

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF KNOX
STARKE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/18/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jeffery J. Houston	01-01-12 to 12-31-15
Mayor	Rick L. Chambers	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Rick L. Chambers	01-01-12 to 12-31-15
President of the Common Council	Jeff V. Berg Gregory L. Matt	01-01-12 to 12-31-12 01-01-13 to 12-31-13
Superintendent of Water Utility	Todd Gardner	01-01-12 to 12-31-13
Superintendent of Wastewater Utility	Kelly Clemons	01-01-12 to 12-31-13



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF KNOX, STARKE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Knox (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 21, 2013, 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* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They 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.



Bruce Hartman
State Examiner

August 21, 2013



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302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF KNOX, STARKE COUNTY, INDIANA

We have audited, 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, the financial statement of the City of Knox (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated August 21, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

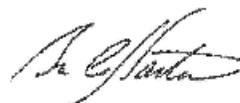
As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 item 2012-1.

City of Knox's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 21, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF KNOX
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 272,927	\$ 1,277,486	\$ 1,279,066	\$ 271,347
Motor Vehicle Highway	100,664	371,641	413,129	59,176
Local Road And Street	24,962	17,844	20,461	22,345
Riverboat Revenue Distribution	67,619	25,211	40,950	51,880
Parks And Recreation	9,409	228,431	170,278	67,562
User Fee	97,375	104,238	82,850	118,763
Rainy Day	110,922	45,907	6,151	150,678
Cedit	568,703	384,882	558,323	395,262
Cumulative Capital Development	111,085	23,973	30,812	104,246
Police Equipment	1,477	15	155	1,337
Redevelopment Commission	1,194	-	-	1,194
Cumulative Fire Fighting	67,831	4,357	15,000	57,188
Cumulative Capital Improvement	23,862	9,824	5,000	28,686
Tif District	235,245	103,535	1,900	336,880
Police Pension	110,046	58,858	57,390	111,514
Knox City Court	323,014	598,448	653,114	268,348
City Annex	1,021	3,326	4,347	-
CDBG Stormwater Grant	-	825,984	821,114	4,870
Drug & Tobacco Grant	-	2,500	391	2,109
Cada - Phoenix House	-	45,556	-	45,556
Excess Levy	-	6,151	-	6,151
Special Events	-	6,697	2,019	4,678
Seizure Award Reimbursement	645	-	-	645
City Judge Cash	100	-	-	100
Gateway Depot Operation & Maint	3,525	6,800	8,531	1,794
Knox Police Continuing Education	2,764	3,328	249	5,843
City Judge Pre-Trial Diversion	6,220	348	240	6,328
Clerk's Record Perpetuation	14,403	3,408	-	17,811
Clerk-Treasurer Petty Cash	25	-	25	-
Clerk-Treasurer Cash Change	100	-	-	100
Community Center Opr & Maint	5,497	61,350	63,932	2,915
Economic Development Commission	45,314	31,845	-	77,159
Lease Rental Payment	37,721	81,282	84,800	34,203
Fire Lease Payment	25,920	116,131	91,249	50,802
Cumulative Sewer Treatment	258,597	43,577	701	301,473
Girl Scout Cabin Operation & Maint	226	3,348	3,246	328
Payroll	16,395	1,182,961	1,194,696	4,660
Solid Waste Removal	7,314	215,944	207,449	15,809
Sewer Operating	108,414	459,118	407,425	160,107
Sewer Debt Service Reserve	240,482	40,620	-	281,102
Sewer Deposit	32,038	14,300	9,970	36,368
Sewer Improvement	85,686	2,370	-	88,056
Sewer Bond & Interest	65,027	205,090	269,995	122
Water Operating	57,293	323,734	358,165	22,862
Water Bond & Interest	96,382	162,005	150,277	108,110
Water Improvement	117,230	9,480	10,774	115,936
Water Deposit	86,779	15,800	11,660	90,919
Water Debt Service Reserve	99,467	66,798	-	166,265
Totals	<u>\$ 3,540,920</u>	<u>\$ 7,194,501</u>	<u>\$ 7,035,834</u>	<u>\$ 3,699,587</u>

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

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT

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 presents the financial information for the City.

B. Basis of Accounting

The financial statement is 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 statement. The aggregate receipts include 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.

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,

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT
(Continued)

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 statement. The aggregate disbursements include 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.

