

B42675

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF KENDALLVILLE
NOBLE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/25/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sheryl J. Hanes	01-01-12 to 12-31-15
Mayor	W. Suzanne Handshoe	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	James Dazey	01-01-12 to 12-31-13
President of the Common Council	James Dazey April Waters	01-01-12 to 12-31-12 01-01-13 to 12-31-13
Superintendent of Water Utility	Scott Mosley	01-01-12 to 12-31-13
Superintendent of Wastewater Utility	Richard McGee William Forbes	01-01-12 to 12-31-12 01-01-13 to 12-31-13



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Kendallville (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 September 11, 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.

Other Information

Included in the financial statement are the receipts and disbursements activity from emergency telephone system fees (IC 36-8-16), enhanced wireless emergency telephone fees (IC 36-8-16.5), and statewide 911 services fees (IC 36-8-16.7). In accordance with Indiana Code 36-8-16-14, Indiana Code 36-8-16.5-41, and Indiana Code 36-8-16.7-38, these fees have been subject to an annual audit performed by the Indiana State Board of Accounts and, in our opinion, are fairly stated, in all material respects, in relation to the financial statement taken as a whole.



Bruce Hartman
State Examiner

September 11, 2013



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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 KENDALLVILLE, NOBLE 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 Kendallville (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 September 11, 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 a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be a material weakness.

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 Kendallville's Response to Finding

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

September 11, 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 KENDALLVILLE
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	\$ 1,406,604	\$ 4,685,759	\$ 4,159,600	\$ 1,932,763
Motor Vehicle Highway	467,116	710,953	591,798	586,271
Local Road and Street	106,368	42,512	40,944	107,936
Law Enforcement Continuing Education	52,469	17,581	18,730	51,320
Rainy Day	331,882	365	-	332,247
Levy Excess	137,909	152	-	138,061
Economic Improvement District	57,148	19,906	16,355	60,699
Park Nonreverting Capital	89,873	99	-	89,972
Redevelopment Commission TIF Bond Debt Reserve	250,000	-	-	250,000
Redevelopment Commission TIF East Bond	-	480,018	321,113	158,905
Storm Sewer	35,665	28,431	26,820	37,276
General Improvement	215,621	3,051	1,200	217,472
Cumulative Capital Improvement	141,990	26,320	-	168,310
County Economic Development Income Tax	676	375,786	375,778	684
Police Pension	186,271	140,661	135,742	191,190
Fire Pension	40,852	26,421	27,406	39,867
Payroll YMCA Deduction	-	4,221	4,221	-
Kendallville Anniversary	-	3,973	2,387	1,586
Payroll FSA Short	-	80	-	80
Economic Development Steering Committee	346	8,505	8,375	476
Park and Recreation	214,128	532,983	447,203	299,908
Cemetery	56,144	75,749	67,983	63,910
Cemetery Contingency	6,253	1,208	-	7,461
Airport Operating	93,305	104,674	63,329	134,650
CDBG Miscellaneous Income	446,796	35,908	57,800	424,904
Hazardous Materials Trailer	18,536	14,394	1,520	31,410
Police Reserve	4,307	238	1,655	2,890
Police K-9	1,338	1	561	778
Fourth of July Festival	957	13,101	10,139	3,919
Kid City Project	9,898	3,545	10,105	3,338
City Beautification	5,608	6	106	5,508
Redevelopment Commission TIF Downtown	213,601	90,755	61,732	242,624
Aviation Construction	7,829	9	-	7,838
Cemetery Chapel	1,773	2	-	1,775
Redevelopment Commission TIF East Side	870,614	576,858	700,625	746,847
FEMA Grant-Fire Department	11	-	-	11
Employment Security	539	1	-	540
Sports Complex	24,205	87,672	82,983	28,894
Police Public Awareness	288	-	-	288
Rural Firefighting	202,973	29,669	-	232,642
Special Arson	26	-	-	26
Special Siren	19,092	2,876	-	21,968
Special Park Beyer	1,282	4,002	768	4,516
Special Park Wayne	3	-	-	3
Special Park Donations	15,807	17,664	14,757	18,714

