

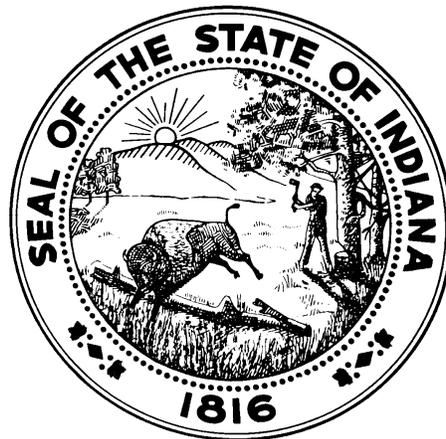
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2007

CITY OF KNOX

STARKE COUNTY, INDIANA



FILED
08/26/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Raymond C. Walton, Sr. Vacant Jeffery J. Houston	01-01-04 to 03-16-07 03-17-07 to 04-09-07 04-10-07 to 12-31-11
Mayor	Dennis Estok Rick Chambers	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Dennis Estok Rick Chambers	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the Common Council	Linda D. Berndt	01-01-07 to 12-31-08
Superintendent of Water Utility	Gordon Burger	01-01-07 to 12-31-08
Superintendent of Wastewater Utility	Ernest Smith	01-01-07 to 12-31-08



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 KNOX, STARKE 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 Knox (City), as of and for the year ended December 31, 2007, 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, 2007, 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 August 7, 2008, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of

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

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.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not 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

August 7, 2008



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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 KNOX, STARKE 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 Knox (City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 7, 2008. 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 item 2007-1 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, we believe that none of the significant deficiencies 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-1 and 2007-2.

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, 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

August 7, 2008

CITY OF KNOX
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2007

Functions/Programs	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:						
Governmental activities:						
General government	\$ 1,132,607	\$ 190,091	\$ -	\$ (942,516)	\$ -	\$ (942,516)
Public safety	462,281	46,963	-	(415,318)	-	(415,318)
Highways and streets	304,444	-	-	(304,444)	-	(304,444)
Sanitation	241,021	-	-	(241,021)	-	(241,021)
Culture and recreation	132,064	-	-	(132,064)	-	(132,064)
Debt service	150,016	-	-	(150,016)	-	(150,016)
Capital outlay	520,774	-	689,595	168,821	-	168,821
Total governmental activities	2,943,207	237,054	689,595	(2,016,558)	-	(2,016,558)
Business-type activities:						
Water	988,172	574,976	288,637	-	(124,559)	(124,559)
Wastewater	522,980	560,077	-	-	37,097	37,097
Total business-type activities	1,511,152	1,135,053	288,637	-	(87,462)	(87,462)
Total primary government	\$ 4,454,359	\$ 1,372,107	\$ 978,232	(2,016,558)	(87,462)	(2,104,020)
General receipts:						
Property taxes				1,557,009	-	1,557,009
Other local sources				521,957	-	521,957
Grants and contributions not restricted to specific programs				386,764	-	386,764
Unrestricted investment earnings				132,692	-	132,692
Total general receipts				2,598,422	-	2,598,422
Change in net assets				581,864	(87,462)	494,402
Net assets - beginning				1,782,849	859,290	2,642,139
Net assets - ending				\$ 2,364,713	\$ 771,828	\$ 3,136,541
<u>Assets</u>						
Cash and investments				\$ 750,928	\$ 122,082	\$ 873,010
Restricted assets:						
Cash and investments				1,613,785	649,746	2,263,531
Total assets				\$ 2,364,713	\$ 771,828	\$ 3,136,541
<u>Net Assets</u>						
Restricted for:						
Public safety				\$ 3,138	\$ -	\$ 3,138
Highways and streets				154,724	-	154,724
Sanitation				126,801	-	126,801
Culture and recreation				76,587	-	76,587
Debt service				108,080	286,701	394,781
Capital outlay				393,537	258,402	651,939
Other purposes				750,918	104,643	855,561
Unrestricted				750,928	122,082	873,010
Total net assets				\$ 2,364,713	\$ 771,828	\$ 3,136,541

