

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

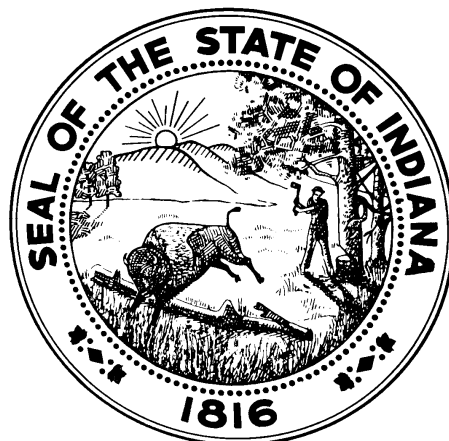
EXAMINATION REPORT

OF

CITY OF KNOX

STARKE COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED
09/18/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jeffery J. Houston	01-01-08 to 12-31-11
Mayor	Rick Chambers	01-01-08 to 12-31-11
President of the City Council	Linda Berndt	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial information presented herein of the City of Knox (City), for the period of January 1, 2008 to December 31, 2008. 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, 2008, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

August 12, 2009

CITY OF KNOX
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, 2008

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
General	\$ 750,928	\$ 1,248,590	\$ 1,272,907	\$ 726,611
Motor Vehicle Highway	122,704	322,240	328,914	116,030
Local Road and Street	32,020	18,373	18,720	31,673
Park and Recreation	76,587	86,902	74,035	89,454
Law Enforcement Continuing Education	635	2,892	2,865	662
Riverboat	38,139	23,341	9,200	52,280
County Economic Development Income Tax	488,697	400,236	56,371	832,562
Girl Scout Cabin Maintenance	581	3,200	2,509	1,272
Community Center Operation and Maintenance	4,349	51,499	52,509	3,339
Solid Waste Removal	(120)	139,024	133,569	5,335
Knox Economic Development Commission	106,665	4,740	67,481	43,924
Knox Redevelopment Commission	1,194	-	-	1,194
Police Equipment	1,928	95	-	2,023
Gateway Depot Operation and Maintenance	1,814	5,600	7,336	78
City Judge Pre-Trial Diversion	162	21,954	16,542	5,574
Clerk's Record Perpetuation	2,341	5,934	-	8,275
Lease Rental Payment	66,663	73,326	137,000	2,989
Fire Lease Payment	41,417	97,032	100,435	38,014
Cumulative Capital Improvement	14,741	12,100	5,970	20,871
Cumulative Capital Development	167,569	37,281	34,125	170,725
Cumulative Fire Fighting Equipment	65,985	24,945	-	90,930
Cumulative Sewer Treatment	126,801	54,823	36,325	145,299
Indiana Industrial Development Grant	119,450	-	119,450	-
Community Development Block Grant	22,670	-	22,670	-
Levy Excess	110,793	-	110,793	-
Rainy Day	-	32,159	-	32,159
TIF District	-	6,128	-	6,128
Proprietary Funds:				
Water Utility - Operating	53,358	308,371	289,563	72,166
Water Utility - Bond and Interest	26,719	234,146	162,765	98,100
Water Utility - Debt Service Reserve	99,467	-	-	99,467
Water Utility - Customer Deposit	75,881	14,214	10,339	79,756
Water Utility - Improvement	16,249	91,191	-	107,440
Water Utility - Plant Improvement Grant	119,904	-	119,904	-
Wastewater Utility - Operating	68,725	353,064	363,581	58,208
Wastewater Utility - Bond and Interest	15,513	195,551	157,594	53,470
Wastewater Utility - Debt Service Reserve	145,002	-	-	145,002
Wastewater Utility - Customer Deposit	28,763	12,435	10,858	30,340
Wastewater Utility - Improvement	122,248	-	-	122,248
Wastewater Utility - Planning Grant	-	15,840	15,840	-
Fiduciary Funds:				
City Court	373,081	858,231	981,006	250,306
Police Officers' Pension	52,191	31,978	51,795	32,374
Users Fees	45,321	170,818	148,302	67,837
Payroll	13,403	1,059,530	1,058,933	14,000
Totals	\$ 3,620,538	\$ 6,017,783	\$ 5,980,206	\$ 3,658,115

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

CITY OF KNOX
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, health and social services, culture and recreation, and general administrative services.

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.

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 KNOX
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 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% 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 Event

The City of Knox was awarded a \$600,000 Community Development Block Grant on July 13, 2009, from the Indiana Office of Community & Rural Affairs to be used for Wastewater Treatment Facilities. The City intends to finance a share of the project with an additional \$600,000 bond issue. Work is planned to begin in the fall of 2009.

CITY OF KNOX
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2008

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 213,475
Infrastructure	1,465,919
Buildings	4,507,624
Improvements other than buildings	355,443
Machinery and equipment	<u>2,075,856</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 8,618,317</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 27,177
Buildings	421,087
Improvements other than buildings	16,480,901
Machinery and equipment	<u>134,459</u>
Total Water Utility capital assets	<u>17,063,624</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	700
Buildings	3,915,511
Improvements other than buildings	9,618,819
Machinery and equipment	<u>6,484,647</u>
Total Wastewater Utility capital assets	<u>20,019,677</u>
Total business-type activities capital assets	<u>\$ 37,083,301</u>

CITY OF KNOX
 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
Governmental activities:		
Capital leases:		
Knox Community Center	\$ 730,000	\$ 18,895
Fire Truck Loan	<u>133,646</u>	<u>70,150</u>
Total governmental activities debt	<u>\$ 863,646</u>	<u>\$ 89,045</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
1988 Water	\$ 1,172,000	\$ 93,600
2006 Water	<u>840,000</u>	<u>71,840</u>
Total Water Utility	<u>2,012,000</u>	<u>165,440</u>
Wastewater Utility:		
Revenue bonds:		
FMHA Loan	<u>1,654,000</u>	<u>125,750</u>
Total business-type activities debt	<u>\$ 3,666,000</u>	<u>\$ 291,190</u>

CITY OF KNOX
EXAMINATION RESULTS AND COMMENTS

PRIVATE SPRINKLER SYSTEM RENTAL

The Water Utility private sprinkler system rental charges for the year 2008 were \$2,763.20 less than provided for in Rate Ordinance 1055 passed by the Council on February 14, 2006.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (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:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Lease Rental	2008	\$ 45,000
Motor Vehicle Highway	2008	7,656

IC 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."

EMPLOYEE TIME RECORDS

The City of Knox Employee Handbook requires the use of a time clock for all hourly employees. Section 3.1 of this handbook requires these employees to clock out during lunch breaks and clock back in upon their return to work. Of the 15 employees tested, 2 employees did not use the time clock as required by the handbook.

A similar comment was issued in prior Report B32542.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF KNOX
EXIT CONFERENCE

The contents of this report were discussed on August 12, 2009, with Jeffery J. Houston, Clerk-Treasurer; Rick Chambers, Mayor; and Linda Berndt, President of the City Council. The officials concurred with our findings.