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

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

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
Special Park Cole	8,532	24,657	24,930	8,259
Special Park Nature Center	868	1	-	869
Special Park Programs	10,099	23,942	15,861	18,180
Special Park Festival	49,076	92,518	93,179	48,415
Redevelopment Commission Donations	13,036	14	-	13,050
General Obligation Bond and Interest	2,965	3	-	2,968
Street Lighting	5,639	6	-	5,645
Capital Outlay	19,422	375,788	377,245	17,965
Grant Proceeds	103,842	684,914	669,185	119,571
Cemetery Endowment	105,912	2,139	20	108,031
Payroll Federal Withholdings	-	402,615	402,615	-
Health Insurance	570,233	554,857	515,728	609,362
Payroll Deferred Compensation	-	32,447	32,447	-
Payroll Vision Insurance	1,158	6,369	6,357	1,170
Payroll FSA Kiersey	-	2,000	2,000	-
Payroll FSA Derby	-	1,200	1,200	-
Payroll FSA Robinson	-	800	800	-
Payroll FSA Handshoe	-	1,200	1,200	-
Payroll Standing Chapter	-	19,032	19,032	-
Payroll Health Insurance Section 125	18,993	103,971	103,905	19,059
Payroll Indiana Child Support	-	19,891	19,891	-
Payroll Dental	2,299	30,038	32,337	-
Payroll Colonial Life Insurance	-	11,529	10,605	924
Payroll Direct Deposit	-	1,952,085	1,952,085	-
Payroll United Way	56	557	557	56
Payroll Noble County Treasurer	-	3,778	3,738	40
Payroll Fire PERF	2,821	10,882	10,773	2,930
Payroll State Tax Withholding	-	123,220	123,220	-
Payroll Net Wages	-	785,075	785,075	-
Payroll Police PERF	5,014	18,090	18,268	4,836
Payroll Voluntary PERF	1,550	6,494	6,201	1,843
Payroll FICA/Medicare Withholdings	-	379,276	379,276	-
Payroll County Tax Withholdings	-	49,683	49,683	-
Wastewater Utility Operating	406,432	1,677,460	1,641,017	442,875
Wastewater Utility Bond and Interest	4,529	313,348	313,270	4,607
Wastewater Utility Debt Reserve	333,560	367	-	333,927
Wastewater Utility Improvement	-	140,870	96,750	44,120
Water Utility Operating	828,950	2,107,758	1,858,967	1,077,741
Water Utility Bond and Interest	122,107	404,355	440,473	85,989
Water Utility Debt Reserve	447,702	18,522	-	466,224
Water Utility Improvement	-	126,458	126,458	-
Totals	<u>\$ 8,800,898</u>	<u>\$ 18,674,318</u>	<u>\$ 17,386,083</u>	<u>\$ 10,089,133</u>

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

CITY OF KENDALLVILLE
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 KENDALLVILLE
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.

Penalties which include fees received for late payments.

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.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

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 KENDALLVILLE
NOTES TO FINANCIAL STATEMENT
(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 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

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

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

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. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' 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 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

D. 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
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

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

Note 7. Subsequent Events

East Industrial Park Improvements - On July 9, 2013, the City awarded a \$642,376 contract to API for road improvements in the East Industrial Park. The project will be funded in part by a EDA grant from the U.S. Department of Commerce.

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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 KENDALLVILLE
 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	Law Enforcement Continuing Education	Rainy Day	Levy Excess	Economic Improvement District
Cash and investments - beginning	\$ 1,406,604	\$ 467,116	\$ 106,368	\$ 52,469	\$ 331,882	\$ 137,909	\$ 57,148
Receipts:							
Taxes	3,094,411	646,660	42,373	-	-	-	19,848
Licenses and permits	66,449	3,360	-	3,670	-	-	-
Intergovernmental	1,350,937	53,596	-	-	-	-	-
Charges for services	97,675	600	-	13,606	-	-	-
Fines and forfeits	32,413	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	43,874	6,737	139	305	365	152	58
Total receipts	<u>4,685,759</u>	<u>710,953</u>	<u>42,512</u>	<u>17,581</u>	<u>365</u>	<u>152</u>	<u>19,906</u>
Disbursements:							
Personal services	2,588,743	273,761	-	-	-	-	-
Supplies	154,050	125,245	-	-	-	-	263
Other services and charges	1,109,155	171,828	40,944	9,571	-	-	10,655
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	74,681	5,190	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	232,971	15,774	-	9,159	-	-	5,437
Total disbursements	<u>4,159,600</u>	<u>591,798</u>	<u>40,944</u>	<u>18,730</u>	<u>-</u>	<u>-</u>	<u>16,355</u>
Excess (deficiency) of receipts over disbursements	<u>526,159</u>	<u>119,155</u>	<u>1,568</u>	<u>(1,149)</u>	<u>365</u>	<u>152</u>	<u>3,551</u>
Cash and investments - ending	<u>\$ 1,932,763</u>	<u>\$ 586,271</u>	<u>\$ 107,936</u>	<u>\$ 51,320</u>	<u>\$ 332,247</u>	<u>\$ 138,061</u>	<u>\$ 60,699</u>

