

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

EXAMINATION REPORT
OF
CITY OF KENDALLVILLE
NOBLE COUNTY, INDIANA
January 1, 2008 to December 31, 2008



FILED
12/22/2009

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-6
Supplementary Information:	
Schedule of Capital Assets.....	7
Schedule of Long-Term Debt	8
Examination Results and Comments:	
Condition of Records – Conversion to Keystone Software From Komputrol Software	9
Penalties, Interest, and Other Charges	10
Federal Agencies - Compliance Requirements	10
Capital Assets.....	10-11
Negative Cash Balance	11
Exit Conference.....	12

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sheryl Hanes	01-01-08 to 12-31-11
Mayor	W. Suzanne Handshoe	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	John Riemke	01-01-08 to 12-31-09
President of the Common Council	James Dazey	01-01-08 to 12-30-09
Superintendent of Water Utility	Scott Mosley	01-01-08 to 12-31-09
Superintendent of Wastewater Utility	Richard McGee	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial information presented herein of the City of Kendallville (City), for the period of January 1, 2008 to December 31, 2008. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2008, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

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

STATE BOARD OF ACCOUNTS

November 12, 2009

CITY OF KENDALLVILLE
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2008

	Cash and Investments		Cash and Investments	
	01-01-08	Receipts	Disbursements	12-31-08
Governmental Funds:				
General	\$ 826,682	\$ 4,381,766	\$ 4,780,643	\$ 427,805
Motor Vehicle Highway	(3,463)	1,034,803	1,028,088	3,252
Local Road and Street	62,115	44,632	62,383	44,364
Park and Recreation	16,332	568,159	564,255	20,236
Special Park - Beyer	664	9	-	673
Special Park - Wayne	3	-	-	3
Special Park - Donation	9,492	8,248	3,222	14,518
Special Park - Cole	4,151	4,211	3,636	4,726
Special Park - Nature Center	1,563	113	257	1,419
Special Park - Programs	3,871	9,952	8,613	5,210
Special Park - Festival	84,183	85,021	83,979	85,225
Sports Complex	88,314	47,394	84,782	50,926
Park Nonreverting Capital	-	90,121	445	89,676
Redevelopment Community TIF District East Side	413,699	2,860,994	1,696,712	1,577,981
Construction CH/FS Fund (City Hall/Fire Station)	-	356	-	356
Capital Improvement	5,951	917,632	917,358	6,225
Law Enforcement Continuing Education	21,943	12,429	10,041	24,331
Rainy Day	458	72,485	-	72,943
Cumulative Capital Improvement	39,643	31,873	-	71,516
County Economic Development Income Tax	638	31	-	669
Economic Development Steering Committee	9,054	7,899	8,355	8,598
Redevelopment Commission Donation	15,083	192	2,280	12,995
Redevelopment Commission TIF	169,162	81,548	50,538	200,172
Economic Improvement District	34,817	31,597	22,918	43,496
CDBG Miscellaneous Income	400,264	5,551	-	405,815
Cemetery Operating	108,662	90,593	99,982	99,273
Cemetery Contingency	9,213	3,128	-	12,341
Cemetery Chapel	1,743	24	-	1,767
Aviation Commission	80,037	59,665	85,821	53,881
Aviation Construction	7,697	107	-	7,804
Storm Sewer	34,036	2,222	27,268	8,990
General Improvement	214,439	5,031	-	219,470
Street Lighting	5,544	77	-	5,621
Firefighting	123,458	67,871	27,333	163,996
Arson Prevention	26	-	-	26
Special Siren	9,944	842	-	10,786
FEMA Grant Fire Department	11	23	-	34
Hazardous Materials Trailer	13,594	189	549	13,234
Police Public Awareness	316	4	-	320
Police Reserve	7,451	4,093	1,848	9,696
Police K-9	218	1,597	1,772	43
Fourth of July Festival	23,186	9,058	10,569	21,675
City Beautification	6,051	83	561	5,573
Kid City Project	7,470	13,760	13,410	7,820
Grant Proceeds	98,386	776,448	499,788	375,046
Bond & Interest	(25,894)	232,172	208,187	(1,909)
Proprietary Funds:				
Water Utility - Operating	1,145,603	1,807,021	1,699,588	1,253,036
Water Utility - Bond and Interest	244,400	448,172	572,474	120,098
Water Utility - Improvement	496,597	6,245	205,240	297,602
Water Utility - Debt Service Reserve	156,277	74,154	-	230,431
Water Utility - Capital Improvement	1,853,716	19,238	1,866,468	6,486
Wastewater Utility - Operating	1,194,624	1,508,814	1,596,078	1,107,360
Wastewater Utility - Bond and Interest	3,248	320,861	319,819	4,290
Wastewater Utility - Improvement	57,336	595	32,518	25,413
Wastewater Utility - Debt Service Reserve	108,381	65,248	-	173,629
Wastewater Utility - Capital Improvement	904,636	8,408	249,405	663,639
Employment Security	42,716	568	16,083	27,201
Health/Vision Insurance	64,763	758,735	417,548	405,950
Health/Vision Reinsure Reimbursement	(24,345)	24,345	-	-
Fiduciary Funds:				
Police Officers' Pension	35,413	158,062	130,779	62,696
Firefighters' Pension	62,248	5,898	24,924	43,222
Cemetery Endowment	96,179	3,574	-	99,753
Payroll	40,524	1,209,813	1,198,570	51,767
Totals	\$ 9,412,523	\$ 17,983,754	\$ 18,635,087	\$ 8,761,190