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.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT
(Continued)

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 statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

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 Indiana Public Retirement System (INPRS) 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.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

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

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT
(Continued)

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 Indiana Public Retirement System 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 Retirement System (INPRS) 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.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
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Ph. (888) 526-1687

Funding Policy

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

CITY OF KNOX
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 7. Restatements

For the year ended December 31, 2012, certain changes have been made to some of the beginning balances of the financial statement to more appropriately reflect financial activity of the City. The following schedule presents a summary of restated beginning balances.

<u>Fund Name</u>	<u>Balance as of December 31, 2011</u>	<u>Prior Period Adjustment</u>	<u>Balance as of January 1, 2012</u>
Knox City Court	<u>\$ 318,295</u>	<u>\$ 4,719</u>	<u>\$ 323,014</u>

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Riverboat Revenue Distribution	Parks And Recreation	User Fee	Rainy Day
Cash and investments - beginning	\$ 272,927	\$ 100,664	\$ 24,962	\$ 67,619	\$ 9,409	\$ 97,375	\$ 110,922
Receipts:							
Taxes	768,066	233,897	-	-	118,886	-	-
Licenses and permits	32,345	595	-	-	-	-	-
Intergovernmental	304,803	112,099	17,844	25,211	8,148	-	-
Charges for services	36,389	1,200	-	-	2,798	-	-
Fines and forfeits	54,448	-	-	-	-	104,238	-
Utility fees	-	-	-	-	-	-	-
Other receipts	81,435	23,850	-	-	98,599	-	45,907
Total receipts	<u>1,277,486</u>	<u>371,641</u>	<u>17,844</u>	<u>25,211</u>	<u>228,431</u>	<u>104,238</u>	<u>45,907</u>
Disbursements:							
Personal services	900,082	175,135	-	-	47,302	-	-
Supplies	59,659	56,971	-	-	10,548	-	-
Other services and charges	203,045	59,569	-	34,450	20,442	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	22,639	121,454	20,461	6,500	352	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	93,641	-	-	-	91,634	82,850	6,151
Total disbursements	<u>1,279,066</u>	<u>413,129</u>	<u>20,461</u>	<u>40,950</u>	<u>170,278</u>	<u>82,850</u>	<u>6,151</u>
Excess (deficiency) of receipts over disbursements	<u>(1,580)</u>	<u>(41,488)</u>	<u>(2,617)</u>	<u>(15,739)</u>	<u>58,153</u>	<u>21,388</u>	<u>39,756</u>
Cash and investments - ending	<u>\$ 271,347</u>	<u>\$ 59,176</u>	<u>\$ 22,345</u>	<u>\$ 51,880</u>	<u>\$ 67,562</u>	<u>\$ 118,763</u>	<u>\$ 150,678</u>

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Cedit	Cumulative Capital Development	Police Equipment	Redevelopment Commission	Cumulative Fire Fighting	Cumulative Capital Improvement	Tif District
Cash and investments - beginning	\$ 568,703	\$ 111,085	\$ 1,477	\$ 1,194	\$ 67,831	\$ 23,862	\$ 235,245
Receipts:							
Taxes	-	17,285	-	-	4,078	-	103,535
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	377,018	575	-	-	279	9,824	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	15	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	7,864	6,113	-	-	-	-	-
Total receipts	<u>384,882</u>	<u>23,973</u>	<u>15</u>	<u>-</u>	<u>4,357</u>	<u>9,824</u>	<u>103,535</u>
Disbursements:							
Personal services	112,654	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	330,351	-	-	-	-	-	1,900
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	19,852	30,812	155	-	15,000	5,000	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	95,466	-	-	-	-	-	-
Total disbursements	<u>558,323</u>	<u>30,812</u>	<u>155</u>	<u>-</u>	<u>15,000</u>	<u>5,000</u>	<u>1,900</u>
Excess (deficiency) of receipts over disbursements	<u>(173,441)</u>	<u>(6,839)</u>	<u>(140)</u>	<u>-</u>	<u>(10,643)</u>	<u>4,824</u>	<u>101,635</u>
Cash and investments - ending	<u>\$ 395,262</u>	<u>\$ 104,246</u>	<u>\$ 1,337</u>	<u>\$ 1,194</u>	<u>\$ 57,188</u>	<u>\$ 28,686</u>	<u>\$ 336,880</u>

