

**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, 2013 to December 31, 2013



**FILED**  
11/17/2014



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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	Rick L. Chambers	01-01-12 to 12-31-15
President Pro Tempore of the Common Council	Gregory L. Matt Donald Kring	01-01-13 to 12-31-13 01-01-14 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2013, 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, 2013.

***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, 2013, 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 16, 2014, 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.

  
Paul D. Joyce, CPA  
State Examiner

September 16, 2014



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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, 2013, and the related notes to the financial statement, and have issued our report thereon dated September 16, 2014, 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 items 2013-001 and 2013-002 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 items 2013-001 and 2013-002.

***City of Knox's Response to Findings***

The City's response to the findings 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.

  
Paul D. Joyce, CPA  
State Examiner

September 16, 2014

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## FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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, 2013

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13
General	\$ 271,345	\$ 1,339,784	\$ 1,217,829	\$ 393,300
Motor Vehicle Highway	59,175	380,968	325,134	115,009
Local Road And Street	22,345	17,862	21,075	19,132
Riverboat Revenue Distribution	51,880	21,942	21,775	52,047
Parks And Recreation	67,563	135,398	123,325	79,636
User Fee	118,763	112,124	80,614	150,273
Rainy Day	150,678	-	-	150,678
CEDIT	395,262	347,782	263,761	479,283
Cumulative Capital Development	104,247	-	25,000	79,247
Police Equipment	1,337	200	-	1,537
Redevelopment Commission	1,194	-	-	1,194
Cumulative Fire Fighting	57,188	-	44,276	12,912
Cumulative Capital Improvement	28,686	9,943	6,005	32,624
TIF District	336,880	84,212	2,475	418,617
Police Pension	111,514	56,723	59,023	109,214
Knox City Court	268,348	520,290	397,890	390,748
CDBG Stormwater Grant	4,870	-	4,870	-
Drug & Tobacco Grant	2,109	5,661	7,767	3
Cada - Phoenix House	45,556	425,708	471,264	-
Excess Levy	6,151	-	6,151	-
Special Events	4,678	17,238	15,642	6,274
Seizure Award Reimbursement	645	-	645	-
Main Street Grant	-	61,182	55,064	6,118
Baseball Concessions	-	7,610	-	7,610
OPO Blitz (PD)	-	6,770	6,770	-
PD Patrol Car Grant	-	24,900	24,900	-
Rental Registration	-	225	-	225
City Judge Cash	100	-	-	100
Gateway Depot Operation & Maint	1,795	11,200	8,937	4,058
Knox Police Continuing Education	5,843	1,851	40	7,654
City Judge Pre-Trial Diversion	6,328	98	228	6,198
Clerk's Record Perpetuation	17,811	3,673	1,300	20,184
Clerk-Treasurer Cash Change	100	-	-	100
Community Center Opr & Maint	2,916	63,104	63,757	2,263
Economic Development Commission	77,159	31,845	-	109,004
Lease Rental Payment	34,203	40,819	75,022	-
Fire Lease Payment	50,802	45,970	83,281	13,491
Cumulative Sewer Treatment	301,472	-	100,768	200,704
Girl Scout Cabin Operation & Maint	328	3,411	3,156	583
Payroll	4,661	1,228,048	1,228,111	4,598
Solid Waste Removal	15,809	217,724	230,690	2,843
Sewer Operating	160,108	429,729	495,966	93,871
Sewer Debt Service Reserve	281,102	40,620	-	321,722
Sewer Deposit	36,368	14,143	16,559	33,952
Sewer Improvement	88,056	9,480	27,301	70,235
Sewer Bond & Interest	122	283,395	199,735	83,782
Water Operating	22,862	366,156	343,481	45,537
Water Bond & Interest	108,110	164,582	232,765	39,927
Water Improvement	115,936	1,580	4,750	112,766
Water Deposit	90,919	16,540	11,875	95,584
Water Debt Service Reserve	166,265	-	-	166,265
Stormwater	-	22,760	8,104	14,656
<b>Totals</b>	<b>\$ 3,699,589</b>	<b>\$ 6,573,250</b>	<b>\$ 6,317,081</b>	<b>\$ 3,955,758</b>

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, trash, 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 Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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.

CITY OF KNOX  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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

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

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

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

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

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial 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.

