

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

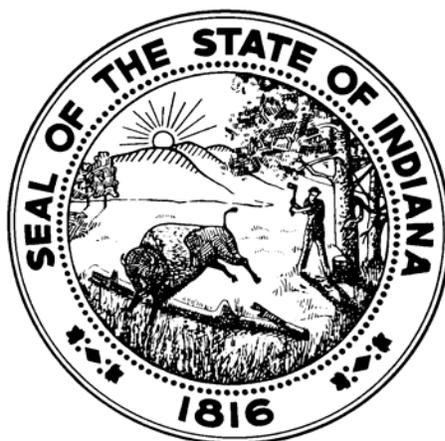
EXAMINATION REPORT

OF

CITY OF OAKLAND CITY

GIBSON COUNTY, INDIANA

January 1, 2006 to December 31, 2006



**FILED**

08/01/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Judy Cochrane	01-01-04 to 12-31-06
	Vacant	01-01-07 to 01-30-07
	Ruth E. Wirth	01-31-07 to 12-31-07
Mayor	Hugh Wirth	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Hugh Wirth	01-01-04 to 12-31-07
President of the Common Council	Charlotte Richeson	01-01-06 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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 OAKLAND CITY, GIBSON COUNTY, INDIANA

We have examined the financial information presented herein of the City of Oakland City (City), for the period of January 1, 2006 to December 31, 2006. 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, 2006, 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

June 25, 2007

CITY OF OAKLAND CITY  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 14,775	\$ 452,063	\$ 465,480	\$ 1,358
Motor Vehicle Highway	2,764	112,930	73,599	42,095
Local Road and Street	43,547	11,336	1,413	53,470
Park and Recreation	4,667	29,856	25,378	9,145
Law Enforcement Continuing Education	1,483	1,301	2,854	(70)
Riverboat	24,793	16,286	3,958	37,121
Rainy Day	6,620	-	1,904	4,716
Donation	26,414	496,773	28,277	494,910
Economic Development Income Tax	35,922	112,394	71,106	77,210
Economic Development Commission	5,859	-	60	5,799
Wirth Park	11,233	5,742	8,718	8,257
Cinergy	3,369	4,514	2,033	5,850
Micro Enterprise	111	-	73	38
FEMA Grants	1,592	-	1,588	4
Skate Park	-	10,000	10,000	-
Debt Service	4,888	15,916	17,489	3,315
Cumulative Capital Improvement	16,475	9,246	15,000	10,721
Cumulative Capital Development	24,906	8,213	13,575	19,544
Proprietary Funds:				
Water Utility - Operating	25,264	688,351	674,374	39,241
Water Utility - Bond and Interest	43,934	84,664	79,651	48,947
Water Utility - Depreciation	680	-	-	680
Water Utility - Customer Deposit	41,420	6,940	6,485	41,875
Water Utility - Debt Service Reserve	80,500	-	-	80,500
Wastewater Utility - Operating	(23,203)	521,085	491,921	5,961
Wastewater Utility - Bond and Interest	76,215	116,673	92,401	100,487
Wastewater Utility - Depreciation	71,006	-	-	71,006
Wastewater Utility - Customer Deposit	21,270	9,732	7,308	23,694
Wastewater Utility - Debt Service Reserve	81,500	-	-	81,500
Fiduciary Funds:				
Police Officers' Pension	13,293	4,975	7,909	10,359
Payroll	8,115	630,561	625,485	13,191
Totals	<u>\$ 669,412</u>	<u>\$ 3,349,551</u>	<u>\$ 2,728,039</u>	<u>\$ 1,290,924</u>

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

CITY OF OAKLAND CITY  
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, culture and recreation, planning and zoning, public improvements, general administrative services, water, wastewater, and urban redevelopment.

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 OAKLAND CITY  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plans

a. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

1. 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.

2. 1925 Police Officers' Pension Plan

Plan Description

The primary government contributes to the 1925 Police Officers' Pension Plan, which 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 and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

CITY OF OAKLAND CITY  
NOTES TO FINANCIAL INFORMATION  
(Continued)

The use of the pay-as-you-go actuarial cost method by the primary government results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension
Annual required contribution	\$ 14,623	\$ 500
Interest on net pension obligation	(2,962)	1,600
Adjustment to annual required contribution	3,376	(1,800)
Annual pension cost	15,037	300
Contributions made	14,536	5,329
Increase (decrease) in net pension obligation	501	(5,029)
Net pension obligation, beginning of year	(40,859)	24,131
Net pension obligation, end of year	\$ (40,358)	\$ 19,102

	PERF	1925 Police Officers' Pension
Contribution rates:		
City	5%	N/A
Plan members	3%	N/A
Actuarial valuation date	07-01-06	01-01-06
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	40 years
Amortization period (from date)	07-01-97	12-31-77
Asset valuation method	4 year smoothed market	4 year smoothed market

N/A = Not applicable – no active members

CITY OF OAKLAND CITY  
NOTES TO FINANCIAL INFORMATION  
(Continued)