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Police Pension	Knox City Court	City Annex	CDBG Stormwater Grant	Drug & Tobacco Grant	Cada - Phoenix House	Excess Levy
Cash and investments - beginning	\$ 110,046	\$ 323,014	\$ 1,021	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	825,984	-	45,556	-
Charges for services	-	-	2,000	-	-	-	-
Fines and forfeits	-	598,448	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	58,858	-	1,326	-	2,500	-	6,151
Total receipts	58,858	598,448	3,326	825,984	2,500	45,556	6,151
Disbursements:							
Personal services	122	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	57,268	-	4,347	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	391	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	653,114	-	821,114	-	-	-
Total disbursements	57,390	653,114	4,347	821,114	391	-	-
Excess (deficiency) of receipts over disbursements	1,468	(54,666)	(1,021)	4,870	2,109	45,556	6,151
Cash and investments - ending	\$ 111,514	\$ 268,348	\$ -	\$ 4,870	\$ 2,109	\$ 45,556	\$ 6,151

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Special Events	Seizure Award Reimbursement	City Judge Cash	Gateway Depot Operation & Maint	Knox Police Continuing Education	City Judge Pre-Trial Diversion	Clerk's Record Perpetuation
Cash and investments - beginning	\$ -	\$ 645	\$ 100	\$ 3,525	\$ 2,764	\$ 6,220	\$ 14,403
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	3,328	348	3,408
Utility fees	-	-	-	-	-	-	-
Other receipts	6,697	-	-	6,800	-	-	-
Total receipts	6,697	-	-	6,800	3,328	348	3,408
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	53	-	-	-
Other services and charges	-	-	-	8,478	-	240	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	2,019	-	-	-	249	-	-
Total disbursements	2,019	-	-	8,531	249	240	-
Excess (deficiency) of receipts over disbursements	4,678	-	-	(1,731)	3,079	108	3,408
Cash and investments - ending	\$ 4,678	\$ 645	\$ 100	\$ 1,794	\$ 5,843	\$ 6,328	\$ 17,811

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Clerk-Treasurer Petty Cash	Clerk-Treasurer Cash Change	Community Center Opr & Maint	Economic Development Commission	Lease Rental Payment	Fire Lease Payment	Cumulative Sewer Treatment
Cash and investments - beginning	\$ 25	\$ 100	\$ 5,497	\$ 45,314	\$ 37,721	\$ 25,920	\$ 258,597
Receipts:							
Taxes	-	-	-	-	76,062	81,772	40,784
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	5,220	5,599	2,793
Charges for services	-	-	38,790	-	-	28,760	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	22,560	31,845	-	-	-
Total receipts	-	-	61,350	31,845	81,282	116,131	43,577
Disbursements:							
Personal services	-	-	11,264	-	-	-	-
Supplies	-	-	9,171	-	-	-	-
Other services and charges	-	-	36,771	-	-	-	701
Debt service - principal and interest	-	-	-	-	84,800	91,249	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	25	-	6,726	-	-	-	-
Total disbursements	25	-	63,932	-	84,800	91,249	701
Excess (deficiency) of receipts over disbursements	(25)	-	(2,582)	31,845	(3,518)	24,882	42,876
Cash and investments - ending	\$ -	\$ 100	\$ 2,915	\$ 77,159	\$ 34,203	\$ 50,802	\$ 301,473

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Girl Scout Cabin Operation & Maint	Payroll	Solid Waste Removal	Sewer Operating	Sewer Debt Service Reserve	Sewer Deposit	Sewer Improvement
Cash and investments - beginning	\$ 226	\$ 16,395	\$ 7,314	\$ 108,414	\$ 240,482	\$ 32,038	\$ 85,686
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	2,747	-	215,944	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	455,136	40,620	14,300	2,370
Other receipts	601	1,182,961	-	3,982	-	-	-
Total receipts	<u>3,348</u>	<u>1,182,961</u>	<u>215,944</u>	<u>459,118</u>	<u>40,620</u>	<u>14,300</u>	<u>2,370</u>
Disbursements:							
Personal services	-	-	4,361	-	-	-	-
Supplies	105	-	1,610	-	-	-	-
Other services and charges	3,141	-	201,478	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	7,268	-	-	-
Utility operating expenses	-	-	-	353,632	-	-	-
Other disbursements	-	1,194,696	-	46,525	-	9,970	-
Total disbursements	<u>3,246</u>	<u>1,194,696</u>	<u>207,449</u>	<u>407,425</u>	<u>-</u>	<u>9,970</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>102</u>	<u>(11,735)</u>	<u>8,495</u>	<u>51,693</u>	<u>40,620</u>	<u>4,330</u>	<u>2,370</u>
Cash and investments - ending	<u>\$ 328</u>	<u>\$ 4,660</u>	<u>\$ 15,809</u>	<u>\$ 160,107</u>	<u>\$ 281,102</u>	<u>\$ 36,368</u>	<u>\$ 88,056</u>