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

CITY OF KNOX
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, 2007

	General	County Economic Development Income Tax	Community Development Block Grant	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 1,212,084	\$ 295,873	\$ -	\$ 571,009	\$ 2,078,966
Licenses and permits	15,373	-	-	950	16,323
Intergovernmental	-	-	496,447	416,046	912,493
Charges for services	43,363	-	-	97,014	140,377
Fines and forfeits	79,351	-	-	1,003	80,354
Other	197,797	-	-	98,761	296,558
Total receipts	1,547,968	295,873	496,447	1,184,783	3,525,071
Disbursements:					
General government	847,389	165,050	-	120,168	1,132,607
Public safety	459,714	-	-	2,567	462,281
Highways and streets	-	-	-	304,444	304,444
Sanitation	89,101	-	-	151,920	241,021
Culture and recreation	-	-	-	132,064	132,064
Debt service:					
Principal	-	-	-	107,307	107,307
Interest	-	-	-	42,709	42,709
Capital outlay:					
Highways and streets	-	-	473,777	46,997	520,774
Total disbursements	1,396,204	165,050	473,777	908,176	2,943,207
Excess of receipts over disbursements	151,764	130,823	22,670	276,607	581,864
Other financing sources (uses):					
Transfers in	16,930	-	-	14,000	30,930
Transfers out	(14,000)	-	-	(16,930)	(30,930)
Total other financing sources (uses)	2,930	-	-	(2,930)	-
Excess of receipts and other financing sources over disbursements and other financing uses	154,694	130,823	22,670	273,677	581,864
Cash and investment fund balance - beginning	596,234	357,874	-	828,741	1,782,849
Cash and investment fund balance - ending	\$ 750,928	\$ 488,697	\$ 22,670	\$ 1,102,418	\$ 2,364,713
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 750,928	\$ -	\$ -	\$ -	\$ 750,928
Restricted assets:					
Cash and investments	-	488,697	22,670	1,102,418	1,613,785
Total cash and investment assets - December 31	\$ 750,928	\$ 488,697	\$ 22,670	\$ 1,102,418	\$ 2,364,713
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ 3,138	\$ 3,138
Highways and streets	-	-	-	154,724	154,724
Sanitation	-	-	-	126,801	126,801
Culture and recreation	-	-	-	76,587	76,587
Debt service	-	-	-	108,080	108,080
Capital outlay	-	-	22,670	370,867	393,537
Other purposes	-	488,697	-	262,221	750,918
Unrestricted	750,928	-	-	-	750,928
Total cash and investment fund balance - December 31	\$ 750,928	\$ 488,697	\$ 22,670	\$ 1,102,418	\$ 2,364,713

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

CITY OF KNOX
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, 2007

	Water Utility	Wastewater Utility	Totals
Operating receipts:			
Metered water receipts:			
Residential	\$ 362,104	\$ 506,098	\$ 868,202
Fire protection receipts	90,841	-	90,841
Other receipts - tap fees	12,654	8,420	21,074
Other	5,084	7,949	13,033
	<u>470,683</u>	<u>522,467</u>	<u>993,150</u>
Total operating receipts			
Operating disbursements:			
Equipment and capital improvements	481,466	-	481,466
Salaries and wages	125,864	143,850	269,714
Employee pensions and benefits	18,628	20,768	39,396
Purchased water	373	-	373
Purchased power	25,568	74,187	99,755
Sludge removal	-	27,652	27,652
Taxes	23,203	-	23,203
Chemicals	10,127	-	10,127
Material and supplies	40,898	19,230	60,128
Contractual services	3,326	25,342	28,668
Rents	813	-	813
Insurance disbursements	3,388	6,145	9,533
Miscellaneous disbursements	14,940	14,472	29,412
	<u>748,594</u>	<u>331,646</u>	<u>1,080,240</u>
Total operating disbursements			
Excess (deficiency) of operating receipts over operating disbursements	<u>(277,911)</u>	<u>190,821</u>	<u>(87,090)</u>
Nonoperating receipts (disbursements):			
Interest and investment receipts	24,810	-	24,810
Miscellaneous receipts	16,003	13,850	29,853
Debt service of principal	(62,000)	(69,000)	(131,000)
Interest and investment disbursement	(101,640)	(87,908)	(189,548)
Miscellaneous disbursements	(12,458)	(10,666)	(23,124)
	<u>(135,285)</u>	<u>(153,724)</u>	<u>(289,009)</u>
Total nonoperating disbursements			
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(413,196)	37,097	(376,099)
Capital contributions	<u>288,637</u>	<u>-</u>	<u>288,637</u>
Excess (deficiency) of receipts, and contributions over disbursements	(124,559)	37,097	(87,462)
Cash and investment fund balance - beginning	<u>516,137</u>	<u>343,153</u>	<u>859,290</u>
Cash and investment fund balance - ending	<u>\$ 391,578</u>	<u>\$ 380,250</u>	<u>\$ 771,828</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 53,357	\$ 68,725	\$ 122,082
Restricted assets:			
Cash and investments	<u>338,221</u>	<u>311,525</u>	<u>649,746</u>
Total cash and investment assets - December 31	<u>\$ 391,578</u>	<u>\$ 380,250</u>	<u>\$ 771,828</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 126,186	\$ 160,515	\$ 286,701
Capital outlay	136,154	122,248	258,402
Other purposes	75,881	28,762	104,643
Unrestricted	<u>53,357</u>	<u>68,725</u>	<u>122,082</u>
Total cash and investment fund balance - December 31	<u>\$ 391,578</u>	<u>\$ 380,250</u>	<u>\$ 771,828</u>

