

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

ANNUAL FINANCIAL REPORT

2010

CITY OF KNOX

STARKE COUNTY, INDIANA



FILED
08/08/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jeffery J. Houston	01-01-08 to 12-31-11
Mayor	Rick L. Chambers	01-01-08 to 12-31-11
President of the Common Council	Edward Blue	01-01-10 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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 statement of the City of Knox (City), for the year ended December 31, 2010. This financial statement is the responsibility of the City's management. Our responsibility is to express opinions on this financial statement 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 statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As discussed in Note 1, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2010, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated July 21, 2011, 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 integral part of 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 an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statement.

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

Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statement. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, 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 financial statement and, accordingly, we express no opinion on them.

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

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

STATE BOARD OF ACCOUNTS

July 21, 2011



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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 statement of the City of Knox (City), for the year ended December 31, 2010, and have issued our report thereon dated July 21, 2011. 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 opinion on the financial statement, 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis.

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

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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

STATE BOARD OF ACCOUNTS

July 21, 2011

FINANCIAL STATEMENT(S)

CITY OF KNOX
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General	\$ 282,523	\$ 1,388,172	\$ 1,334,865	\$ 335,830
City Judge Cash	100	-	-	100
Gateway Depot Operation And Maintenance	4,094	6,801	10,591	304
Knox Police Continuing Education	2,048	2,650	1,412	3,286
City Judge Pre-Trial Diversion	1,932	8,960	4,611	6,281
Clerk's Record Perpetuation	7,653	4,298	750	11,201
Clerk-Treasurer Petty Cash	25	-	-	25
Clerk-Treasurer Cash Change	100	-	-	100
Motor Vehicle Highway	101,183	393,963	388,133	107,013
Local Road And Street	29,637	18,031	19,668	28,000
Riverboat Revenue Distribution	60,063	23,671	32,068	51,666
Parks And Recreation	192,559	5,969	157,238	41,290
User Fee	89,625	108,234	132,879	64,980
Community Center Operation And Maintenance	1,065	70,304	63,177	8,192
Rainy Day	60,560	200,169	149,807	110,922
Cedit	380,521	477,554	395,531	462,544
Economic Development Commission	8,334	5,135	-	13,469
Housing Rehab	-	44,721	44,721	-
Excess Levy	-	3,197	-	3,197
Seizure Award Reimbursement	750	-	105	645
Wastewater Treatment Grant	-	474,059	470,459	3,600
Lease Rental Payment	17,007	136,225	149,193	4,039
Fire Lease Payment	42,851	504,263	100,435	446,679
Wastewater Treatment Bonds	711,824	-	662,453	49,371
Cumulative Capital Development	171,436	22,838	28,777	165,497
Police Equipment	2,283	95	5	2,373
Redevelopment Commission	1,194	-	-	1,194
Cumulative Fire Fighting	103,694	5,052	-	108,746
Cumulative Sewer Treatment	192,556	50,153	9,343	233,366
Cumulative Capital Improvement	17,281	10,895	-	28,176
Tif District	59,546	103,828	12,250	151,124
Girl Scout Cabin Operation And Maintenance	979	3,633	3,139	1,473
Police Pension	107,287	56,210	54,766	108,731
Payroll	15,231	1,144,102	1,143,147	16,186
Knox City Court	261,845	571,054	463,766	369,133
Solid Waste Removal	16,278	203,041	216,966	2,353
Sewer Operating	39,809	440,539	403,110	77,238
Sewer Debt Service Reserve	159,242	40,620	-	199,862
Sewer Deposit	29,435	14,699	12,571	31,563
Sewer Improvement	114,286	-	28,600	85,686
Sewer Bond And Interest	48,692	215,280	197,893	66,079
Water Operating	67,980	313,477	315,379	66,078
Water Bond And Interest	97,544	163,980	164,553	96,971
Water Improvement	116,920	9,480	17,300	109,100
Water Deposit	79,760	15,760	12,027	83,493
Water Debt Service Reserve	99,467	-	-	99,467
Totals	<u>\$ 3,797,199</u>	<u>\$ 7,261,112</u>	<u>\$ 7,201,688</u>	<u>\$ 3,856,623</u>

The notes to the financial statement(s) are an integral part of this statement.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT(S)

Note 1. 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 some or all of 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, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement(s) present(s) the financial information for the City (primary government), and does not include financial information for any of the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the City (primary government).

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Note 4. Deposits and Investments

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

State statutes authorize 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 5. Risk Management

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

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the City by recording as a disbursement and replacement items purchased.

Note 6. Pension Plan(s)

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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 percent 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:

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

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

Funding Policy and Annual Pension Cost

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

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan 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

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Public Employees' Retirement Fund as provided under Indiana Code 5-10.3-11.

C. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is 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 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

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

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

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

Funding Policy

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

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City of Knox's Annual Report(s) can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	General	City Judge Cash	Gateway Depot Operation And Maintenance	Knox Police Continuing Education	City Judge Pre-Trial Diversion	Clerk's Record Perpetuation	Clerk-Treasurer Petty Cash
Cash and investments - beginning	\$ 282,523	\$ 100	\$ 4,094	\$ 2,048	\$ 1,932	\$ 7,653	\$ 25
Receipts:							
Taxes	902,230	-	-	-	-	-	-
Licenses and permits	11,952	-	-	1,578	-	-	-
Intergovernmental	287,903	-	-	-	-	-	-
Charges for services	54,060	-	-	-	-	-	-
Fines and forfeits	66,709	-	-	-	8,960	4,298	-
Utility fees	-	-	-	-	-	-	-
Other receipts	65,318	-	6,801	1,072	-	-	-
Total receipts	<u>1,388,172</u>	<u>-</u>	<u>6,801</u>	<u>2,650</u>	<u>8,960</u>	<u>4,298</u>	<u>-</u>
Disbursements:							
Personal services	879,236	-	-	-	-	-	-
Supplies	54,498	-	209	-	-	-	-
Other services and charges	346,136	-	10,332	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	36,008	-	50	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	18,987	-	-	1,412	4,611	750	-
Total disbursements	<u>1,334,865</u>	<u>-</u>	<u>10,591</u>	<u>1,412</u>	<u>4,611</u>	<u>750</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>53,307</u>	<u>-</u>	<u>(3,790)</u>	<u>1,238</u>	<u>4,349</u>	<u>3,548</u>	<u>-</u>
Cash and investments - ending	<u>\$ 335,830</u>	<u>\$ 100</u>	<u>\$ 304</u>	<u>\$ 3,286</u>	<u>\$ 6,281</u>	<u>\$ 11,201</u>	<u>\$ 25</u>

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Clerk-Treasurer Cash Change	Motor Vehicle Highway	Local Road And Street	Riverboat Revenue Distribution	Parks And Recreation	User Fee	Community Center Operation And Maintenance
Cash and investments - beginning	\$ 100	\$ 101,183	\$ 29,637	\$ 60,063	\$ 192,559	\$ 89,625	\$ 1,065
Receipts:							
Taxes	-	264,553	-	-	450	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	116,235	18,031	23,671	359	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	108,234	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	13,175	-	-	5,160	-	70,304
Total receipts	-	393,963	18,031	23,671	5,969	108,234	70,304
Disbursements:							
Personal services	-	172,528	-	-	49,133	-	11,291
Supplies	-	51,744	-	-	26,553	-	7,341
Other services and charges	-	49,846	-	-	29,914	-	44,545
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	102,423	19,668	-	51,531	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	11,592	-	32,068	107	132,879	-
Total disbursements	-	388,133	19,668	32,068	157,238	132,879	63,177
Excess (deficiency) of receipts over disbursements	-	5,830	(1,637)	(8,397)	(151,269)	(24,645)	7,127
Cash and investments - ending	\$ 100	\$ 107,013	\$ 28,000	\$ 51,666	\$ 41,290	\$ 64,980	\$ 8,192

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Rainy Day	Cedit	Economic Development Commission	Housing Rehab	Excess Levy	Seizure Award Reimbursement	Wastewater Treatment Grant
Cash and investments - beginning	\$ 60,560	\$ 380,521	\$ 8,334	\$ -	\$ -	\$ 750	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	50,362	318,870	-	44,721	3,197	-	474,059
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	149,807	158,684	5,135	-	-	-	-
Total receipts	<u>200,169</u>	<u>477,554</u>	<u>5,135</u>	<u>44,721</u>	<u>3,197</u>	<u>-</u>	<u>474,059</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	149,807	395,531	-	44,721	-	105	470,459
Total disbursements	<u>149,807</u>	<u>395,531</u>	<u>-</u>	<u>44,721</u>	<u>-</u>	<u>105</u>	<u>470,459</u>
Excess (deficiency) of receipts over disbursements	<u>50,362</u>	<u>82,023</u>	<u>5,135</u>	<u>-</u>	<u>3,197</u>	<u>(105)</u>	<u>3,600</u>
Cash and investments - ending	<u>\$ 110,922</u>	<u>\$ 462,544</u>	<u>\$ 13,469</u>	<u>\$ -</u>	<u>\$ 3,197</u>	<u>\$ 645</u>	<u>\$ 3,600</u>