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

	Park Nonreverting Capital	Redevelopment Commission TIF Bond Debt Reserve	Redevelopment Commission TIF East Bond	Storm Sewer	General Improvement	Cumulative Capital Improvement	County Economic Development Income Tax
Cash and investments - beginning	\$ 89,873	\$ 250,000	\$ -	\$ 35,665	\$ 215,621	\$ 141,990	\$ 676
Receipts:							
Taxes	-	-	-	28,189	-	26,157	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	198	-	-	375,779
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	99	-	480,018	44	3,051	163	7
Total receipts	<u>99</u>	<u>-</u>	<u>480,018</u>	<u>28,431</u>	<u>3,051</u>	<u>26,320</u>	<u>375,786</u>
Disbursements:							
Personal services	-	-	-	782	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	25,980	1,200	-	340,772
Debt service - principal and interest	-	-	321,113	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	58	-	-	35,006
Total disbursements	<u>-</u>	<u>-</u>	<u>321,113</u>	<u>26,820</u>	<u>1,200</u>	<u>-</u>	<u>375,778</u>
Excess (deficiency) of receipts over disbursements	<u>99</u>	<u>-</u>	<u>158,905</u>	<u>1,611</u>	<u>1,851</u>	<u>26,320</u>	<u>8</u>
Cash and investments - ending	<u>\$ 89,972</u>	<u>\$ 250,000</u>	<u>\$ 158,905</u>	<u>\$ 37,276</u>	<u>\$ 217,472</u>	<u>\$ 168,310</u>	<u>\$ 684</u>

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

	Police Pension	Fire Pension	Payroll YMCA Deduction	Kendallville Anniversary	Payroll FSA Short	Economic Development Steering Committee	Park and Recreation
Cash and investments - beginning	\$ 186,271	\$ 40,852	\$ -	\$ -	\$ -	\$ 346	\$ 214,128
Receipts:							
Taxes	-	-	-	-	-	-	345,312
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	121,740
Charges for services	-	-	-	-	-	-	61,144
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	140,661	26,421	4,221	3,973	80	8,505	4,787
Total receipts	<u>140,661</u>	<u>26,421</u>	<u>4,221</u>	<u>3,973</u>	<u>80</u>	<u>8,505</u>	<u>532,983</u>
Disbursements:							
Personal services	135,742	27,406	-	-	-	-	293,606
Supplies	-	-	-	-	-	-	35,086
Other services and charges	-	-	-	-	-	-	68,297
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	24,300
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	4,221	2,387	-	8,375	25,914
Total disbursements	<u>135,742</u>	<u>27,406</u>	<u>4,221</u>	<u>2,387</u>	<u>-</u>	<u>8,375</u>	<u>447,203</u>
Excess (deficiency) of receipts over disbursements	<u>4,919</u>	<u>(985)</u>	<u>-</u>	<u>1,586</u>	<u>80</u>	<u>130</u>	<u>85,780</u>
Cash and investments - ending	<u>\$ 191,190</u>	<u>\$ 39,867</u>	<u>\$ -</u>	<u>\$ 1,586</u>	<u>\$ 80</u>	<u>\$ 476</u>	<u>\$ 299,908</u>