CITY OF KNOX  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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

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

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

*F. Interfund Transfers*

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

*G. Fund Accounting*

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

**Note 2. Budgets**

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

**Note 3. Property Taxes**

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

CITY OF KNOX  
NOTES TO FINANCIAL STATEMENT  
(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:



CITY OF KNOX  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Indiana Public Retirement System  
1 North Capitol 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.

*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:

CITY OF KNOX  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Indiana Public Retirement System  
1 North Capitol 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.

## 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, 2013

	General	Motor Vehicle Highway	Local Road And Street	Riverboat Revenue Distribution	Parks And Recreation	User Fee	Rainy Day
Cash and investments - beginning	\$ 271,345	\$ 59,175	\$ 22,345	\$ 51,880	\$ 67,563	\$ 118,763	\$ 150,678
Receipts:							
Taxes	847,375	254,600	-	-	124,549	-	-
Licenses and permits	24,232	515	-	-	-	-	-
Intergovernmental	312,018	122,302	17,862	21,942	7,836	-	-
Charges for services	65,104	1,200	-	-	2,850	-	-
Fines and forfeits	56,081	-	-	-	-	112,124	-
Utility fees	-	-	-	-	-	-	-
Other receipts	34,974	2,351	-	-	163	-	-
Total receipts	<u>1,339,784</u>	<u>380,968</u>	<u>17,862</u>	<u>21,942</u>	<u>135,398</u>	<u>112,124</u>	<u>-</u>
Disbursements:							
Personal services	875,327	180,073	-	-	51,555	-	-
Supplies	60,422	60,174	-	-	15,086	-	-
Other services and charges	247,240	18,824	-	16,890	23,551	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	31,676	66,063	21,075	4,885	23,680	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	3,164	-	-	-	9,453	80,614	-
Total disbursements	<u>1,217,829</u>	<u>325,134</u>	<u>21,075</u>	<u>21,775</u>	<u>123,325</u>	<u>80,614</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>121,955</u>	<u>55,834</u>	<u>(3,213)</u>	<u>167</u>	<u>12,073</u>	<u>31,510</u>	<u>-</u>
Cash and investments - ending	<u>\$ 393,300</u>	<u>\$ 115,009</u>	<u>\$ 19,132</u>	<u>\$ 52,047</u>	<u>\$ 79,636</u>	<u>\$ 150,273</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, 2013  
 (Continued)

	CEDIT	Cumulative Capital Development	Police Equipment	Redevelopment Commission	Cumulative Fire Fighting	Cumulative Capital Improvement	TIF District
Cash and investments - beginning	\$ 395,262	\$ 104,247	\$ 1,337	\$ 1,194	\$ 57,188	\$ 28,686	\$ 336,880
Receipts:							
Taxes	-	-	-	-	-	-	84,212
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	342,912	-	-	-	-	9,943	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	200	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	4,870	-	-	-	-	-	-
Total receipts	<u>347,782</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>-</u>	<u>9,943</u>	<u>84,212</u>
Disbursements:							
Personal services	11,006	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	152,214	-	-	-	-	-	2,475
Debt service - principal and interest	27,541	-	-	-	-	-	-
Capital outlay	37,792	25,000	-	-	44,276	6,005	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	35,208	-	-	-	-	-	-
Total disbursements	<u>263,761</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>44,276</u>	<u>6,005</u>	<u>2,475</u>
Excess (deficiency) of receipts over disbursements	<u>84,021</u>	<u>(25,000)</u>	<u>200</u>	<u>-</u>	<u>(44,276)</u>	<u>3,938</u>	<u>81,737</u>
Cash and investments - ending	<u>\$ 479,283</u>	<u>\$ 79,247</u>	<u>\$ 1,537</u>	<u>\$ 1,194</u>	<u>\$ 12,912</u>	<u>\$ 32,624</u>	<u>\$ 418,617</u>

CITY OF KNOX  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Police Pension	Knox City Court	CDBG Stormwater Grant	Drug & Tobacco Grant	Cada - Phoenix House	Excess Levy	Special Events
Cash and investments - beginning	\$ 111,514	\$ 268,348	\$ 4,870	\$ 2,109	\$ 45,556	\$ 6,151	\$ 4,678
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	520,290	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	56,723	-	-	5,661	425,708	-	17,238
Total receipts	56,723	520,290	-	5,661	425,708	-	17,238
Disbursements:							
Personal services	122	-	-	-	-	-	-
Supplies	-	-	-	7,767	-	-	-
Other services and charges	58,901	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	471,264	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	397,890	4,870	-	-	6,151	15,642
Total disbursements	59,023	397,890	4,870	7,767	471,264	6,151	15,642
Excess (deficiency) of receipts over disbursements	(2,300)	122,400	(4,870)	(2,106)	(45,556)	(6,151)	1,596
Cash and investments - ending	\$ 109,214	\$ 390,748	\$ -	\$ 3	\$ -	\$ -	\$ 6,274