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Lease Rental Payment	Fire Lease Payment	Wastewater Treatment Bonds	Cumulative Capital Development	Police Equipment	Redevelopment Commission	Cumulative Fire Fighting
Cash and investments - beginning	\$ 17,007	\$ 42,851	\$ 711,824	\$ 171,436	\$ 2,283	\$ 1,194	\$ 103,694
Receipts:							
Taxes	127,813	504,263	-	19,266	-	-	4,699
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	8,412	-	-	1,325	-	-	353
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	95	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	2,247	-	-	-
Total receipts	<u>136,225</u>	<u>504,263</u>	<u>-</u>	<u>22,838</u>	<u>95</u>	<u>-</u>	<u>5,052</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	92,000	100,435	-	-	-	-	-
Capital outlay	-	-	-	28,777	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	57,193	-	662,453	-	5	-	-
Total disbursements	<u>149,193</u>	<u>100,435</u>	<u>662,453</u>	<u>28,777</u>	<u>5</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(12,968)</u>	<u>403,828</u>	<u>(662,453)</u>	<u>(5,939)</u>	<u>90</u>	<u>-</u>	<u>5,052</u>
Cash and investments - ending	<u>\$ 4,039</u>	<u>\$ 446,679</u>	<u>\$ 49,371</u>	<u>\$ 165,497</u>	<u>\$ 2,373</u>	<u>\$ 1,194</u>	<u>\$ 108,746</u>

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Cumulative Sewer Treatment	Cumulative Capital Improvement	Tif District	Girl Scout Cabin Operation And Maintenance	Police Pension	Payroll	Knox City Court
Cash and investments - beginning	\$ 192,556	\$ 17,281	\$ 59,546	\$ 979	\$ 107,287	\$ 15,231	\$ 261,845
Receipts:							
Taxes	46,989	-	103,828	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	3,164	10,895	-	-	56,210	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	3,633	-	1,144,102	571,054
Total receipts	50,153	10,895	103,828	3,633	56,210	1,144,102	571,054
Disbursements:							
Personal services	-	-	-	-	54,644	-	-
Supplies	2,250	-	-	-	-	-	-
Other services and charges	7,093	-	-	-	122	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	12,250	3,139	-	1,143,147	463,766
Total disbursements	9,343	-	12,250	3,139	54,766	1,143,147	463,766
Excess (deficiency) of receipts over disbursements	40,810	10,895	91,578	494	1,444	955	107,288
Cash and investments - ending	\$ 233,366	\$ 28,176	\$ 151,124	\$ 1,473	\$ 108,731	\$ 16,186	\$ 369,133

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Solid Waste Removal	Sewer Operating	Sewer Debt Service Reserve	Sewer Deposit	Sewer Improvement	Sewer Bond And Interest
Cash and investments - beginning	\$ 16,278	\$ 39,809	\$ 159,242	\$ 29,435	\$ 114,286	\$ 48,692
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	40,620	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	1,450	423,957	-	14,699	-	-
Other receipts	201,591	16,582	-	-	-	215,280
Total receipts	<u>203,041</u>	<u>440,539</u>	<u>40,620</u>	<u>14,699</u>	<u>-</u>	<u>215,280</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	197,643
Capital outlay	-	12,151	-	-	28,600	-
Utility operating expenses	209,756	336,964	-	12,571	-	-
Other disbursements	7,210	53,995	-	-	-	250
Total disbursements	<u>216,966</u>	<u>403,110</u>	<u>-</u>	<u>12,571</u>	<u>28,600</u>	<u>197,893</u>
Excess (deficiency) of receipts over disbursements	<u>(13,925)</u>	<u>37,429</u>	<u>40,620</u>	<u>2,128</u>	<u>(28,600)</u>	<u>17,387</u>
Cash and investments - ending	<u>\$ 2,353</u>	<u>\$ 77,238</u>	<u>\$ 199,862</u>	<u>\$ 31,563</u>	<u>\$ 85,686</u>	<u>\$ 66,079</u>

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Water Operating	Water Bond And Interest	Water Improvement	Water Deposit	Water Debt Service Reserve	Totals
Cash and investments - beginning	\$ 67,980	\$ 97,544	\$ 116,920	\$ 79,760	\$ 99,467	\$ 3,797,199
Receipts:						
Taxes	-	-	-	-	-	1,974,091
Licenses and permits	-	-	-	-	-	13,530
Intergovernmental	-	-	-	-	-	1,458,387
Charges for services	-	-	-	-	-	54,060
Fines and forfeits	-	-	-	-	-	188,296
Utility fees	280,324	-	-	-	-	720,430
Other receipts	33,153	163,980	9,480	15,760	-	2,852,318
Total receipts	313,477	163,980	9,480	15,760	-	7,261,112
Disbursements:						
Personal services	-	-	-	-	-	1,166,832
Supplies	-	-	-	-	-	142,595
Other services and charges	-	-	-	-	-	487,988
Debt service - principal and interest	-	164,203	-	-	-	554,281
Capital outlay	34,097	-	17,300	-	-	330,605
Utility operating expenses	239,649	-	-	12,027	-	810,967
Other disbursements	41,633	350	-	-	-	3,708,420
Total disbursements	315,379	164,553	17,300	12,027	-	7,201,688
Excess (deficiency) of receipts over disbursements	(1,902)	(573)	(7,820)	3,733	-	59,424
Cash and investments - ending	\$ 66,078	\$ 96,971	\$ 109,100	\$ 83,493	\$ 99,467	\$ 3,856,623