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

	Cemetery	Cemetery Contingency	Airport Operating	CDBG Miscellaneous Income	Hazardous Materials Trailer	Police Reserve
Cash and investments - beginning	\$ 56,144	\$ 6,253	\$ 93,305	\$ 446,796	\$ 18,536	\$ 4,307
Receipts:						
Taxes	24,665	-	49,330	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	174	-	347	-	-	-
Charges for services	49,348	-	54,968	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	1,562	1,208	29	35,908	14,394	238
Total receipts	<u>75,749</u>	<u>1,208</u>	<u>104,674</u>	<u>35,908</u>	<u>14,394</u>	<u>238</u>
Disbursements:						
Personal services	56,063	-	-	-	-	-
Supplies	2,324	-	5,322	-	-	321
Other services and charges	5,873	-	34,620	57,800	-	-
Debt service - principal and interest	-	-	23,212	-	-	-
Capital outlay	-	-	-	-	-	1,334
Utility operating expenses	-	-	-	-	-	-
Other disbursements	3,723	-	175	-	1,520	-
Total disbursements	<u>67,983</u>	<u>-</u>	<u>63,329</u>	<u>57,800</u>	<u>1,520</u>	<u>1,655</u>
Excess (deficiency) of receipts over disbursements	<u>7,766</u>	<u>1,208</u>	<u>41,345</u>	<u>(21,892)</u>	<u>12,874</u>	<u>(1,417)</u>
Cash and investments - ending	<u>\$ 63,910</u>	<u>\$ 7,461</u>	<u>\$ 134,650</u>	<u>\$ 424,904</u>	<u>\$ 31,410</u>	<u>\$ 2,890</u>

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

	Police K-9	Fourth of July Festival	Kid City Project	City Beautification	Redevelopment Commission TIF Downtown	Aviation Construction
Cash and investments - beginning	\$ 1,338	\$ 957	\$ 9,898	\$ 5,608	\$ 213,601	\$ 7,829
Receipts:						
Taxes	-	-	-	-	90,514	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	1	13,101	3,545	6	241	9
Total receipts	1	13,101	3,545	6	90,755	9
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	561	-	-	-	-	-
Other services and charges	-	-	5,500	106	12,627	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	10,139	4,605	-	49,105	-
Total disbursements	561	10,139	10,105	106	61,732	-
Excess (deficiency) of receipts over disbursements	(560)	2,962	(6,560)	(100)	29,023	9
Cash and investments - ending	\$ 778	\$ 3,919	\$ 3,338	\$ 5,508	\$ 242,624	\$ 7,838

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

	Cemetery Chapel	Redevelopment Commission TIF East Side	FEMA Grant-Fire Department	Employment Security	Sports Complex	Police Public Awareness
Cash and investments - beginning	\$ 1,773	\$ 870,614	\$ 11	\$ 539	\$ 24,205	\$ 288
Receipts:						
Taxes	-	406,047	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	169,209	-	-	-	-
Charges for services	-	-	-	-	87,637	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	2	1,602	-	1	35	-
Total receipts	<u>2</u>	<u>576,858</u>	<u>-</u>	<u>1</u>	<u>87,672</u>	<u>-</u>
Disbursements:						
Personal services	-	-	-	-	27,179	-
Supplies	-	-	-	-	43,313	-
Other services and charges	-	230,625	-	-	10,428	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	470,000	-	-	2,063	-
Total disbursements	<u>-</u>	<u>700,625</u>	<u>-</u>	<u>-</u>	<u>82,983</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>2</u>	<u>(123,767)</u>	<u>-</u>	<u>1</u>	<u>4,689</u>	<u>-</u>
Cash and investments - ending	<u>\$ 1,775</u>	<u>\$ 746,847</u>	<u>\$ 11</u>	<u>\$ 540</u>	<u>\$ 28,894</u>	<u>\$ 288</u>

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

	Rural Firefighting	Special Arson	Special Siren	Special Park Beyer	Special Park Wayne	Special Park Donations
Cash and investments - beginning	\$ 202,973	\$ 26	\$ 19,092	\$ 1,282	\$ 3	\$ 15,807
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	27,354	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	2,315	-	2,876	4,002	-	17,664
Total receipts	<u>29,669</u>	<u>-</u>	<u>2,876</u>	<u>4,002</u>	<u>-</u>	<u>17,664</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	768	-	14,757
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>768</u>	<u>-</u>	<u>14,757</u>
Excess (deficiency) of receipts over disbursements	<u>29,669</u>	<u>-</u>	<u>2,876</u>	<u>3,234</u>	<u>-</u>	<u>2,907</u>
Cash and investments - ending	<u>\$ 232,642</u>	<u>\$ 26</u>	<u>\$ 21,968</u>	<u>\$ 4,516</u>	<u>\$ 3</u>	<u>\$ 18,714</u>