CITY OF KNOX  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Seizure Award Reimbursement	Main Street Grant	Baseball Concessions	OPO Blitz (PD)	PD Patrol Car Grant	Rental Registration	City Judge Cash
Cash and investments - beginning	\$ 645	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	225	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	7,610	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	61,182	-	6,770	24,900	-	-
Total receipts	-	61,182	7,610	6,770	24,900	225	-
Disbursements:							
Personal services	-	-	-	2,825	-	-	-
Supplies	645	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	55,064	-	-	24,900	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	3,945	-	-	-
Total disbursements	645	55,064	-	6,770	24,900	-	-
Excess (deficiency) of receipts over disbursements	(645)	6,118	7,610	-	-	225	-
Cash and investments - ending	\$ -	\$ 6,118	\$ 7,610	\$ -	\$ -	\$ 225	\$ 100

CITY OF KNOX  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Gateway Depot Operation & Maint	Knox Police Continuing Education	City Judge Pre-Trial Diversion	Clerk's Record Perpetuation	Clerk-Treasurer Cash Change	Community Center Opr & Maint	Economic Development Commission
Cash and investments - beginning	\$ 1,795	\$ 5,843	\$ 6,328	\$ 17,811	\$ 100	\$ 2,916	\$ 77,159
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	1,851	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	31,384	-
Fines and forfeits	-	-	98	3,673	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	11,200	-	-	-	-	31,720	31,845
Total receipts	<u>11,200</u>	<u>1,851</u>	<u>98</u>	<u>3,673</u>	<u>-</u>	<u>63,104</u>	<u>31,845</u>
Disbursements:							
Personal services	-	-	-	-	-	12,910	-
Supplies	106	40	-	-	-	6,240	-
Other services and charges	8,589	-	228	1,300	-	44,607	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	242	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>8,937</u>	<u>40</u>	<u>228</u>	<u>1,300</u>	<u>-</u>	<u>63,757</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>2,263</u>	<u>1,811</u>	<u>(130)</u>	<u>2,373</u>	<u>-</u>	<u>(653)</u>	<u>31,845</u>
Cash and investments - ending	<u>\$ 4,058</u>	<u>\$ 7,654</u>	<u>\$ 6,198</u>	<u>\$ 20,184</u>	<u>\$ 100</u>	<u>\$ 2,263</u>	<u>\$ 109,004</u>



CITY OF KNOX  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Lease Rental Payment	Fire Lease Payment	Cumulative Sewer Treatment	Girl Scout Cabin Operation & Maint	Payroll	Solid Waste Removal
Cash and investments - beginning	\$ 34,203	\$ 50,802	\$ 301,472	\$ 328	\$ 4,661	\$ 15,809
Receipts:						
Taxes	40,702	17,161	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	117	49	-	-	-	-
Charges for services	-	28,760	-	2,810	-	217,724
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	601	1,228,048	-
<b>Total receipts</b>	<b>40,819</b>	<b>45,970</b>	<b>-</b>	<b>3,411</b>	<b>1,228,048</b>	<b>217,724</b>
Disbursements:						
Personal services	-	-	-	-	876,135	4,414
Supplies	-	-	-	21	-	2,865
Other services and charges	-	-	-	3,135	-	219,811
Debt service - principal and interest	75,022	83,281	-	-	-	-
Capital outlay	-	-	100,768	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	351,976	3,600
<b>Total disbursements</b>	<b>75,022</b>	<b>83,281</b>	<b>100,768</b>	<b>3,156</b>	<b>1,228,111</b>	<b>230,690</b>
Excess (deficiency) of receipts over disbursements	(34,203)	(37,311)	(100,768)	255	(63)	(12,966)
Cash and investments - ending	\$ -	\$ 13,491	\$ 200,704	\$ 583	\$ 4,598	\$ 2,843