<u>Actuarial Assumptions</u>	<u>PERF</u>	<u>1925 Police Officers' Pension</u>
Investment rate of return	7.25%	7%
Projected future salary increases:		
Total	5%	5%
Attributed to inflation	4%	4%
Attributed to merit/seniority	1%	1%
Cost-of-living adjustments	2%	0%

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-04	\$ 7,842	173%	\$ (38,127)
	06-30-05	11,943	123%	(40,859)
	06-30-06	15,073	122%	(40,358)
1925 Police Officers' Pension Plan	12-31-03	(1,700)	(339%)	30,588
	12-31-04	(700)	(822%)	24,131
	12-31-05	300	1,776%	19,102

b. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The primary government contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) 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 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF 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 OAKLAND CITY  
NOTES TO FINANCIAL INFORMATION  
(Continued)

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

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the primary government is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the primary government are established by the Board of Trustees of PERF. The primary government's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$21,395, \$26,825, and \$25,736, respectively, equal to the required contributions for each year.

Note 7. Holding Corporation

The City has entered into a capital lease with Oakland City Municipal Facilities Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. Lease payments during the year ended December 31, 2006, totaled \$46,000.

Note 8. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 8 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is paid to employees through cash payments upon termination to a maximum of 15 days.

b. Vacation Leave

Employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

Employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

CITY OF OAKLAND CITY  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 9. Rate Structure – Enterprise Funds

Water Utility

On December 14, 1993, the Common Council adopted Ordinance No. 1993-11 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on May 10, 2005.

Wastewater Utility

The current rate structure was approved by the Common Council on May 10, 2005.

CITY OF OAKLAND CITY  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 For The Year Ended December 31, 2006

The City has entered into the following capital leases and bonds payable:

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Storm sewer improvements	\$ 254,000	\$ 34,000
2005 Chevy Impala police car	7,332	3,551
Bonds payable:		
General obligation bonds:		
2001 Fire Station Bonds	139,819	10,000
Total governmental activities long-term debt	\$ 401,151	\$ 47,551
Business-type Activities:		
Water Utility		
Revenue bonds:		
2002 Water Utility	\$ 910,000	\$ 29,000
Wastewater Utility		
Revenue bonds:		
1996 Wastewater Utility	95,000	95,000
Total business-type activities long-term debt	\$ 1,005,000	\$ 124,000

CITY OF OAKLAND CITY  
EXAMINATION RESULTS AND COMMENTS

RECEIPT ISSUANCE (Applies to the City, Water Utility and Wastewater Utility)

In some instances, receipts were not issued or recorded.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS (Applies to the Water Utility and Wastewater Utility)

In over 70% of the transactions tested, customer deposit receipts were deposited later than the next business day.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

SUPPORTING DOCUMENTATION (Applies to the City, Water Utility and Wastewater Utility)

Several payments were observed which did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, 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)

POLICE DEPARTMENT RECEIPTS AND FEES (Applies to the City)

Receipts and fees collected by the Police Department were remitted to the Clerk-Treasurer less frequently than once a week.

Receipts and fees collected by a police department should be remitted to the clerk-treasurer or city controller at least once each week. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2003)

CUSTOMER DEPOSIT REGISTER (Applies to the Water Utility and Wastewater Utility)

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger.

At all times, the manual and 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)

CITY OF OAKLAND CITY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

APPROPRIATIONS (Applies to the City)

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

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Park and Recreation	2006	<u>\$ 708</u>

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."

OVERPAYMENT COLLECTIONS (Applies to the City)

Overpayments of \$8,233 were made to Hester Blevins Mitchell (deceased) from the Police Pension Fund. The City Attorney is pursuing reimbursement from the surviving spouse. Refunds have not been received as of December 31, 2006.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ACCOUNTABLE ITEMS (Applies to the Water Utility and Wastewater Utility)

Records presented for audit indicated that gallons of water billed totaled 49,632,985 and gallons of water pumped and purchased by the Water Utility totaled 78,528,938, a difference of 28,957,978 gallons of water lost and not billed. The percentage of water lost for the year 2006 is 37%. Calculations indicate that the potential dollar amount of this loss could range from \$109,751 to \$264,097, because the Water Utility bills on a sliding scale based on the amount of water used. This could also result in a potential loss for the Wastewater Utility, because wastewater bills are based on water consumption. This is an increase from the 22% loss shown in prior report. A similar comment was included in the prior report.

Goods for sale, billings, and other collections are considered accountable items. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS (Applies to the City, Water Utility and Wastewater Utility)

The City, the Water Utility, and the Wastewater Utility do not maintain adequate capital asset records. Records providing historical costs for some of City's and the Utilities' capital assets are not available and records classifying and summarizing the Utilities' capital assets are incomplete. Deletions or disposals of capital assets are not recorded. A similar comment was included in the prior report.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. 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)

CITY OF OAKLAND CITY  
EXIT CONFERENCE

The contents of this report were discussed on June 25, 2007, with Ruth E. Wirth, Clerk-Treasurer; Hugh Wirth, Mayor; Charlotte Richeson, President of the Common Council; and Jerry Richardson, Common Council Member. Former Clerk-Treasurer, Judy Cochrane, was unable to attend due to ill health. The officials concurred with our findings.