CITY OF KNOX
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2010

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	\$ 283,689
Construction in progress	50,000
Infrastructure	1,620,589
Buildings	4,504,974
Improvements other than buildings	424,411
Machinery and equipment	<u>2,234,952</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 9,118,615</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 21,331
Buildings	421,087
Improvements other than buildings	18,624,892
Machinery and equipment	<u>167,564</u>
Total Water Utility capital assets	<u>19,234,874</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	9,540
Buildings	3,929,211
Improvements other than buildings	10,603,079
Machinery and equipment	<u>625,908</u>
Total Wastewater Utility capital assets	<u>15,167,738</u>
Total business-type activities capital assets not being depreciated	<u>\$ 34,402,612</u>

CITY OF KNOX
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

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:		
Knox Community Center	\$ 575,000	\$ 92,015
General obligation bonds:		
2010 new fire truck	<u>445,000</u>	<u>-</u>
Total governmental activities debt	<u>\$ 1,020,000</u>	<u>\$ 92,015</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
1988 Water	\$ 1,100,000	\$ 94,000
2006 Water	<u>740,000</u>	<u>33,865</u>
Total Water Utility	<u>1,840,000</u>	<u>127,865</u>
Wastewater Utility:		
Revenue bonds:		
2009 Wastewater	<u>2,330,000</u>	<u>204,233</u>
Total business-type activities debt	<u>\$ 4,170,000</u>	<u>\$ 332,098</u>

CITY OF KNOX
AUDIT RESULT(S) AND COMMENT(S)

RECEIPTS AND DEPOSITS

In our sample test comparing receipts to deposits, one-third of the days' tested cash amounts collected, as shown on the receipt records, did not agree with the cash amount shown on the deposit slip. For December 14, 2010, the cash amounts shown on the receipt records were \$328 less than shown on the deposit slip. For December 7, 2010, the receipt records' cash amount was \$80 less than the deposit slip. For December 3, 2010, the receipt records cash amount was \$146 more than the deposit slip. The total of each day's receipt records agreed to the deposit total.

The Clerk-Treasurer's staff does not determine if receipt records are being deposited in the same form as received. Receipt records are being coded as cash or check (or credit card), but officials are not comparing the totals of cash and checks when preparing deposit slips. Therefore, they do not know if receipts are being deposited in the same form as received, when making deposits.

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

APPROPRIATIONS

During 2010, the City had two funds incurring cash disbursements but neither fund had appropriations authorizing the disbursements. The CEDIT fund disbursed \$395,331 and the River Boat fund disbursed \$32,068, but there were no authorizing appropriations for either fund.

Appropriation requirements city-town funds: Economic Development Income Tax (EDIT): DLGF (Department of Local Government Finance) - no, City/Town Council - yes, I/C Reference - 6-3.5-7; and Riverboat: DLGF - no, City/Town Council - yes, I/C Reference - 36-1-8-9. (Cities and Towns Bulletins and Uniform Compliance Guidelines Issued By State Board of Accounts, December 2004)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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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 its major federal program for the year ended December 31, 2010. The City's major federal program is 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 its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

July 21, 2011

CITY OF KNOX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Office of Community and Rural Affairs CDBG-State-Administered Small Cities Program Cluster Community Development Block Grants/State's Program and Non- Entitlement Grants in Hawaii	14.228	CF-09-114	\$ 474,059
Pass-Through Indiana Housing and Community Development Authority Community Development Block Grants/State's Program and Non- Entitlement Grants in Hawaii	14.228	HD-008-014	<u>67,500</u>
Total federal awards expended			<u>\$ 541,559</u>

The accompanying note(s) are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF KNOX
NOTE(S) TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. 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 cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF KNOX
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement(s):

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiency identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiency identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Programs:

_____ Name of Federal Program or Cluster _____
CDBG-State-Administered Small Cities Program Cluster

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

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF KNOX
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable

CITY OF KNOX
EXIT CONFERENCE

The contents of this report were discussed on July 21, 2011, with Jeffery J. Houston, Clerk-Treasurer, and Edward Blue, President of the Common Council. The officials concurred with our audit findings.

The contents of this report were also discussed on July 21, 2011, with Rick L. Chambers, Mayor.