CITY OF KNOX
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Sewer Bond & Interest	Water Operating	Water Bond & Interest	Water Improvement	Water Deposit	Water Debt Service Reserve	Totals
Cash and investments - beginning	\$ 65,027	\$ 57,293	\$ 96,382	\$ 117,230	\$ 86,779	\$ 99,467	\$ 3,540,920
Receipts:							
Taxes	-	-	-	-	-	-	1,444,365
Licenses and permits	-	-	-	-	-	-	32,940
Intergovernmental	-	-	-	-	-	-	1,740,953
Charges for services	-	-	-	-	-	-	328,628
Fines and forfeits	-	-	-	-	-	-	764,233
Utility fees	205,090	261,028	162,005	9,480	-	-	1,150,029
Other receipts	-	62,706	-	-	15,800	66,798	1,733,353
Total receipts	<u>205,090</u>	<u>323,734</u>	<u>162,005</u>	<u>9,480</u>	<u>15,800</u>	<u>66,798</u>	<u>7,194,501</u>
Disbursements:							
Personal services	-	-	-	-	-	-	1,250,920
Supplies	-	-	-	-	-	-	138,117
Other services and charges	-	-	-	-	-	-	962,181
Debt service - principal and interest	-	-	-	-	-	-	176,049
Capital outlay	-	-	-	-	-	-	249,884
Utility operating expenses	-	308,291	-	-	-	-	661,923
Other disbursements	269,995	49,874	150,277	10,774	11,660	-	3,596,760
Total disbursements	<u>269,995</u>	<u>358,165</u>	<u>150,277</u>	<u>10,774</u>	<u>11,660</u>	<u>-</u>	<u>7,035,834</u>
Excess (deficiency) of receipts over disbursements	<u>(64,905)</u>	<u>(34,431)</u>	<u>11,728</u>	<u>(1,294)</u>	<u>4,140</u>	<u>66,798</u>	<u>158,667</u>
Cash and investments - ending	<u>\$ 122</u>	<u>\$ 22,862</u>	<u>\$ 108,110</u>	<u>\$ 115,936</u>	<u>\$ 90,919</u>	<u>\$ 166,265</u>	<u>\$ 3,699,587</u>

CITY OF KNOX
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Solid Waste	\$ 17,720	\$ 21,303
Wastewater	30,321	74,117
Water	14,627	39,396
Governmental activities	<u>168,442</u>	<u>-</u>
Totals	<u>\$ 231,110</u>	<u>\$ 134,816</u>

CITY OF KNOX
SCHEDULE OF LEASES AND DEBT
December 31, 2012

<u>Lessor</u>	<u>Purpose</u>	<u>Annual Lease Payment</u>	<u>Lease Beginning Date</u>	<u>Lease Ending Date</u>
Governmental activities:				
First National Bank of Monterey	Community Center Payment	<u>\$ 84,000</u>	07-15-97	01-15-19

<u>Description of Debt</u>		<u>Ending Principal Balance</u>	<u>Principal and Interest Due Within One Year</u>
<u>Type</u>	<u>Purpose</u>		
Governmental activities:			
General obligation bonds	Fire Truck	<u>\$ 420,000</u>	<u>\$ 84,335</u>
Water:			
Revenue bonds	Waterworks Improvements	670,000	70,890
Revenue bonds	Waterworks Improvements	<u>1,020,000</u>	<u>94,000</u>
Total Water		<u>1,690,000</u>	<u>164,890</u>
Wastewater:			
Revenue bonds	Wastewater Improvements	<u>2,130,000</u>	<u>199,295</u>
Totals		<u>\$ 4,240,000</u>	<u>\$ 448,520</u>

CITY OF KNOX
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

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.