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

	Special Park Cole	Special Park Nature Center	Special Park Programs	Special Park Festival	Redevelopment Commission Donations	General Obligation Bond and Interest
Cash and investments - beginning	\$ 8,532	\$ 868	\$ 10,099	\$ 49,076	\$ 13,036	\$ 2,965
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	24,643	-	23,926	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	14	1	16	92,518	14	3
Total receipts	<u>24,657</u>	<u>1</u>	<u>23,942</u>	<u>92,518</u>	<u>14</u>	<u>3</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	9,182	-	-	-
Other services and charges	-	-	6,499	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	24,930	-	180	93,179	-	-
Total disbursements	<u>24,930</u>	<u>-</u>	<u>15,861</u>	<u>93,179</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(273)</u>	<u>1</u>	<u>8,081</u>	<u>(661)</u>	<u>14</u>	<u>3</u>
Cash and investments - ending	<u>\$ 8,259</u>	<u>\$ 869</u>	<u>\$ 18,180</u>	<u>\$ 48,415</u>	<u>\$ 13,050</u>	<u>\$ 2,968</u>

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

	Street Lighting	Capital Outlay	Grant Proceeds	Cemetery Endowment	Payroll Federal Withholdings	Health Insurance
Cash and investments - beginning	\$ 5,639	\$ 19,422	\$ 103,842	\$ 105,912	\$ -	\$ 570,233
Receipts:						
Taxes	-	-	115,600	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	569,192	-	-	-
Charges for services	-	375,779	-	2,022	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	6	9	122	117	402,615	554,857
Total receipts	<u>6</u>	<u>375,788</u>	<u>684,914</u>	<u>2,139</u>	<u>402,615</u>	<u>554,857</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	515,728
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	377,245	669,185	20	402,615	-
Total disbursements	<u>-</u>	<u>377,245</u>	<u>669,185</u>	<u>20</u>	<u>402,615</u>	<u>515,728</u>
Excess (deficiency) of receipts over disbursements	<u>6</u>	<u>(1,457)</u>	<u>15,729</u>	<u>2,119</u>	<u>-</u>	<u>39,129</u>
Cash and investments - ending	<u>\$ 5,645</u>	<u>\$ 17,965</u>	<u>\$ 119,571</u>	<u>\$ 108,031</u>	<u>\$ -</u>	<u>\$ 609,362</u>

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

	Payroll Deferred Compensation	Payroll Vision Insurance	Payroll FSA Kiersey	Payroll FSA Derby	Payroll FSA Robinson	Payroll FSA Handshoe
Cash and investments - beginning	\$ -	\$ 1,158	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	32,447	6,369	2,000	1,200	800	1,200
Total receipts	<u>32,447</u>	<u>6,369</u>	<u>2,000</u>	<u>1,200</u>	<u>800</u>	<u>1,200</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	32,447	6,357	2,000	1,200	800	1,200
Total disbursements	<u>32,447</u>	<u>6,357</u>	<u>2,000</u>	<u>1,200</u>	<u>800</u>	<u>1,200</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 1,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	Payroll Standing Chapter	Payroll Health Insurance Section 125	Payroll Indiana Child Support	Payroll Dental	Payroll Colonial Life Insurance	Payroll Direct Deposit
Cash and investments - beginning	\$ -	\$ 18,993	\$ -	\$ 2,299	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	19,032	103,971	19,891	30,038	11,529	1,952,085
Total receipts	<u>19,032</u>	<u>103,971</u>	<u>19,891</u>	<u>30,038</u>	<u>11,529</u>	<u>1,952,085</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	19,032	103,905	19,891	32,337	10,605	1,952,085
Total disbursements	<u>19,032</u>	<u>103,905</u>	<u>19,891</u>	<u>32,337</u>	<u>10,605</u>	<u>1,952,085</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>66</u>	<u>-</u>	<u>(2,299)</u>	<u>924</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 19,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 924</u>	<u>\$ -</u>