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

CITY OF KNOX
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2007

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Additions:		
Contributions:		
Plan members	\$ 22,287	\$ -
Agency fund additions	<u>-</u>	<u>1,788,306</u>
Total additions	<u>22,287</u>	<u>1,788,306</u>
Deductions:		
Benefits	50,973	-
Agency fund deductions	<u>-</u>	<u>1,652,944</u>
Total deductions	<u>50,973</u>	<u>1,652,944</u>
Excess (deficiency) of total additions over total deductions	(28,686)	135,362
Cash and investment fund balance - beginning	<u>80,877</u>	<u>296,443</u>
Cash and investment fund balance - ending	<u>\$ 52,191</u>	<u>\$ 431,805</u>

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

CITY OF KNOX
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 Knox

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

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, 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 county economic development income tax fund accounts for the City's share of the county economic development income tax and is used for infrastructure and incentives to promote industrial job growth as dictated by the City's capital improvement plan.

The community development block grant fund accounts for grant money the City received to complete infrastructure improvements to the industrial park.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 pension trust funds account for the activities of the 1925 police pension fund, which accumulate resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for other governmental agencies and City employees 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 the primary government and the city owned utilities. 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.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The City does not have any internal service funds.

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. Property Taxes

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

3. 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.

4. Long-Term Debt

Long-term debts arising from cash basis transactions of governmental and proprietary funds are not reported as a liability in the basic financial statements. Debt proceeds received are reported as other financing sources and payments of principal and interest are reported as disbursements.

5. 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."

CITY OF KNOX
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, and (2) 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.

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

CITY OF KNOX
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 government-wide 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.

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. The City does not have a deposit policy for custodial credit risk. At December 31, 2007, the City had deposit balances in the amount of \$3,781,606. This amount was not exposed to custodial credit risk.

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.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENTS
(Continued)

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the City to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the City's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, were as follows:

Transfer From	Transfer To	2007
General Fund	Other governmental funds	\$ 14,000
Other governmental funds	General Fund	<u>16,930</u>
Total		<u>\$ 30,930</u>

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

CITY OF KNOX
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; and natural disasters.

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

B. Holding Corporation

The City has entered into a capital lease with Knox Community Center Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during the year totaled \$45,000.

C. Subsequent Events

Beginning in 2009, the State Pension Relief Fund shall pay to each unit of local government with Pre-1977 Local Police and Firefighter Pension obligations, the total amount of pension, disability, and survivor benefit payments. The Pre-1977 funds include the 1925 Police Pension Fund, the 1937 Firefighters' Fund, and the 1953 Police Pension Fund. For property taxes due and payable after December 31, 2008, the Department of Local Government Finance shall reduce the maximum permissible property tax levy of any civil taxing unit and special service district by the amount of the payment to be made in 2009 by the State for the obligations.