CITY OF KNOX  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Sewer Operating	Sewer Debt Service Reserve	Sewer Deposit	Sewer Improvement	Sewer Bond & Interest	Water Operating
Cash and investments - beginning	\$ 160,108	\$ 281,102	\$ 36,368	\$ 88,056	\$ 122	\$ 22,862
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	429,729	40,620	14,143	9,480	283,395	339,150
Other receipts	-	-	-	-	-	27,006
Total receipts	<u>429,729</u>	<u>40,620</u>	<u>14,143</u>	<u>9,480</u>	<u>283,395</u>	<u>366,156</u>
Disbursements:						
Personal services	198,275	-	-	-	-	163,971
Supplies	-	-	-	-	-	-
Other services and charges	24,000	-	-	-	-	7,000
Debt service - principal and interest	-	-	-	-	199,295	-
Capital outlay	3,534	-	-	-	-	-
Utility operating expenses	228,942	-	-	27,301	-	137,565
Other disbursements	41,215	-	16,559	-	440	34,945
Total disbursements	<u>495,966</u>	<u>-</u>	<u>16,559</u>	<u>27,301</u>	<u>199,735</u>	<u>343,481</u>
Excess (deficiency) of receipts over disbursements	<u>(66,237)</u>	<u>40,620</u>	<u>(2,416)</u>	<u>(17,821)</u>	<u>83,660</u>	<u>22,675</u>
Cash and investments - ending	<u>\$ 93,871</u>	<u>\$ 321,722</u>	<u>\$ 33,952</u>	<u>\$ 70,235</u>	<u>\$ 83,782</u>	<u>\$ 45,537</u>

CITY OF KNOX  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Water Bond & Interest	Water Improvement	Water Deposit	Water Debt Service Reserve	Stormwater	Totals
Cash and investments - beginning	\$ 108,110	\$ 115,936	\$ 90,919	\$ 166,265	\$ -	\$ 3,699,589
Receipts:						
Taxes	-	-	-	-	-	1,368,599
Licenses and permits	-	-	-	-	-	26,823
Intergovernmental	-	-	-	-	-	834,981
Charges for services	-	-	-	-	-	357,442
Fines and forfeits	-	-	-	-	-	692,466
Utility fees	164,582	1,580	-	-	22,760	1,305,439
Other receipts	-	-	16,540	-	-	1,987,500
Total receipts	<u>164,582</u>	<u>1,580</u>	<u>16,540</u>	<u>-</u>	<u>22,760</u>	<u>6,573,250</u>
Disbursements:						
Personal services	-	-	-	-	-	2,376,613
Supplies	-	-	-	-	-	153,366
Other services and charges	-	-	-	-	-	828,765
Debt service - principal and interest	232,415	-	-	-	-	617,554
Capital outlay	-	-	-	-	-	916,224
Utility operating expenses	-	4,750	-	-	8,104	406,662
Other disbursements	350	-	11,875	-	-	1,017,897
Total disbursements	<u>232,765</u>	<u>4,750</u>	<u>11,875</u>	<u>-</u>	<u>8,104</u>	<u>6,317,081</u>
Excess (deficiency) of receipts over disbursements	<u>(68,183)</u>	<u>(3,170)</u>	<u>4,665</u>	<u>-</u>	<u>14,656</u>	<u>256,169</u>
Cash and investments - ending	<u>\$ 39,927</u>	<u>\$ 112,766</u>	<u>\$ 95,584</u>	<u>\$ 166,265</u>	<u>\$ 14,656</u>	<u>\$ 3,955,758</u>

CITY OF KNOX  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2013

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Solid Waste	\$ 17,780	\$ 20,726
Wastewater	16,235	76,933
Water	12,463	52,010
Governmental activities	181,158	-
Stormwater	-	4,240
Totals	<u>\$ 227,636</u>	<u>\$ 153,909</u>

CITY OF KNOX  
SCHEDULE OF LEASES AND DEBT  
December 31, 2013

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities: First National Bank of Monterey	Community Center Payment	\$ 83,000	7/15/1997	1/15/2019

Description of Debt	Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities: General obligation bonds	Fire Truck	\$ 315,000	\$ 86,185
Wastewater: Revenue bonds	Wastewater Improvements	2,977,139	196,045
Water: Revenue bonds	Waterworks Improvements	1,020,000	93,850
Revenue bonds	Waterworks Improvements	838,998	69,190
Total Water		1,858,998	163,040
Totals		\$ 5,151,137	\$ 445,270

CITY OF KNOX  
SCHEDULE OF CAPITAL ASSETS  
December 31, 2013

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.

