>
Additions:			
Contributions:			
Employer	\$ 160,054	\$ 115,203	\$ 275,257
Plan members	1,807	-	1,807
State	209,805	214,571	424,376
Other	<u>1,102</u>	<u>-</u>	<u>1,102</u>
Total contributions	<u>372,768</u>	<u>329,774</u>	<u>702,542</u>
Investment receipts:			
Interest	<u>34,712</u>	<u>26,360</u>	<u>61,072</u>
Total additions	<u>407,480</u>	<u>356,134</u>	<u>763,614</u>
Deductions:			
Benefits	359,806	257,226	617,032
Administrative and general	<u>883</u>	<u>750</u>	<u>1,633</u>
Total deductions	<u>360,689</u>	<u>257,976</u>	<u>618,665</u>
Excess of total additions over total deductions	46,791	98,158	144,949
Cash and investment fund balance - beginning	<u>693,880</u>	<u>502,222</u>	<u>1,196,102</u>
Cash and investment fund balance - ending	<u>\$ 740,671</u>	<u>\$ 600,380</u>	<u>\$ 1,341,051</u>

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

	Payroll	Park Security Deposit	Sales Tax	Totals
Additions:				
Agency fund additions	\$ 7,618,872	\$ 19,920	\$ 3,678	\$ 7,642,470
Deductions:				
Agency fund deductions	7,616,337	20,145	3,669	7,640,151
Excess (deficiency) of total additions over total deductions	2,535	(225)	9	2,319
Cash and investment fund balance - beginning	104,252	906	152	105,310
Cash and investment fund balance - ending	\$ 106,787	\$ 681	\$ 161	\$ 107,629

CITY OF WARSAW
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2006

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

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 3,704,675
Infrastructure	46,323,457
Buildings	4,189,164
Improvements other than buildings	2,785,193
Machinery and equipment	9,016,967
Construction in progress	<u>180,296</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 66,199,752</u>

Primary Government

Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 239,706
Buildings	17,147,419
Improvements other than buildings	28,933,740
Machinery and equipment	<u>521,357</u>
 Total business-type activities capital assets	 <u>\$ 46,842,222</u>

CITY OF WARSAW
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
2004 Street department equipment	\$ 24,375	\$ 24,375
2005 Dump trucks	154,717	26,153
2006 Dump trucks	200,577	13,522
Cemetery backhoe	16,802	11,084
Fire truck	380,391	103,697
Notes and loans payable	135,866	21,257
Bond service charges	3,071,600	247,000
Bonds payable:		
General obligation bonds:		
2000 Logan street project	700,000	185,000
Tax incremental financing (TIF) bonds:		
1991 Redevelopment	130,000	130,000
Total governmental activities long-term debt	<u>\$ 4,814,328</u>	<u>\$ 762,088</u>
Business-type Activities:		
Wastewater Utility		
Capital leases:		
2001 Holding corporation refunding (nonrefunded)	\$ 600,000	\$ 395,000
2005 Holding corporation refunding	9,890,000	30,000
2004 Wastewater equipment	19,943	19,943
Revenue bonds:		
2003 Wastewater improvements	10,020,000	640,000
Total business-type activities long-term debt:	<u>\$ 20,529,943</u>	<u>\$ 1,084,943</u>

CITY OF WARSAW
AUDIT RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor, which would result in a lien against the property.

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:

(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 . . ."

"(l) A board may write off a fee or penalty under subsection (a) that is for less than forty dollars (\$40)."

PENALTIES ON DELINQUENT WASTEWATER ACCOUNTS

The City does not charge penalties on delinquent nonresidential wastewater bills. Similar comments have been included in the last several reports, the most recent being B26950.

We reviewed the list of delinquent customer accounts, which totals \$233,973 as of July 30, 2007. The two highest customer delinquent balances are:

CITY OF WARSAW
AUDIT RESULTS AND COMMENTS
(Continued)

1. Haydens Laundry, \$31,473. As of January 1, 2006, the delinquent balance was \$17,662. There were monthly billings for services but no payments from January 1, 2006 to July 30, 2007.
2. Economy Inn, \$10,051. As of January 1, 2006, the delinquent balance was \$3,700. There were monthly billings and five payments totaling \$11,087 from January 1, 2006 to July 30, 2007.

Indiana Code 36-9-23-31 states in part: "If fees assessed against real property under this chapter . . . are not paid within the time fixed by the municipal legislative body, they are delinquent. A penalty of ten percent (10%) of the amount of the fees attaches to the delinquent fees."

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Sec. 78-162 states: "Rates and charges levied under this division shall be billed monthly and shall be payable within 30 days after the date set forth in the billing." (City of Warsaw, Indiana Municipal Code)

Sec. 78-163 states: "It shall be the duty of the officer charged with the collection of such charges to enforce payment of such charges, together with the penalties provided by law. . . ." (City of Warsaw, Indiana Municipal Code)

ASPHALT MATERIALS ESCALATOR CLAUSE

During 2006, the City purchased asphalt materials based on an annual materials bid that included an escalation/de-escalation clause. The unit price that the City paid to the vendor increased, but the vendor did not provide any documentation to support his increased cost of materials.

The vendor's bid included a statement that the asphalt materials are subject to escalation as set out in the bid packet. The escalation/de-escalation clause included in the bid specifications shows that the bidder shall increase/decrease the contract unit price in an amount equal to the bidder's increase/decrease in costs of materials and supplies occurring subsequent to the date on which such bid is submitted. Any increase/decrease in the bidder's cost of materials and supplies after the base date shall be determined monthly and shall be verified by proper documents furnished to the responsible awarding board which shall include proof of price to the bidder from the bidder's source of supply.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

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

TO: THE OFFICIALS OF THE CITY OF WARSAW, KOSCIUSKO COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Warsaw (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 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.

