

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

EXAMINATION REPORT
OF
CITY OF FRANKFORT
CLINTON COUNTY, INDIANA
January 1, 2008 to December 31, 2008



FILED
03/15/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Judith E. Suter	01-01-08 to 12-31-11
Mayor	Chris Pippenger	01-01-08 to 12-31-11
President of the Board of Public Works	Chris Pippenger	01-01-08 to 12-31-09
President of the Common Council	James E. Moyer	01-01-08 to 12-31-09
President of the Utility Service Board	Joe Root Jeffrey Little Victor Unroe	11-01-07 to 10-31-08 11-01-08 to 10-31-09 11-01-09 to 10-31-10
Superintendent of Water Utility	Wesley Hyden	01-01-08 to 12-31-09
Superintendents of Wastewater Utility:	Dennis Shirar Edward Laflen	01-01-08 to 12-31-09 03-03-08 to 12-31-09
Superintendent of Electric Utility	Steve Miller	01-01-08 to 12-31-09
Utility Office Manager	Susan O'Brien	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 FRANKFORT, CLINTON COUNTY, INDIANA

We have examined the financial information presented herein of the City of Frankfort (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

December 15, 2009

CITY OF FRANKFORT
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, 2008

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
General	\$ 224,120	\$ 11,014,047	\$ 10,578,767	\$ 659,400
Motor Vehicle Highway	92,335	758,265	772,454	78,146
Local Road and Street	150,838	58,381	10,400	198,819
Law Enforcement Continuing Education	33,022	15,155	13,311	34,866
Emergency Medical Services	88,515	277,092	296,240	69,367
Hazardous Materials	2,852	1,747	-	4,599
User Fee	108,343	332,400	250,925	189,818
Police Forfeiture	28,186	2,314	4,150	26,350
Special Donation	79,863	40,344	63,487	56,720
Criminal Justice Grant	413	7,929	8,124	218
Flower	185	860	922	123
Petting Zoo Donations	370	1,623	1,401	592
TPA Park Festival	10,465	17,574	12,159	15,880
Softball League	19	2,345	1,987	377
Unsafe Building	12,421	15,415	13,405	14,431
Riverboat	6,615	104,522	6,615	104,522
County Economic Development Income Tax	668,727	247,747	102,382	814,092
Chipper Grant	2,092	-	1,200	892
Rainy Day	171,756	198,934	68,077	302,613
911 Operator	2,339	85,430	56,348	31,421
Levy Excess	121,232	-	121,232	-
Homeland Security Grant	36,015	-	36,015	-
NHC Custodian	-	10,488	10,488	-
City Court	530	45,499	43,893	2,136
Deferral Program	675	2,202	-	2,877
Sidewalks and Curbs	13,788	40,526	50,889	3,425
Cumulative Building and Fire Fighting Equipment	345,718	95,173	25,168	415,723
Cumulative Capital Improvement	241,718	57,255	80,000	218,973
Clerk's Equipment Fund	1,666	880	497	2,049
Chris Pippenger Donation	-	24,491	11,846	12,645
Fire Equipment	-	184,075	184,075	-
Washington Street Project	-	37,843	37,843	-
Grass Liens	12,433	27,137	18,318	21,252
Proprietary Funds:				
Water Utility - Operating	477,811	2,578,196	2,487,506	568,501
Water Utility - Depreciation	682,218	318,735	895,355	105,598
Water Utility - Customer Deposit	15,953	5,940	5,180	16,713
Water Utility - Construction	115,834	35,676	27,622	123,888
Wastewater Utility - Operating	310,129	3,387,223	3,343,083	354,269
Wastewater Utility - Depreciation	224,075	545,582	153,597	616,060
Wastewater Utility - Customer Deposit	40,349	16,055	14,314	42,090
Wastewater Utility - Construction	271,059	146,498	75,091	342,466
Electric Utility - Operating	527,645	26,048,036	25,333,435	1,242,246
Electric Utility - Depreciation	687,763	1,074,690	206,303	1,556,150
Electric Utility - Customer Deposit	185,414	70,346	67,520	188,240
Electric Utility - Construction	2,181,409	257,327	1,154,697	1,284,039
Stormwater Utility - Operating	480,050	804,088	867,786	416,352
Utility Service Board	51,453	1,022,939	1,041,208	33,184
Utility Auditor Operating	5,962	62,964	60,421	8,505
Billing Office Operating	131,324	604,384	596,795	138,913
Utility Credit Card	293,736	722,469	45,277	970,928
Fiduciary Funds:				
Police Officers' Pension	321,423	501,311	496,268	326,466
Firefighters' Pension	239,672	618,602	795,953	62,321
DROP Retainage	-	42,552	-	42,552
Utility Retirement Pension	4,123,023	398,847	147,862	4,374,008
Payroll	93,543	10,271,860	10,323,512	41,891
Municipal Pool Escrow	12,926	76	-	13,002
County Docket Fees	-	3,356	3,356	-
Special Insurance	37,443	13,107	50,550	-
Totals	\$ 13,967,465	\$ 63,258,552	\$ 61,075,309	\$ 16,150,708