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

	Payroll United Way	Payroll Noble County Treasurer	Payroll Fire PERF	Payroll State Tax Withholding	Payroll Net Wages	Payroll Police PERF
Cash and investments - beginning	\$ 56	\$ -	\$ 2,821	\$ -	\$ -	\$ 5,014
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	557	3,778	10,882	123,220	785,075	18,090
Total receipts	<u>557</u>	<u>3,778</u>	<u>10,882</u>	<u>123,220</u>	<u>785,075</u>	<u>18,090</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	557	3,738	10,773	123,220	785,075	18,268
Total disbursements	<u>557</u>	<u>3,738</u>	<u>10,773</u>	<u>123,220</u>	<u>785,075</u>	<u>18,268</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>40</u>	<u>109</u>	<u>-</u>	<u>-</u>	<u>(178)</u>
Cash and investments - ending	<u>\$ 56</u>	<u>\$ 40</u>	<u>\$ 2,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,836</u>

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

	Payroll Voluntary PERF	Payroll FICA/Medicare Withholdings	Payroll County Tax Withholdings	Wastewater Utility Operating	Wastewater Utility Bond and Interest	Wastewater Utility Debt Reserve
Cash and investments - beginning	\$ 1,550	\$ -	\$ -	\$ 406,432	\$ 4,529	\$ 333,560
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	1,670,409	-	-
Penalties	-	-	-	252	-	-
Other receipts	6,494	379,276	49,683	6,799	313,348	367
Total receipts	<u>6,494</u>	<u>379,276</u>	<u>49,683</u>	<u>1,677,460</u>	<u>313,348</u>	<u>367</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	1,209,107	-	-
Other disbursements	6,201	379,276	49,683	431,910	313,270	-
Total disbursements	<u>6,201</u>	<u>379,276</u>	<u>49,683</u>	<u>1,641,017</u>	<u>313,270</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>293</u>	<u>-</u>	<u>-</u>	<u>36,443</u>	<u>78</u>	<u>367</u>
Cash and investments - ending	<u>\$ 1,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 442,875</u>	<u>\$ 4,607</u>	<u>\$ 333,927</u>

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

	Wastewater Utility Improvement	Water Utility Operating	Water Utility Bond and Interest	Water Utility Debt Reserve	Water Utility Improvement	Totals
Cash and investments - beginning	\$ -	\$ 828,950	\$ 122,107	\$ 447,702	\$ -	\$ 8,800,898
Receipts:						
Taxes	-	-	-	-	-	4,889,106
Licenses and permits	-	-	-	-	-	73,479
Intergovernmental	-	-	-	-	-	2,641,172
Charges for services	-	-	-	-	-	818,702
Fines and forfeits	-	-	-	-	-	32,413
Utility fees	-	2,099,106	-	-	-	3,769,515
Penalties	-	-	-	-	-	252
Other receipts	140,870	8,652	404,355	18,522	126,458	6,449,679
Total receipts	140,870	2,107,758	404,355	18,522	126,458	18,674,318
Disbursements:						
Personal services	-	-	-	-	-	3,403,282
Supplies	-	-	-	-	-	375,667
Other services and charges	-	-	-	-	-	2,658,208
Debt service - principal and interest	-	-	-	-	-	344,325
Capital outlay	96,750	-	-	-	126,458	328,713
Utility operating expenses	-	1,160,769	-	-	-	2,369,876
Other disbursements	-	698,198	440,473	-	-	7,906,012
Total disbursements	96,750	1,858,967	440,473	-	126,458	17,386,083
Excess (deficiency) of receipts over disbursements	44,120	248,791	(36,118)	18,522	-	1,288,235
Cash and investments - ending	\$ 44,120	\$ 1,077,741	\$ 85,989	\$ 466,224	\$ -	\$ 10,089,133

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

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ 55,316	\$ 172,446
Water	23,143	177,634
Governmental activities	<u>135,676</u>	<u>313</u>
Totals	<u>\$ 214,135</u>	<u>\$ 350,393</u>

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

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Revenue bonds	Redevelopment Commission Revenue Bonds	\$ 1,755,000	\$ 319,875
Notes and loans payable	2012 Police Interceptor Loan	18,251	9,804
Notes and loans payable	2011 Airport Improvement Loan	175,214	23,213
Notes and loans payable	2011 KLDC Loan	500,660	238,764
Notes and loans payable	2011 KLDC Loan	430,000	5,074
Notes and loans payable	2011 Police Car Loan	14,736	15,094
Total governmental activities		<u>2,893,861</u>	<u>611,824</u>
Wastewater:			
Revenue bonds	2006 Wastewater Improvement Bonds	3,150,000	315,958
Notes and loans payable	Sewage Bond Anticipation Notes	45,000	690
Total Wastewater		<u>3,195,000</u>	<u>316,648</u>
Water:			
Revenue bonds	2007 Water Improvement Bonds	4,890,000	441,379
Totals		<u>\$ 10,978,861</u>	<u>\$ 1,369,851</u>