	<u>Ending Balance</u>
Governmental activities:	
Land	\$ 319,073
Infrastructure	1,620,589
Buildings	4,504,974
Improvements other than buildings	475,411
Machinery, equipment, and vehicles	<u>2,916,525</u>
Total governmental activities	<u>9,836,572</u>
Wastewater:	
Land	9,540
Infrastructure	4,646,551
Buildings	3,929,211
Improvements other than buildings	5,932,528
Machinery, equipment, and vehicles	<u>1,282,259</u>
Total Wastewater	<u>15,800,089</u>
Water:	
Land	21,331
Infrastructure	16,031,332
Buildings	421,087
Improvements other than buildings	2,593,560
Machinery, equipment, and vehicles	<u>163,482</u>
Total Water	<u>19,230,792</u>
Total capital assets	<u>\$ 44,867,453</u>

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

***Report on Compliance for the 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, 2013. 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 the 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, 2013.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 the 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 types of requirements that could 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.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-003 to be material weaknesses.

The City's response to the internal control over compliance findings 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 compliance and, accordingly, we express no opinion on the response.

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.

  
Paul D. Joyce, CPA  
State Examiner

September 16, 2014

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

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, 2013

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>Department of Agriculture</u>				
Community Facilities Loans and Grants Cluster				
Community Facilities Loans and Grants	Direct Grant			
Patrol Car Grant		10.766	10-766	\$ 24,900
<u>Department of Housing and Urban Development</u>				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and	Indiana Office of Community & Rural Affairs			
Non-Entitlement Grants in Hawaii				
Main St Demolition		14.228	A19213DR209239	52,990
Cada Grant			B12DC180001CF11209	424,620
Total - Department of Housing and Urban Development				477,610
Total federal awards expended				\$ 502,510

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 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?	yes
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?	yes

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
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**Section II - Financial Statement Findings**

**FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

We noted deficiencies in the City's internal control system related to the Schedule of Expenditures of Federal Awards (SEFA) which we believe constitute material weaknesses. Effective internal control over reporting of federal expenditures on 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 Clerk-Treasurer independently prepared the SEFA without oversight, review, or approval. 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)

The SEFA presented for audit contained several errors including incorrect CFDA numbers, incorrect federal program titles, and incorrect pass-through agencies. One program was incorrectly reported as a pass-through grant when it was a direct grant. Also, the amount of expenditures reported was incorrect for two of the three programs. The SEFA was overstated by \$48,718, which is 10 percent of the total SEFA expenditures. 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)

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 in part:

"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 award 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."

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

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE  
OVER FINANCIAL TRANSACTIONS - CITY COURT***

The City Court has not established internal controls to ensure that deposits are made no later than the next business day as required by Indiana statute. We noted several instances of daily receipts not deposited until several days later. For the days reviewed, deposits were made between one and eight business days after the receipt date.

The December 31, 2013 reconciliation of the Court Cash Book to the depository balance included two deposit amounts dated several months earlier. Receipts of \$6,041 originally dated July 30, 2013, were not deposited until June 18, 2014, nearly a year later. The City Court Clerk explained that the deposit was misplaced in her office and was deposited when discovered. Receipts of \$2,683, originally dated April 22, 2013, were also misplaced in her office. Only the check and money order portion of the receipts, \$1,784, was found August 17, 2014, and deposited August 19, 2014. The cash portion of the deposit, \$899, was paid by the City Court Clerk and deposited on August 29, 2014. Money orders totaling \$383.50 were rejected by the issuer because they were stale-dated. The City Court Clerk is working with the money order business to get replacement funding.

The failure to establish adequate internal controls over the deposit process could enable material misstatements or irregularities to remain undetected. Failure to deposit public funds later than the next business day is also a violation of Indiana statutes.

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 City and Town Courts, Chapter 4)

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."



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

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2013-003 - INTERNAL CONTROLS OVER THE COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII**

Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii  
CFDA Number: 14.228  
Federal Award Numbers: A19213DR209239, B12DC180001CF11209  
Pass-Through Entity: Indiana Office of Community & Rural Affairs

Management of the City hired a Grant Administrator to ensure compliance with requirements of the Community Development Block Grants/State's Programs and Non-Entitlement Grants in Hawaii program, including the Davis-Bacon Act compliance requirements. They have not established an effective internal control system to monitor the Grant Administrator's Davis-Bacon Act procedures. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements and could also allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements noted above that have a direct and material effect on the program.