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

CITY OF FRANKFORT
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, general administrative services, water, wastewater, electric, and storm water.

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 FRANKFORT
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

Beginning in 2009, the State Pension Relief Fund shall pay to each unit of local government with Pre-1977 Local Police and Fire Fighter Pension obligations, the total amount of pension, disability, and survivor benefit payments. The Pre-1977 funds include the 1925 Police Pension Fund, the 1937 Firefighters' Fund, and the 1953 Police Pension Fund. For property taxes due and payable after December 31, 2008, the Indiana Department of Local Government Finance shall reduce the maximum permissible property tax levy of any civil taxing unit and special service district by the amount of the payment to be made in 2009 by the State for the obligations.

In April 2009, the Frankfort Water Utility issued bond anticipation notes in the amount of \$1,400,000 for the project Water System Improvements. The total estimated cost for the project is \$8,000,000 and is scheduled to be completed in three segments.

CITY OF FRANKFORT
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.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 238,877
Buildings	5,235,995
Improvements other than buildings	301,125
Machinery and equipment	<u>5,485,427</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 11,261,424</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 171,810
Construction in progress	377,854
Capital assets, being depreciated (shown net of depreciation):	
Buildings	145,254
Improvements other than buildings	739,464
Distribution system	3,452,384
Machinery and equipment	124,858
Transportation	<u>152,654</u>
Total Water Utility capital assets	<u>5,164,278</u>

Wastewater Utility:	
Capital assets, not being depreciated:	
Land	217,220
Capital assets, being depreciated (shown net of depreciation):	
Buildings	4,363,765
Improvements other than buildings	63,051
Collection system	7,499,611
Machinery and equipment	617,314
Transportation	<u>136,917</u>
Total Wastewater Utility capital assets	<u>12,897,878</u>

Electric Utility:	
Capital assets, not being depreciated:	
Land	154,093
Capital assets, being depreciated (shown net of depreciation):	
Buildings	3,280,809
Improvements other than buildings	810,996
Distribution	4,550,691
Machinery and equipment	749,689
Transportation	<u>274,266</u>
Total Electric Utility capital assets	<u>9,820,544</u>

Total business-type activities capital assets	<u>\$ 27,882,700</u>
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CITY OF FRANKFORT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2008

The City of Frankfort has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
Surge Tank for TPA Park Pool	\$ 29,757	\$ 16,024
Main Pool Filter for TPA Park Pool	29,077	15,655
Fire Truck (Oshkosh Capital)	715,334	120,285
Garbage Truck Chassis	<u>19,054</u>	<u>20,041</u>
Total governmental activities debt	<u>\$ 793,222</u>	<u>\$ 172,005</u>

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS

DEPOSITS

In numerous instances, receipts were deposited later than the next business day for shelter rental at the Parks Department. Deposits were held as long as 21 days before depositing. Of the 7 deposits reviewed, only 2 were considered timely. The receipts were remitted twice a month to the Clerk-Treasurer for deposit.

IC 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."

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger for each Utility. The detailed register of the Electric Utility was \$46.11 more than the customer deposit control. The detailed registers were \$7 and \$41 less than the customer deposit control amounts for the Water and Wastewater Utilities, respectively.

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)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not completed for most of 2008. A December 31, 2008, reconciliation indicated that the bank balance was \$115.77 less than the combined fund balance.

IC 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."