D. Loans Receivable – Indiana Department of Commerce

1. Stelrema Corporation

The City entered into a \$194,755 economic development loan to provide equipment to Stelrema Corporation on December 20, 2000. The interest rate varies and is to be 60% of the prime rate on December 21 of each year the loan is outstanding. Principal amounts of \$48,689 plus interest were due each December 21, 2001 through December 21, 2005. Only interest payments were received in 2002, 2003, 2004, 2005, and 2006. The balance outstanding as of December 31, 2007, was \$97,378. Currently, payments are in arrears and Stelrema Corporation is in Chapter 11 Bankruptcy.

2. Starke County Development Foundation

The City entered into a \$237,000 economic development loan with Starke County Development Foundation, Inc., on October 1, 2005. Payments (60 months) plus interest are due starting December 1, 2010 and ending November 1, 2015. The principal balance on this loan at December 31, 2007, was \$237,000.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Rate Structure – Enterprise Funds

Water Utility

On June 28, 1994, the City Council adopted Ordinance No. 916 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on February 14, 2006.

Wastewater Utility

The current rate structure was approved by the City Council on February 14, 2006.

F. Pension Plans

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

a. Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

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

CITY OF KNOX
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>
Annual required contribution	\$ 42,470	\$ 84,900
Interest on net pension obligation	(819)	14,300
Adjustment to annual required contribution	<u>934</u>	<u>(17,700)</u>
Annual pension cost	42,585	81,500
Contributions made	<u>35,623</u>	<u>22,287</u>
Increase in net pension obligation	6,962	59,213
Net pension obligation, beginning of year	<u>(11,299)</u>	<u>237,532</u>
Net pension obligation, end of year	<u><u>\$ (4,337)</u></u>	<u><u>\$ 296,745</u></u>

CITY OF KNOX
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF	1925 Police Officers' Pension
Contribution rates:		
City	7.50%	N/A
Plan members	3%	6%
Actuarial valuation date	07-01-06	01-01-06
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	30 years	30 years
Amortization period (from date)	07-01-97	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

N/A = Not available

Actuarial Assumptions

Investment rate of return	7.25%	6%
Projected future salary increases:		
Total	5%	4%
Attributed to inflation	4%	4%
Attributed to merit/seniority	1%	0%
Cost-of-living adjustments	2%	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	06-30-05	\$ 29,072	109%	\$ (19,069)
	06-30-06	38,502	80%	(11,299)
	06-30-07	42,585	84%	(4,337)
1925 Police Officers' Pension Plan	12-31-05	79,200	62%	204,311
	12-31-06	81,100	59%	237,532
	12-31-07	81,500	27%	296,745

CITY OF KNOX
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Membership in the 1925 Police Officers' Pension Plan at January 1, 2007, was comprised of the following:

	1925 Police Officers' Pension
Retirees and beneficiaries currently receiving benefits	3

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, 2007, 2006, and 2005, were \$49,839, \$49,684, and \$46,673, respectively, equal to the required contributions for each year.

CITY OF KNOX
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)
07-01-05	\$ 369,612	\$ 512,489	\$ (142,877)	72%	\$ 521,933	(27%)
07-01-06	441,616	574,061	(132,445)	77%	537,585	(25%)
07-01-07	471,494	611,975	(140,481)	77%	539,557	(26%)

1925 Police Officer's Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-02	\$ 24,814	\$ 1,054,100	\$ (1,029,286)	2%	NCP	NCP
01-01-03	61,660	845,500	(783,840)	7%	NCP	NCP
01-01-04	52,621	1,171,400	(1,118,779)	4%	NCP	NCP
01-01-05	75,630	1,153,300	(1,077,670)	7%	NCP	NCP
01-01-06	79,295	1,173,200	(1,093,905)	7%	NCP	NCP
01-01-07	80,877	1,171,300	(1,090,423)	7%	NCP	NCP

NCP - No Covered Payroll

CITY OF KNOX
 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	12-31-02	\$ 110,300	0%	83%
	12-31-03	127,900	0%	26%
	12-31-04	133,800	0%	50%
	12-31-05	81,400	0%	60%
	12-31-06	83,800	0%	57%
	12-31-07	84,900	0%	26%