This report is intended solely for the information and use of the City's management, the City's Common 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

September 11, 2007

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass Through Indiana Office of Community and Rural Affairs Community Development Block Grants/State's Program	14.228	CF-05-219	\$ <u>477,758</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass Through Indiana Criminal Justice Institute Crime Victim Assistance	16.575	05VA060 06VA067	16,869 <u>11,754</u>
Total for program			28,623
Violence Against Women Formula Grants	16.588	05st027	21,840
Traffic Safety Grant - DUI	16.XXX	154AL-06-03-03-11	<u>6,678</u>
Total for federal grantor agency			<u>57,141</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass Through Indiana Criminal Justice Institute Highway Safety Cluster State and Community Highway Safety	20.600	PT-06-04-07-22 JB-06-03-08-08	8,745 <u>7,584</u>
Total for program			16,329
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	JB-2006-04-04-01	<u>8,910</u>
Total for cluster			25,239
Pass Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction Chinworth Trail	20.205		24,993
Direct Grant Airport Improvement Program	20.106	3-18-0085-06	<u>156,775</u>
Total for federal grantor agency			<u>207,007</u>
Total federal awards expended			<u>\$ 741,906</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF WARSAW
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Warsaw (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.

II. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2006:

Program Title	Federal CFDA Number	2006
Community Development Block Grants/State's Program	14.228	\$ 477,758
Violence Against Women Formula Grants	16.588	21,840

CITY OF WARSAW
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?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

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 Program:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2006-1, DELINQUENT WASTEWATER ACCOUNT COLLECTIONS

The City does not have internal controls established to initiate the collection of delinquent wastewater accounts.

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property. No penalties are charged on delinquent non residential wastewater customers' accounts. We reviewed the list of delinquent customer accounts, which totals \$233,973. The two highest customer delinquent balances as of July 30, 2007, are:

1. Haydens Laundry, \$31,473. As of January 1, 2006, the delinquent balance was \$17,662. There were monthly billings for services but no payments during the period January 1, 2006 to July 30, 2007.

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

2. Economy Inn, \$10,051. As of January 1, 2006, the delinquent balance was \$3,700. There were monthly billings and five payments totaling \$11,087 during the period.

Pursuant to Indiana Law, Indiana Code 36-9-23-33, the City shall prepare a list of delinquent fees and record a copy of the list with the County Recorder. Based on this list, the City shall also certify to the County Auditor a list of liens that remain unpaid. Pursuant to Indiana Law, Indiana Code 36-9-23-31, a penalty of ten percent (10%) of the amount of the fees attaches to the delinquent fees.

Since the City has not enforced collection of delinquent accounts through the lien process and has not applied penalties to nonresidential customers' delinquent accounts, potential cash receipts may not have been recognized. This may result in the need to increase rates for other customers.

We recommended that the City begin enforcing collections of delinquent wastewater accounts in a manner required by Indiana statute, Indiana Code 36-9-23-33, and Indiana Code 36-9-23-31.

Before we completed our audit, the City began filing lists of delinquent wastewater accounts with the County Recorder.

FINDING 2006-2, ASPHALT MATERIAL UNIT PRICE INCREASES

The City did not have internal controls to monitor increased paving materials' costs. The City did not require the vendor to provide documentation to support the increased costs.

During 2006, the City purchased asphalt materials based on an annual materials bid that included an escalation/de-escalation clause. The unit price that the City paid to the vendor increased, but the vendor did not provide any documentation to support his increased cost of materials.

The vendor's bid included a statement that each of the above items is subject to the escalation as set out in the bid packet. The escalation/de-escalation clause included in the bid specifications shows that the bidder shall increase/decrease the contract unit price in an amount equal to the bidder's increase/decrease in costs of materials and supplies occurring subsequent to the date on which such bid is submitted. Any increase/decrease in the bidder's cost of materials and supplies after the base date shall be determined monthly and shall be verified by proper documents furnished to the responsible awarding board which shall include proof of price to the bidder from the bidder's source of supply.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Prices charged to the City that are not adequately documented may indicate incorrect prices. Incorrect prices may result in higher than actual costs.

In those instances where the escalator clause is used by the bidder as a basis for an increased unit price to the City, we recommended that the City enforce its requirement that the bidder provide proper documents as proof of price to the bidder from the bidder's source of supply.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF WARSAW
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



CITY OF WARSAW
ERNEST B. WIGGINS, MAYOR

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September 25, 2007

Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, Indiana 46204

City of Warsaw
Corrective Action Plan on
Financial Audit Findings

Finding No 2006-1 Delinquent Wastewater Account Collections

- The City of Warsaw is now filing delinquent sewer accounts through the Kosciusko County Recorders Office in the manner allowed through IC 36-9-23-33.
- With regards to the two (2) highest customer delinquent balances the following action has been taken.
 - 1) Hayden's Laundry – the City filed this delinquent account through the Kosciusko Circuit Court and received a Judgment for the amount owed at the time of filing.
 - 2) Economy Inn – the City Attorney was instructed by the Board of Public Works and Safety to negotiate a repayment schedule for Economy Inn which they agreed to and are in the process of making their account current.

Finding No 2006-2 Asphalt Material Unit Price Increases

- The City of Warsaw will be requesting supporting documentation on every bid awarded with escalation/de-escalation. Billings will not be approved for payment without adequate supporting proof of purchase.

We are respectfully submitting this as our official response.

Sincerely,

Ernest B. Wiggins, Mayor
City of Warsaw

cc: Bruce Snyder
File

CITY OF WARSAW
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2007, with Ernest B. Wiggins, Mayor; Jerry Patterson, President of the Common Council; and Milissa Griffith, Deputy Clerk-Treasurer.