The accompanying notes are an integral part of the financial information.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

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

Note 2. Fund Accounting

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

Note 3. Budgets

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

Note 4. Property Taxes

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

Note 5. Deposits and Investments

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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL INFORMATION
(Continued)

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

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

CITY OF KENDALLVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2008

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	\$ 17,052,283
Infrastructure	12,493,711
Buildings	3,689,860
Improvements other than buildings	12,567,818
Machinery and equipment	5,327,395
Construction in progress	<u>1,576,811</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 52,707,878</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 33,480
Buildings	461,913
Improvements other than buildings	9,952,619
Machinery and equipment	1,237,202
Construction in progress	<u>4,954,584</u>
 Total Water Utility capital assets, not being depreciated	 <u>16,639,798</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	1,435,723
Buildings	432,091
Improvements other than buildings	14,108,746
Machinery and equipment	365,522
Construction in progress	<u>2,155,141</u>
 Total Wastewater Utility capital assets not being depreciated	 <u>18,497,223</u>
 Total business-type activities, capital assets not being depreciated	 <u>\$ 35,137,021</u>

CITY OF KENDALLVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2008

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
2007 GMAC police car lease	\$ 10,045	\$ 10,814
2007 Ford police car lease	28,434	30,168
2007 Ford truck/plow lease	16,879	9,323
Notes and loans payable:		
2004 Airport hangar note	167,752	28,649
2008 Fire truck loan	198,528	202,917
2008 Radio equipment loan	40,000	21,088
2008 Police cars loan	24,000	12,567
2008 KLDC grant loan	708,010	19,821
Bonds payable:		
General obligation bonds:		
Redevelopment commission revenue bonds	2,500,000	258,375
1998 General obligation bonds	345,000	210,094
Total governmental activities debt	<u>\$ 4,038,648</u>	<u>\$ 803,816</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
2007 Water improvement revenue bonds	\$ 5,790,000	\$ 435,504
Wastewater Utility:		
Revenue bonds:		
2006 Wastewater improvement revenue bonds	3,755,000	313,520
Total business-type activities debt	<u>\$ 9,545,000</u>	<u>\$ 749,024</u>

CITY OF KENDALLVILLE
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS - CONVERSION TO KEYSTONE
SOFTWARE FROM KOMPUTROL SOFTWARE

This comment was also noted in the prior examination, Report B33592. During 2008, the City was still in the process of converting from Komputrol software to Keystone software. The conversion took place one module at a time until they completely converted at January 1, 2009, using the new software, Keystone, for all modules including the General Ledger Module.