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)

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

OVERDRAWN FUND BALANCES

The following funds were overdrawn at various times during 2008 with the largest deficit amount listed:

Fund	Amount
General	\$ 2,748,428.81
Firefighters' Pension	134,060.78
Criminal Justice Grant	2,606.40
Emergency Medical Services	31,705.96
County Docket Fees	25.00
Chris Pippenger Donation	120.87
NHC Custodian	1,368.00
Utility Auditor Operating	622.95

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds 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 7)

INTERNAL CONTROLS

Controls over the receipting and remitting of funds by the Street/Recycling Department were insufficient. The Department is collecting revenues and holding the funds for two weeks to a month before the funds are remitted to the Clerk-Treasurer for deposit.

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

SUPPORTING DOCUMENTATION

Payments were observed to have been made without adequate supporting documentation, such as receipts, invoices, and other public records. Also, in some cases additional finance and/or late charges were assessed. Due to the lack of supporting information, the validity and accountability for some money disbursed could not always 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)

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

FUND SOURCES AND USES

Funds were disbursed from the Homeland Security Grant Fund for sidewalks, curbs, and repairs to unsafe buildings. The grant amount of \$36,014.98 was a reimbursement from Homeland Security and the funds should have been deposited in the fund from which the original amount was disbursed.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERPAYMENT COLLECTIONS

Overpayments of \$2,759.16 were made to the Indiana Department of Revenue. Refunds have not been received as of December 15, 2009.

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

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The City of Frankfort failed to comply with directives of the Indiana Department of Revenue by not filing Form WH-3.

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)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WORTHLESS ASSETS

The City of Frankfort junked several assets during 2008. Neither the City Council nor the Board of Works minutes documented that the purchasing agency determined that these assets were worthless. Even though the net book value of the assets that were considered worthless wasn't available, several would appear to have been fully depreciated if the depreciation records would have been maintained. The assets junked and their historical (purchase) costs are as follows:

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Tag #	Asset	VIN	Cost
4725	86 Ford Garbage Truck	IFDPR80U8GVA28983	\$ **
4518	Truck Salt #17	IFDXR82ESTVA15477	30,348.97
4560	Port Stage		3,500.00
4795	Pickup Truck Red #14 ('88 Ford F150)	IFTDF15H8JLA52674	12,000.00
4833	Garbage Truck #13	IFDPR82AIKVA56300	53,000.00
4834	Leaf Collector #24 ('89 AMR)	W802294929079	12,500.00
4969	Garbage Truck #1 ('87 Ford) Chassis Only	IFDPRROU6HVA14341	45,000.00
	Ford Salt Truck	R80DVDJ9552	18,500.00
	1987 Ford Salt Truck	FDPR80U8HVA14343	48,333.00
	1986 Ford Garbage Truck	IFDPR8048GA28983	49,000.00
2744	SCAG Mower		6,999.99
4168	2004 Sweeper		118,505.64
4464	Vactor		32,990.00
4475	Salt Spreader		6,409.59
			\$ 437,087.19

**No amount listed

The amount received by the City of Frankfort was \$7,490.65.

IC 5-22-22-7 states:

"If the property to be sold is material that:

- (1) may be recycled; and
- (2) has been collected in conjunction with a recycling program;

the purchasing agency may, without advertising, sell the property at a public or private sale or transfer the property."

IC 5-22-22-8 states:

"(a) If the property is worthless, it may be demolished or junked.

(b) For purposes of this section and IC 5-22-21-6(4)(B), property may be considered worthless or of no market value if the value of the property is less than the estimated costs of the sale and transportation of the property."

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

COLLECTION OF AMOUNTS DUE

The City of Frankfort has not received payment for glass that had been recycled in 2008. The recycling company, Wampler Services, Inc., has taken the glass but has not paid the City the amount the glass brought from being recycled.

From the records presented, it appears that Wampler Services Inc., is not current in paying the City of Frankfort for all the recycling items sent to them for recycling.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF FRANKFORT
EXIT CONFERENCE

The contents of this report were discussed on January 13, 2010, with Judith E. Suter, Clerk-Treasurer; Eric Woods, City Councilman; Becky Frye, Deputy Clerk; Karen Walker, Deputy Clerk; and James E. Moyer, Common Council President. The officials concurred with our findings.

The contents of this report were also discussed on January 13, 2010, with Chris Pippenger, Mayor.