CITY OF KNOX
 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, 2007

	Motor Vehicle Highway	Local Road and Street	Park and Recreation	Riverboat	Cumulative Capital Improvement	Cumulative Capital Development	Girl Scout Cabin Maintenance
Receipts:							
Taxes	\$ 111,134	\$ -	\$ 86,920	\$ -	\$ -	\$ 42,599	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	137,571	19,611	2,898	23,464	13,070	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	9,943	-	3,826	-	-	-	3,220
Total receipts	258,648	19,611	93,644	23,464	13,070	42,599	3,220
Disbursements:							
General government	-	-	-	44,965	-	-	9,942
Public safety	-	-	-	-	-	-	-
Highways and streets	304,444	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	62,750	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
Highways and streets	-	-	-	-	14,000	23,640	-
Total disbursements	304,444	-	62,750	44,965	14,000	23,640	9,942
Excess (deficiency) of receipts over disbursements	(45,796)	19,611	30,894	(21,501)	(930)	18,959	(6,722)
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	6,000
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	6,000
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(45,796)	19,611	30,894	(21,501)	(930)	18,959	(722)
Cash and investment fund balance - beginning	168,500	12,409	45,693	59,640	15,671	148,610	1,303
Cash and investment fund balance - ending	<u>\$ 122,704</u>	<u>\$ 32,020</u>	<u>\$ 76,587</u>	<u>\$ 38,139</u>	<u>\$ 14,741</u>	<u>\$ 167,569</u>	<u>\$ 581</u>
Cash and Investment Assets - December 31							
Restricted assets:							
Cash and investments	<u>\$ 122,704</u>	<u>\$ 32,020</u>	<u>\$ 76,587</u>	<u>\$ 38,139</u>	<u>\$ 14,741</u>	<u>\$ 167,569</u>	<u>\$ 581</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	122,704	32,020	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	76,587	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	14,741	167,569	-
Other purposes	-	-	-	38,139	-	-	581
Total cash and investment fund balance - December 31	<u>\$ 122,704</u>	<u>\$ 32,020</u>	<u>\$ 76,587</u>	<u>\$ 38,139</u>	<u>\$ 14,741</u>	<u>\$ 167,569</u>	<u>\$ 581</u>

CITY OF KNOX
 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, 2007
 (Continued)

	Community Center Operations and Maintenance	Levy Excess	Industrial Development Grant Fund	Gateway Depot Operation and Maintenance	Law Enforcement Continuing Education	Fern Viall Estate	Knox Civic Development Corporation
Receipts:							
Taxes	\$ -	\$ 110,793	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	950	-	-
Intergovernmental	-	-	60,628	-	-	-	-
Charges for services	-	-	-	-	275	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	47,008	-	-	5,800	-	-	-
Total receipts	47,008	110,793	60,628	5,800	1,225	-	-
Disbursements:							
General government	-	-	60,628	-	-	-	-
Public safety	-	-	-	-	2,567	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	50,074	-	-	8,655	-	2,689	7,896
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
Highways and streets	-	-	-	-	-	-	-
Total disbursements	50,074	-	60,628	8,655	2,567	2,689	7,896
Excess (deficiency) of receipts over disbursements	(3,066)	110,793	-	(2,855)	(1,342)	(2,689)	(7,896)
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	(3,066)	110,793	-	(2,855)	(1,342)	(2,689)	(7,896)
Cash and investment fund balance - beginning	7,415	-	-	4,669	1,977	2,689	7,896
Cash and investment fund balance - ending	<u>\$ 4,349</u>	<u>\$ 110,793</u>	<u>\$ -</u>	<u>\$ 1,814</u>	<u>\$ 635</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and Investment Assets - December 31							
Restricted assets:							
Cash and investments	<u>\$ 4,349</u>	<u>\$ 110,793</u>	<u>\$ -</u>	<u>\$ 1,814</u>	<u>\$ 635</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 635	\$ -	\$ -
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other purposes	4,349	110,793	-	1,814	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 4,349</u>	<u>\$ 110,793</u>	<u>\$ -</u>	<u>\$ 1,814</u>	<u>\$ 635</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF KNOX
 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, 2007
 (Continued)