The City started using Keystone Software Payroll and Budget Modules in September 2007 to process their payroll and claim transactions; however, they were still using Komputrol software as the official General Ledger. Because of this, they had to continue processing both payroll and claims in Komputrol as well as in Keystone in order to get the General Ledger posted for these transactions. This caused the following issues:

Payroll

- The Keystone payroll amounts had to be reconciled to Komputrol payroll amounts and, occasionally, there were minor discrepancies, which also impacted the bank reconciliation.
- The checks listed in Komputrol were not the actual check numbers issued by Keystone. A monthly cross reference between the checks in Komputrol to the checks in Keystone was not provided on a monthly basis. This made the bank reconciliations more difficult.
- The Annual Federal W-2's are filed based on the Keystone Payroll Records, while the Federal 941's are filed based on the Komputrol Payroll Records. There were minor discrepancies between these amounts.

Budget/Claims

For the entire examination period, the claims had to be posted to both systems as explained above. The claims were prepared in Keystone using Keystone account numbers, while the City used Komputrol as their official software and General Ledger. The Komputrol account numbers were not listed anywhere on the Keystone claims. The account numbers in Keystone and Komputrol are different, thus creating the need for a cross-walk between the Keystone claims and the Komputrol General Ledger.

The Komputrol account numbers should have been included on the Keystone claims during the transition. Not having the Komputrol account numbers listed on the physical claims for payment constitutes a break in the audit trail. We were required to perform additional examination steps to verify the accuracy and completeness of the Keystone claims posted in the Komputrol General Ledger for the claims reviewed.

At all times the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF KENDALLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

The October 2007 state sales tax for the Water Utility was not paid until November 26, 2007, and should have been paid November 20, 2007, resulting in a penalty and interest charge to the City. Penalties and interest totaling \$558.09 were paid to the Indiana Department of Revenue on February 8, 2008.

The December 2007 state payroll taxes were not paid until January 22, 2008, and should have been paid by January 20, 2008, resulting in a penalty and interest charge to the City. Penalties and interest totaling \$1,242.80 were paid to the Indiana Department of Revenue on March 19, 2008.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

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

FEDERAL AGENCIES - COMPLIANCE REQUIREMENTS

This comment was also noted in the prior examination Report B33592. The wages and taxes reported on the Federal Form 941, Employer's Quarterly Federal Tax Return, did not reconcile to the wages and taxes reported on the Federal Form W-3, Transmittal of Wage and Tax Statements, for 2008. Neither the Federal Form 941's nor the Federal Form W-3 reconciled to the Payroll Printout PR 610Y Employee Trial Balance.

Wage and tax information sent to the Federal Government on Form 941's and Form W-3, should reconcile with one another and should also reconcile to the Payroll Records.

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

CAPITAL ASSETS

Capital asset records for 2008 were not complete at the time of audit. Most of the 2008 transactions (additions and deletions for all asset types including construction in progress) were not posted until the audit began. By the end of the examination, the records appeared to contain a majority of the asset transactions and, therefore, they have been included in the report. However, additional time was spent reconciling capital asset beginning balances to the prior year ending balances and assisting the unit with additions to be included as well as determining that records were complete. Also, some of the asset worksheets did not contain correct grand totals and the "Assets by Type" worksheets did not agree to the "Assets by Department" worksheets because changes were not posted to both reports.

CITY OF KENDALLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

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

NEGATIVE CASH BALANCE

At December 31, 2008, the Bond and Interest Fund had a negative cash balance of \$1,909.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn cash could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 51)

CITY OF KENDALLVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 12, 2009, with W. Suzanne Handshoe, Mayor; and Sheryl Hanes, Clerk-Treasurer. The officials concurred with our findings.