

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

EXAMINATION REPORT  
OF  
CITY OF KENDALLVILLE  
NOBLE COUNTY, INDIANA  
January 1, 2007 to December 31, 2007



**FILED**  
12/30/2008



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marsha Kiersey Sheryl Hanes	01-01-04 to 12-31-07 01-01-08 to 12-31-11
Mayor	W. Suzanne Handshoe	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	John Riemke	01-01-07 to 12-31-08
President of the Common Council	Larry Blue James Dazey	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Superintendent of Water Utility	Scott Mosley	01-01-07 to 12-31-08
Superintendent of Wastewater Utility	Richard McGee	01-01-07 to 12-31-08



**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](http://www.in.gov/sboa)

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial information presented herein of the City of Kendallville (City), for the period of January 1, 2007 to December 31, 2007. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

December 2, 2008

CITY OF KENDALLVILLE  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
As Of And For The Year Ended December 31, 2007

	Cash and Investments		Cash and Investments	
	01-01-07	Receipts	Disbursements	12-31-07
Governmental Funds:				
General	\$ 1,245,751	\$ 3,986,717	\$ 4,405,786	\$ 826,682
Motor Vehicle Highway	404,631	676,362	1,084,456	(3,463)
Local Road and Street	116,627	48,645	103,157	62,115
Park and Recreation	82,046	446,497	512,211	16,332
Special Park - Beyer	1,658	22	1,016	664
Special Park - Wayne	3	-	-	3
Special Park - Donation	5,284	7,286	3,078	9,492
Special Park - Cole	3,781	4,185	3,815	4,151
Special Park - Nature Center	1,704	53	194	1,563
Special Park - Programs	5,107	7,657	8,893	3,871
Special Park - Festival	84,447	94,910	95,174	84,183
Redevelopment Community TIF District East Side	111,356	446,168	143,825	413,699
Capital Improvement	5,748	745,723	745,520	5,951
Law Enforcement Continuing Education	17,968	15,212	11,237	21,943
Rainy Day	-	167,084	166,626	458
Cumulative Capital Improvement	58,350	34,781	53,488	39,643
County Economic Development Income Tax	617	21	-	638
Economic Development Steering Committee	10,611	3,764	5,321	9,054
Redevelopment Commission Donation	14,590	493	-	15,083
Redevelopment Commission TIF	156,385	39,608	26,831	169,162
Economic Improvement District	45,472	1,779	12,434	34,817
CDBG Miscellaneous Income	104,244	296,020	-	400,264
Cemetery Operating	136,762	133,813	161,913	108,662
Cemetery Contingency	8,912	301	-	9,213
Cemetery Chapel	1,686	57	-	1,743
Aviation Commission	100,534	56,961	77,458	80,037
Aviation Construction	7,446	251	-	7,697
Storm Sewer	85,539	18,616	70,119	34,036
General Improvement	204,947	14,390	4,898	214,439
Street Lighting	5,363	181	-	5,544
Firefighting	118,778	19,259	14,579	123,458
Arson Prevention	25	1	-	26
Special Siren	9,074	870	-	9,944
FEMA Grant Fire Department	3,306	23	3,318	11
Hazardous Materials Trailer	17,179	1,068	4,653	13,594
Police Public Awareness	306	10	-	316
Police Reserve	4,696	4,397	1,642	7,451
Police K-9	1,197	23	1,002	218
Fourth of July Festival	24,960	9,693	11,467	23,186
Sports Complex	122,929	91,715	126,330	88,314
City Beautification	5,672	952	573	6,051
Kid City Project	8,946	13,659	15,135	7,470
Grant Proceeds	94,995	155,117	151,726	98,386
Bond and Interest	-	179,950	205,844	(25,894)
Proprietary Funds:				
Water Utility - Operating	833,030	1,861,767	1,549,194	1,145,603
Water Utility - Bond and Interest	33,828	283,635	73,063	244,400
Water Utility - Improvement	1,202,196	74,391	779,990	496,597
Water Utility - Debt Service Reserve	98,051	58,226	-	156,277
Water Utility - Capital Improvement	-	6,078,916	4,225,200	1,853,716
Wastewater Utility - Operating	1,397,028	1,546,710	1,749,114	1,194,624
Wastewater Utility - Bond and Interest	375	318,656	315,783	3,248
Wastewater Utility - Improvement	2,596,568	209,905	2,749,137	57,336
Wastewater Utility - Debt Service Reserve	41,916	66,465	-	108,381
Wastewater Utility - Capital Improvement	-	2,540,139	1,635,503	904,636
Employment Security	50,862	1,482	9,628	42,716
Health/Vision Insurance	112,428	737,856	785,521	64,763
Health/Vision Reinsure Reimbursement	-	116,198	140,543	(24,345)
Fiduciary Funds:				
Police Officers' Pension	55,584	117,648	137,819	35,413
Firefighters' Pension	74,401	12,290	24,443	62,248
Cemetery Endowment	87,972	8,207	-	96,179
Payroll	172	1,254,520	1,214,168	40,524
Totals	\$ 10,024,043	\$ 23,011,305	\$ 23,622,825	\$ 9,412,523