	City Judge Pre-Trial	Work Release	Clerk's Record Perpetuation	Lease Rental Payment	Fire Lease Payment	Knox Economic Development	Indiana Industrial Development Grant
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ 69,409	\$ 76,556	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	394	35,594	-	119,450
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	15,120	-	3,703	-	-	10,141	-
Total receipts	15,120	-	3,703	69,803	112,150	10,141	119,450
Disbursements:							
General government	4,194	-	439	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	22,500	84,807	-	-
Interest	-	-	-	26,841	15,868	-	-
Capital outlay:							
Highways and streets	-	-	-	-	-	-	-
Total disbursements	4,194	-	439	49,341	100,675	-	-
Excess (deficiency) of receipts over disbursements	10,926	-	3,264	20,462	11,475	10,141	119,450
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	(11,765)	(2,165)	(3,000)	-	-	-	-
Total other financing sources (uses)	(11,765)	(2,165)	(3,000)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(839)	(2,165)	264	20,462	11,475	10,141	119,450
Cash and investment fund balance - beginning	1,001	2,165	2,077	46,201	29,942	96,524	-
Cash and investment fund balance - ending	\$ 162	\$ -	\$ 2,341	\$ 66,663	\$ 41,417	\$ 106,665	\$ 119,450
<u>Cash and Investment Assets - December 31</u>							
Restricted assets:							
Cash and investments	\$ 162	\$ -	\$ 2,341	\$ 66,663	\$ 41,417	\$ 106,665	\$ 119,450
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Public safety	\$ 162	\$ -	\$ 2,341	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Debt service	-	-	-	66,663	41,417	-	-
Capital outlay	-	-	-	-	-	-	119,450
Other purposes	-	-	-	-	-	106,665	-
Total cash and investment fund balance - December 31	\$ 162	\$ -	\$ 2,341	\$ 66,663	\$ 41,417	\$ 106,665	\$ 119,450

CITY OF KNOX
 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, 2007
 (Continued)

	Knox Redevelopment Corporation	Police Equipment	Cumulative Fire Fighting	Solid Waste Removal	Cumulative Sewer Treatment	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ 25,639	\$ -	\$ 47,959	\$ 571,009
Licenses and permits	-	-	-	-	-	950
Intergovernmental	-	-	-	-	3,366	416,046
Charges for services	-	-	-	96,739	-	97,014
Fines and forfeits	-	1,003	-	-	-	1,003
Other	-	-	-	-	-	98,761
Total receipts	-	1,003	25,639	96,739	51,325	1,184,783
Disbursements:						
General government	-	-	-	-	-	120,168
Public safety	-	-	-	-	-	2,567
Highways and streets	-	-	-	-	-	304,444
Sanitation	-	-	-	105,483	46,437	151,920
Culture and recreation	-	-	-	-	-	132,064
Debt service:						
Principal	-	-	-	-	-	107,307
Interest	-	-	-	-	-	42,709
Capital outlay:						
Highways and streets	-	-	9,357	-	-	46,997
Total disbursements	-	-	9,357	105,483	46,437	908,176
Excess (deficiency) of receipts over disbursements	-	1,003	16,282	(8,744)	4,888	276,607
Other financing sources (uses):						
Transfers in	-	-	-	8,000	-	14,000
Transfers out	-	-	-	-	-	(16,930)
Total other financing sources (uses)	-	-	-	8,000	-	(2,930)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	1,003	16,282	(744)	4,888	273,677
Cash and investment fund balance - beginning	1,194	925	49,703	624	121,913	828,741
Cash and investment fund balance - ending	\$ 1,194	\$ 1,928	\$ 65,985	\$ (120)	\$ 126,801	\$ 1,102,418
<u>Cash and Investment Assets - December 31</u>						
Restricted assets:						
Cash and investments	\$ 1,194	\$ 1,928	\$ 65,985	\$ (120)	\$ 126,801	\$ 1,102,418
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,138
Highways and streets	-	-	-	-	-	154,724
Sanitation	-	-	-	-	126,801	126,801
Culture and recreation	-	-	-	-	-	76,587
Debt service	-	-	-	-	-	108,080
Capital outlay	1,194	1,928	65,985	-	-	370,867
Other purposes	-	-	-	(120)	-	262,221
Total cash and investment fund balance - December 31	\$ 1,194	\$ 1,928	\$ 65,985	\$ (120)	\$ 126,801	\$ 1,102,418