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AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



## CORRECTIVE ACTION PLAN

### **FINDING 2013-001** Internal Controls over Schedule of Expenditures of Federal Awards (SEFA)

Contact person responsible for corrective action: Jeffery J. Houston  
Contact phone number (574-772-3032)

### DESCRIPTION OF CORRECTIVE ACTION PLAN

#### **RE: PREPARING THE SEFA**

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

#### **CITYS RESPONSE**

Within the Clerk-Treasurers office it is the responsibility of the Deputy Clerk-Treasurer to complete the Annual Report and SEFA report. Greater care will be taken in reporting the CFDA number, the Federal Grant title, pass through agency and expenditures.

In order to establish a system of checks and balances within the Clerk-Treasurers office, the Clerk-Treasurer will participate in compiling these reports and will verify the accuracy of the data.

This change in internal control structure will insure that federal compliance requirements have been met that have a direct and material effect on the program.

Anticipated completion date: The completion date of this finding is March 1st 2015 as this is when the 2014 annual report and SEFA are to be completed.

Jeffery J. Houston  
Clerk-Treasurer  
City of Knox  
August 11, 2014



**KNOX CITY COURT**  
101 WEST WASHINGTON STREET  
KNOX, INDIANA 46534

CHARLES F. HASNERL – JUDGE  
ANGELA K. JESUIT – CLERK  
REBECCA CZARNECKI – BAILIFF

PHONE: 574-772-3766  
FAX: 574-772-7224

September 10, 2014

**Corrective Action Plan**

Contact Person: Angela Jesuit (Clerk)

**Section II – Financial Statement Findings**

**FINDING 2013-002 – INTERNAL CONTROLS AND COMPLIANCE OVER  
FINANCIAL TRANSACTIONS – CITY COURT**

New Internal controls –

The following issues have been addressed:

1. Deposits need to be made no later than the next business day.
2. Funds need to be kept in a secure location while waiting for deposit.
3. Training and distribution of responsibility in the event that the Clerk is absent.

Changes that have been made:

1. During a normal business day, all members of the court staff are responsible for receipting incoming funds. The money box has been relocated so that it is generally in view of a court staff member at all times. At the close of a business day; funds are counted by the Clerk, the till (Odyssey) is reconciled, and the deposit slip is prepared for deposit the following morning. The \$100 cash that is kept in the cash box is counted at that time and all of those funds are placed into the bank bag and locked in a desk drawer in the inner office.
2. There have been new locks added so that the inner office can also be locked to prevent persons other than court staff members from entering the area where the



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money is secured. There are copies of all of these keys located in the key box in the City Clerk-Treasurers office.

3. In the event that the Court Clerk is unavailable to remove, secure, and facilitate the deposit; the responsibility falls to the office assistant. The necessary training has been completed to ensure that this process can happen without fail.

Note: In the event that a deposit cannot be made the next business day, notations will be made to the deposit slip to explain.

Examples : Power failure that prevents reconciliation or holidays.



## CORRECTIVE ACTION PLAN

**FINDING 2013-003** Internal controls over compliance requirements that have a direct and significant effect to the Community Development Block Grants, State Program and Non-Entitlement Grants in Hawaii.

Contact person for corrective action: Jeffery J. Houston  
Contact phone number: (574-772-3032)

### Description of Corrective Action Plan:

#### **RE: DAVIS BACON COMPLIANCE**

The City has not established an effective internal control system to monitor the Grant Administrator's Davis Bacon Act procedures.

#### **CITY'S RESPONSE**

In order to establish an effective monitoring process the Clerk-Treasurer's office will request payroll verification through KIRPC to monitor that proper wage rates are being followed. The payroll verifications will be randomly requested by KIRPC and will be documented. As another level of control and in order to establish a set of checks and balances within the Clerk-Treasurer's office, the Clerk-Treasurer and the Deputy Clerk-Treasurer will also review the same payroll records and verify that they are in compliance with grant requirements.

Anticipated completion Date: This plan has been established as a standard operating procedure as of August 11, 2014 and will continue on an ongoing basis with further grants.

Jeffery J. Houston  
Clerk-Treasurer  
City of Knox  
August 11, 2014

#### OTHER REPORT

In addition to this report, a Supplemental Compliance Report and a Special Investigation Report of the Court Clerk have been issued for the City. These reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.