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

CITY OF KENDALLVILLE  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, general administrative services, water, wastewater, and urban redevelopment and housing.

Note 2. Fund Accounting

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

Note 3. Budgets

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

Note 4. Property Taxes

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

Note 5. Deposits and Investments

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

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

CITY OF KENDALLVILLE  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

Note 7. Subsequent Events

On March 25, 2008, the City awarded a contract to construct a new water tower on Drake Road to Phoenix Fabricators and Erectors for \$694,033.

On June 17, 2008, the City obtained a loan to purchase a new fire truck for \$198,528.

On July 15, 2008, the City issued \$2,500,000 in Redevelopment District Tax Increment Revenue Bonds Series 2008. The bond proceeds were used to repay the 2006 Redevelopment Commission Tax Incremental Financing (TIF) bond anticipation notes (BAN) outstanding and to finance improvements.

On November 11, 2008, the City awarded a contract for phase two of the Wastewater Utility improvement project to W.G. Brudney for \$822,217.

CITY OF KENDALLVILLE  
NOTES TO FINANCIAL INFORMATION  
(Continued)

On November 19, 2008, the City received a line of credit for \$1,500,000 to assist in financing construction of an economic development infrastructure project, the Kendallville Eastside Industrial Park Expansion. On September 16, 2008, a contract for phase two of this project was awarded to Kurtz Excavating, Inc. for \$1,144,174. On September 12, 2008, the City was awarded a reimbursement grant from the Indiana Department of Commerce for \$925,337 regarding this project.

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

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
<b>Governmental Activities:</b>		
Capital leases:		
2007 GMAC police car lease	\$ 19,376	\$ 10,814
2007 Ford police car lease	55,233	30,168
2007 Ford truck / plow lease (description of asset leased)	24,210	9,323
Notes and loans payable:		
2004 Airport hangar note	191,161	28,649
2006B Redevelopment Commission TIF BAN	1,431,366	1,492,288
Bonds payable:		
General obligation bonds:		
1998 General obligation bonds	<u>530,000</u>	<u>208,188</u>
<b>Total governmental activities debt</b>	<b><u>\$ 2,251,346</u></b>	<b><u>\$ 1,779,430</u></b>
<b>Business-type Activities:</b>		
Water Utility		
Revenue bonds:		
1998 Water improvement revenue bonds	\$ 15,000	\$ 15,344
2007 Water improvement revenue bonds	<u>6,000,000</u>	<u>443,379</u>
<b>Total Water Utility</b>	<b><u>6,015,000</u></b>	<b><u>458,723</u></b>
Wastewater Utility		
Revenue bonds:		
2006 Wastewater improvement revenue bonds	<u>3,895,000</u>	<u>249,820</u>
<b>Total business-type activities debt:</b>	<b><u>\$ 9,910,000</u></b>	<b><u>\$ 708,543</u></b>