	Ending Balance
Governmental activities:	
Land	\$ 314,073
Infrastructure	1,620,589
Buildings	4,504,974
Improvements other than buildings	475,411
Machinery, equipment, and vehicles	2,557,279
Total governmental activities	9,472,326
Wastewater:	
Land	9,540
Infrastructure	4,670,551
Buildings	3,929,211
Improvements other than buildings	5,932,528
Machinery, equipment, and vehicles	926,235
Total Wastewater	15,468,065
Water:	
Land	21,331
Infrastructure	16,031,332
Buildings	421,087
Improvements other than buildings	2,593,560
Machinery, equipment, and vehicles	163,482
Total Water	19,230,792
Total capital assets	\$ 44,171,183

CITY OF KNOX
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT ERRORS

The Annual Report for 2012 contained a number of errors. The Schedule of Leases and Debt did not contain the Community Center lease information or the general obligation bonds for the Fire Truck. Also, the ending principal balances for the Water and Wastewater Utilities' revenue bonds were incorrectly reported.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

The City did not have proper procedures in place to ensure that the Schedule of Expenditures of Federal Awards (SEFA) was reported correctly. The City's schedule contained errors with the CFDA No., the Federal program title, and the Federal program was not reported as part of the CDBG Cluster. Also, the amount of expenditures reported was incorrect. The City approved and made the adjustments necessary to correct these issues on the Schedule of Expenditures of Federal Awards.

Effective internal control over preparation of the SEFA involves the identification and analysis of the risks of material misstatement to the City's audited SEFA and then determining how those identified risks should be managed. The City has failed to design effective controls over the preparation of the SEFA to prevent or detect material misstatements, including notes to the SEFA.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE CITY OF KNOX, STARKE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the City of Knox's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 21, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the City. The schedule and note are presented as intended by the City.

CITY OF KNOX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
CDBG - State Administered CDBG Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs	14.228	DR2-09-189	<u>\$ 824,848</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

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Knox and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. 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:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

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

Identification of Major Program:

_____ Name of Federal Program or Cluster _____

CDBG – State Administered CDBG 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

FINDING 2012-1 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

We noted several deficiencies in the internal control system of the City related to the Schedule of Expenditures of Federal Awards (SEFA). We believe the following deficiencies constitute material weaknesses:

1. Preparing the SEFA: Effective internal control over SEFA reporting involves the identification and analysis of the risks of material misstatement to the City's audited SEFA and then determining how those identified risks should be managed. The City has not identified risks to the preparation of a reliable SEFA and as a result has failed to design effective controls over the preparation of the SEFA to prevent or detect material misstatements.

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

2. Monitoring of Controls: Effective internal control over financial SEFA reporting requires someone to review and monitor the SEFA reporting process. No one performed a review or monitored the SEFA reporting process. The failure to exercise their oversight responsibility places the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner.

The City's schedule contained errors with the CFDA No., the Federal program title, and the Federal program was not reported as part of the CDBG Cluster. Also, the amount of expenditures reported was incorrect. The City approved and made the adjustments necessary to correct these issues on the Schedule of Expenditures of Federal Awards.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual awards or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.

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

- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.



August 8, 2013

CORRECTIVE ACTION PLAN

Finding 2012 - 1 Internal Controls over Schedule of Expenditures of Federal Awards (SEFA).

Federal Grantor Agency: U.S. Department of Housing and Urban Development.

Federal Program: CDBG - State Administered CDBG Cluster.

CFDA Number: 14.228.

Federal Award Number and Year DR2-09-189 FY2012.

Pass - Through Entity: Indiana Office of Community and Rural Affairs.

Re: Preparing the SEFA:

The City has not identified risks to the preparation of a reliable SEFA and as a result has failed to design effective controls over preparation of the SEFA to prevent material misstatement.

Re: Monitoring of Controls:

The failure to exercise oversight responsibility places the City at risk that controls may not be designed or operating effectually to provide reasonable assurance that controls will prevent or detect material misstatements in a timely matter.

City's Response:

The Clerk-Treasurer has reviewed the findings and evaluated options available to better enable his office to identify risks to accurate reporting of the SEFA. Oversight will be provided by auditing reported CFDA number, Federal program title, CFDA cluster, and amount of expenditures by a second employee in the office. A standard operating procedure has been implemented for the additional employee to audit transactions associated with each pay draw. This change in internal control structure has been developed and implemented to insure that applicable federal compliance requirements, that have a direct and material effect on the program, are met.

Thank you.

Sincerely,

Jeffery J. Houston
City Clerk-Treasurer

CITY OF KNOX
EXIT CONFERENCE

The contents of this report were discussed on August 21, 2013, with Jeffery J. Houston, Clerk-Treasurer; Rick L. Chambers, Mayor; and Gregory L. Matt, President of the Common Council.