CITY OF KNOX
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2007

	<u>Payroll</u>	<u>User Fees</u>	<u>City Court</u>	<u>Totals</u>
Additions:				
Agency fund additions	\$ 986,765	\$ 131,547	\$ 669,994	\$ 1,788,306
Deductions:				
Agency fund deductions	986,265	122,963	543,716	1,652,944
Excess of total additions over total deductions	500	8,584	126,278	135,362
Cash and investment fund balance - beginning	12,903	36,737	246,803	296,443
Cash and investment fund balance - ending	<u>\$ 13,403</u>	<u>\$ 45,321</u>	<u>\$ 373,081</u>	<u>\$ 431,805</u>

CITY OF KNOX
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2007

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

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

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 213,475
Infrastructure	1,465,919
Buildings	4,507,624
Improvements other than buildings	355,443
Machinery and equipment	<u>1,765,681</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 8,308,142</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 27,177
Depreciable assets:	
Buildings	421,087
Improvements other than buildings	16,480,901
Machinery and equipment	<u>134,459</u>
 Total Water Utility capital assets	 <u>17,063,624</u>
 Wastewater Utility:	
Capital assets, not being depreciated:	
Land	700
Depreciable assets:	
Buildings	3,915,511
Improvements other than buildings	9,618,819
Machinery and equipment	<u>6,484,647</u>
 Total Wastewater Utility capital assets	 <u>20,019,677</u>
 Total business-type activities capital assets	 <u>\$ 37,083,301</u>

CITY OF KNOX
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2007

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Knox Community Center	\$ 775,000	\$ 86,778
Fire Truck	<u>194,613</u>	<u>70,148</u>
Total governmental activities debt	<u>\$ 969,613</u>	<u>\$ 156,926</u>
Business-type Activities:		
Water Utility		
Revenue bonds:		
1988 Waterworks Improvement Bonds	\$ 1,206,000	\$ 94,300
2006 Waterworks Revenue Bonds	<u>840,000</u>	<u>68,116</u>
Total Water Utility	<u>2,046,000</u>	<u>162,416</u>
Wastewater Utility		
Notes and loans payable		
1991 FmHA Loan	1,696,000	125,750
Revenue bonds:		
1998 Wastewater Refunding Bonds	<u>31,000</u>	<u>31,721</u>
Total Wastewater Utility	<u>1,727,000</u>	<u>157,471</u>
Total business-type activities debt:	<u>\$ 3,773,000</u>	<u>\$ 319,887</u>

CITY OF KNOX
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT

The annual report for 2007 was presented for audit, but contained numerous errors.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

TEMPORARY TRANSFER OF FUNDS

Resolution 754, dated December 26, 2006, was passed and authorized a \$151,308 temporary transfer of funds from the CEDIT Fund to the IIDG Fund (\$146,097) and the Solid Waste Removal Fund (\$5,210). The actual transfer made totaled \$161,097 (IIDG Fund received \$146,097 and the Solid Waste Removal Fund received \$15,000). These amounts were not repaid by the end of the budget year.

On November 13, 2007, the Council approved Resolution 764, which, in part, made provisions to repay \$119,450 of the temporary transfers referred to above from the IIDG Fund. This repayment occurred on July 3, 2008.

Currently, the CEDIT Fund is still due \$26,647 from the IIDG Fund and \$15,000 from the Solid Waste Fund as a result of these temporary transfers.

Indiana Code 36-1-8-4 concerning temporary transfer states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

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

CITY OF KNOX
AUDIT RESULTS AND COMMENTS
(Continued)

EMPLOYEE TIME RECORDS

The City of Knox Employee Handbook requires the use of a time clock for all nonexempt employees. Section 5.6 of this handbook requires these employees to clock out during lunch breaks and clock back in upon their return to work. Several city employees do not use the time clock as required by the handbook.

Each governmental unit should adopt written policy regarding documentation of hours worked, the use of time cards/time sheets. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

CONDITION OF RECORDS (CITY COURT)

The following deficiencies, relating to the recordkeeping, were present during our period of audit: The subsidiary ledgers for Trust Funds and Cash Bonds did not agree with the totals in the Court Cash Book. Included in the records of the court are trust and cash bonds over five years old that should be disbursed to the attorney general. A similar comment was in prior Reports B27497 and B30378.

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

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

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
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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 KNOX, STARKE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Knox (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, 2007. 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2007-2.