CITY OF KENDALLVILLE
 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	\$ 17,550,917
Infrastructure	14,356,128
Buildings	3,722,849
Improvements other than buildings	13,269,741
Machinery, equipment, and vehicles	6,628,094
Construction in progress	2,314,043
Total governmental activities	57,841,772
Wastewater:	
Land	1,435,723
Buildings	509,436
Improvements other than buildings	17,297,844
Machinery, equipment, and vehicles	550,485
Total Wastewater	19,793,488
Water:	
Land	33,480
Buildings	461,913
Improvements other than buildings	15,717,163
Machinery, equipment, and vehicles	1,560,556
Total Water	17,773,112
Total capital assets	\$ 95,408,372

CITY OF KENDALLVILLE
AUDIT RESULT AND COMMENT

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

The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors:

Program Name	CFDA #	Expenditures per SEFA	Audited Expenditures
Cooperative Forestry Assistance	10.664	\$ -	\$ 5,000
Edward Byrne Memorial Justice Assistance Grant Program	16.738	-	6,600
Highway Planning and Construction	20.205	-	217,173
State and Community Highway Safety	20.600	-	5,835
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	7,590	3,660
Airport Improvement Program	20.106	343,867	339,500
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	-	480
Total Federal Awards Expended		<u>\$ 355,591</u>	<u>\$ 578,248</u>

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Kendallville'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 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.

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

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

have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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

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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 KENDALLVILLE
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 AGRICULTURE</u>				
Cooperative Forestry Assistance	Indiana Criminal Justice Institute	10.664	2010 DC-BX-0072	\$ 5,000
<u>U.S. DEPARTMENT OF JUSTICE</u>				
JAG Program Cluster Edward Byrne Memorial Justice Assistance Grant Program	Indiana Criminal Justice Institute	16.738		<u>6,600</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Highway Planning and Construction Cluster Highway Planning and Construction	Indiana Department of Transportation	20.205	DES 500897	<u>217,173</u>
Highway Safety Cluster State and Community Highway Safety	Noble County, Indiana	20.600	EDS#D3-13-7210 PT-12-11-04-18	2,910 <u>2,925</u>
Total - State and Community Highway Safety				<u>5,835</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I	Noble County, Indiana	20.601	K8-2012-03-03-25	<u>3,660</u>
Total - Highway Safety Cluster				<u>9,495</u>
Airport Improvement Program	Direct	20.106	3-18-0042-15 3-18-0042-18 3-18-0042-19	10,355 311,163 <u>17,982</u>
Total - Airport Improvement Program				<u>339,500</u>
Total - U.S. Department of Transportation				<u>566,168</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Noble County, Indiana	93.243	5H79TIO23390-02	<u>480</u>
Total federal awards expended				<u>\$ 578,248</u>

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

CITY OF KENDALLVILLE
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 Kendallville 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 KENDALLVILLE
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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

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

The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

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

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Total Federal Awards Expended		<u>\$ 355,591</u>	<u>\$ 578,248</u>

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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:

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

- (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 award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision I the Department of Health and Human Services.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the 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.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients 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.

City of Kendallville

234 S. Main Street

Kendallville, IN 46755-1795

www.kendallville-in.org

September 11, 2013

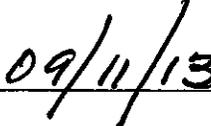
CORRECTIVE ACTION PLAN

We have reviewed our internal control system and have designed the following control procedures; which will ensure the correction of our deficiencies:

- Finding 2012-1 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING-SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Plan: In order to strengthen the internal controls over the preparation of the financial statements, specifically the Schedule of Federal Expenditures, we agree to obtain a better understanding of exactly what information is to be reported on the document to ensure accuracy and completeness. We will cross reference the accounting system with the spreadsheet of grants and awards so as to include only federal monies expensed.


Sheryl Hanes, Clerk Treasurer


Date

CITY OF KENDALLVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2013, with Sheryl J. Hanes, Clerk-Treasurer, and W. Suzanne Handshoe, Mayor. The officials concurred with our audit findings.