CITY OF KENDALLVILLE  
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS - CONVERSION TO KEYSTONE SOFTWARE FROM KOMPUTROL

In October 2007, the City started using Keystone Payroll Software Module to process their payroll transactions. The City has not converted to the Keystone General Ledger Module and they are still using Komputrol software for their General Ledger Processing. Because of this issue, they had to continue processing payroll in Komputrol as well as in Keystone in order to get the General Ledger posted for the payroll transactions. This caused the following issues:

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

In September 2007, the City started to implement the Keystone Software Budget Module. The claims started being prepared at that time using Keystone software, and are being posted to both Keystone and Komputrol during the transition, which is still in process as of September 30, 2008. The claims being prepared in Keystone use Keystone account numbers, while the City is still using Komputrol as their official software and Funds Ledger until the full transition is complete. The Keystone account numbers are not the same as the Komputrol account numbers, creating the need for a cross-walk between the Keystone claims and the Komputrol ledger. The Komputrol account numbers are not listed anywhere on the claims. The Komputrol vendor number is listed on the Keystone claims. We used these Komputrol vendor numbers and a Komputrol printout entitled Vendor History Report BD050 to discover where the Keystone Claims were posted in the Komputrol ledger which is the official ledger for 2007 and 2008, to date. The Komputrol account numbers should have been included on the Keystone claims during the transition. Not having the Komputrol account numbers listed on the physical claims for payment constitutes a break in the audit trail. We were able to compensate for this break using the method described above, but it added considerable time to the time necessary to complete our examination.

We recommend that the full transition to Keystone be expedited so that these breaks in the audit trails and the additional time necessary to examine these records will be eliminated.

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

BANK ACCOUNT RECONCILIATIONS

The fund balances did not reconcile to the bank account balances at December 31, 2007. The unit has had problems reconciling since April 2004. This has been reported in prior Reports B31167, B25494, and B28733.

CITY OF KENDALLVILLE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

We found numerous issues which caused the above situation:

- Bank and book transfers were not always posted correctly and these errors were not identified and corrected.
- Investments transactions were not always posted correctly and these errors were not identified and corrected.
- Timing issues between the bank and the books were not always identified in the reconciling process.
- Bank and book differences were not always identified and corrected in the reconciling process.

Per our recommendations, corrections were made to the funds ledger in February 2007 to bring the City's records into balance for January 31, 2007. The City also implemented new reconciling procedures and consolidated eight bank accounts into two bank accounts per our recommendations.

Corrections were made to the September 2007 reconciliation and to the funds ledger in October 2007 to again bring the City's records into balance for September 30, 2007. We reviewed reconciling procedures with the City.

Corrections were made in February 2008 to bring the City's records into balance for October 2007 to January 2008. We reviewed reconciling procedures with the new Clerk-Treasurer. Since these latest corrections were made, the unit has properly reconciled.

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

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

All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

#### NEGATIVE CASH BALANCES

At December 31, 2007, there were three negative cash balances. The Motor Vehicle Highway Fund had a balance of \$(3,463), the Bond and Interest Fund had a balance of \$(25,894), and the Health/Vision Reinsure Reimbursement Fund had a balance of \$(24,345).

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

CITY OF KENDALLVILLE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CAPITAL ASSETS

Capital Asset records for 2007 were not complete. Assets additions and deletions for 2007 were not posted until the end of the examination. The Clerk-Treasurer was not able to complete the Construction in Progress (CIP) category. The unit had significant utility construction projects which were financed by two utility revenue bond issues and a Tax Incremental Finance (TIF) bond anticipation note in 2007. CIP represents a material portion of the capital asset records. Therefore, without CIP the capital assets are not fairly stated. In addition to the asset records being incomplete, considerable time was spent reconciling capital asset beginning balances to the prior year ending balances. The prior year assets records were on Access database system and changes were made to the records without being identified. Per our suggestion during the examination, the records were converted to Excel spreadsheets, whereby assets could be easily organized and totaled, providing changes made to be easily identified and reconciled.