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)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in item 2007-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

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. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The City's response to the findings identified in our audit is described in the accompanying 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, 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

August 7, 2008

CITY OF KNOX
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

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. HOUSING AND URBAN DEVELOPMENT (HUD)</u>			
Pass-Through Indiana Office of Community and Rural Affairs (OCRA) Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		
Rail Spur/Toll Brothers		B07DC180001ID-06-021	\$ 385,169
Water Plant Improvement Project		B04DC180001CF-05-231	285,995
Planning Grant		B07DC180001PL-06-021	<u>23,760</u>
Total for federal grantor agency			<u>694,924</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security Disaster Grant - Public Assistance (Presidentially Declared Disasters) Snow Emergency 3274	97.036		
			<u>2,521</u>
Total federal awards expended			<u>\$ 697,445</u>

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

CITY OF KNOX
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Knox (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 KNOX
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
Significant deficiencies 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
Significant deficiencies identified that are not considered to be material weaknesses?	yes

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? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant/State's Program and Nonentitlement Grants in Hawaii

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 2007-1, EMPLOYEE TIME RECORDS

Several nonexempt City employees did not use the time clock as required by the Employee Handbook.

The City of Knox Employee Handbook (Section 5.6) requires all nonexempt employees to use a time clock to document hours worked. Several time cards were not approved by the superintendent at the end of the week as required by the employee handbook section 3.1.

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

Weakness in the internal control structure related to the documentation of employee work records could result in the overpayment of salaries.

We recommended the City officials institute internal control procedures to insure the proper usage of time cards.

Section III – Federal Award Findings and Questioned Costs

FINDING 2007-2, CASH MANAGEMENT

Federal Agency: U.S. Housing and Urban Development (HUD)
Federal Program: Community Development Block Grant/State's Program
and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number: Rail Spur/Toll Brothers ID-06-001 B07DC180001ID-06-001

Federal funds in the amount of \$5,300 were drawn down and deposited on March 5, 2007. The disbursement of these funds was not made until May 2, 2007. Also, federal funds in the amount of \$25,985.62 were drawn down and deposited on July 30, 2007, but the disbursement of these funds was not made until September 10, 2007.

Officials had no internal control safeguards in place to monitor compliance with the cash management requirements of the grant.

24 CFR 570.489(c) states in part: "The State shall use procedures to minimize the time elapsing between the transfer of grant funds and disbursement of funds by the State to units of general local government. Units of general local government shall also use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities."

Failure to expend grant monies within a reasonable time could result in the loss of future federal funding for the City of Knox.

We recommended officials institute an internal control procedure that will insure that cash management requirements of federal grants are complied with in the future.

CITY OF KNOX
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



Corrective Action Plan
City of Knox

Finding No. 2007-2 Cash Management

Federal Agency: U.S. Housing and Urban Development (HUD)
Pass-through: Indiana Office of Community & Rural Affairs (OCRA)
Federal Program: Community Development Block Grant/State's Program and Non-Entitlement
Grants in Hawaii

CFDA Number: 14.228

Federal Award Number: Rail Spur/Toll Brothers ID-06-001 B07DC180001ID-06-001

Auditee Contact Person: Jeff Houston

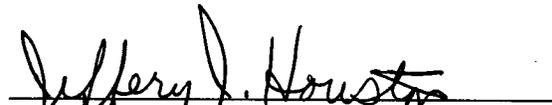
Title of Contact Person: Clerk-Treasurer

Phone Number: 574-772-3032

Expected Completion Date: Immediately

Corrective Action Planned:

I fully understand that federal funds are to be disbursed within three business days of their deposit. In the future this will be done. Since we are notified of deposits by electronic transfer of funds, the City's e-mail account will be checked each working day by the Clerk-Treasurer. Upon notification I will contact the disbursing agency (such as KIRPC) to see who the money is to be disbursed to. My Account Clerk will verify to me that the money has been disbursed by the close of business on that day.


Jeffery J. Houston, Clerk-Treasurer

Date: 8/7/08

CITY OF KNOX
EXIT CONFERENCE

The contents of this report were discussed on August 7, 2008, with Rick Chambers, Mayor; Jeffery J. Houston, Clerk-Treasurer; and Mary E. Kesvornas, Court Clerk.