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

PENALTIES, INTEREST, AND OTHER CHARGES

The December 2007 State payroll taxes, due by January 20, 2008, were not paid until January 22, 2008, resulting in a penalty and interest charge to the City. Penalties and interest totaling \$1,242.80 were paid to the Indiana Department of Revenue on April 1, 2008, for the period of December 2007.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FEDERAL AGENCIES - COMPLIANCE REQUIREMENTS

The wages and taxes reported on the Federal Form 941, Employer's Quarterly Federal Tax Return, did not reconcile to the wages and taxes reported on the Federal Form W-3, Transmittal of Wage and Tax Statements, for 2007. Neither the Federal Form 941's nor the Federal Form W-3 reconciled to the Payroll Printout PR 610Y Employee Trial Balance.

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

CITY OF KENDALLVILLE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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

PUBLIC RECORDS RETENTION

The unsuccessful and successful bids for the purchase of a \$424,430 fire pumper were not presented for examination.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

Funds	Years	Excess Amount Expended
Local Road and Street	2007	\$ 757
Storm Sewer	2007	10,435

In total, the General Fund did not exceed its appropriations in 2007, but there were several payments made from unappropriated accounts that should have been paid through appropriated accounts. These payments were reimbursements that totaled \$260,000. Very few expenses actually qualify as unappropriated, and this needs to be watched more closely.

Indiana Code 6-1.1-18-4 states in part:

". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

DISBURSEMENTS

Travel is being paid via credit cards and it was noted that several payments lacked detailed invoices for all hotel bills and food purchases.

CITY OF KENDALLVILLE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

There were some expenses not being paid out of the proper funds and accounts. The City of Kendallville passed a Home Rule Ordinance 666, on May 4, 1982, (see City Code Section 2-337) for the purpose of promotion of business (a specific account in the General Fund). The following types of expenses should be paid out of the City General Fund 101-1.00-334.00 as "promotion of city expenses":

1. Food and beverages purchased for City employees not on travel status.
2. Payment for attendance at a Chamber of Commerce Golf Outing for two employees.

Care should be taken that no interest, carrying charges, or penalties are incurred due to late payments. All claims filed in connection with use of the credit cards must be itemized as provided in IC 5-11-10 before being approved and paid. If the claims are not itemized or properly documented, they should be returned to the employee user for correction. If any interest or penalty is incurred due to late filing or the furnishing of documentation by an employee, the employee should be held responsible for paying the interest or penalty charges. It goes without saying, all costs incurred and charged with the credit cards must be business related and not personal in nature. We feel a reasonable "tip" or gratuity is allowable where service has been provided. Such items as cleaning, pressing, laundry, personal telephone calls, etc., are personal and should not be paid from public funds. (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2000)

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

IC 36-7-2-7 allows cities and towns to promote economic development and tourism. Such statute replaced a prior law which authorized cities and towns to budget and appropriate funds from the General fund to pay the expense of, or to reimburse city or town officials as the case may be, for expenses incurred in promoting the best interest of the city or town. Accordingly, a Home Rule ordinance needs to be adopted in accordance with IC 36-1-3 in order to enable a city or town to pay for such expenses. Additionally, an appropriation for such expenses must also be obtained. (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2000)

CITY OF KENDALLVILLE  
EXIT CONFERENCE

The contents of this report were discussed on December 2, 2008, with W. Suzanne Handshoe, Mayor; and Sheryl Hanes, Clerk-Treasurer. The officials concurred with our findings.