

B38213

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, 2009 to December 31, 2009



FILED
01/04/2011

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-6
Supplementary Information:	
Schedule of Capital Assets.....	7
Schedule of Long-Term Debt	8
Examination Results and Comments:	
Bank Account Reconciliations	9
Deposits – Recycling Receipts	9
Overdrawn Fund Balances	10
Exit Conference.....	11
Official Response	12

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 12-31-10
President of the Common Council	James Moyer	01-01-09 to 12-31-10
President of the Utility Service Board	Jeffrey Little Victor Unroe	11-01-08 to 10-31-09 11-01-09 to 12-31-10
Superintendent of Water Utility	Wesley Hyden	01-01-09 to 12-31-10
Superintendent of Wastewater Utility	Dennis Shirar	01-01-09 to 12-31-10
Superintendent of Electric Utility	Steve Miller	01-01-09 to 12-31-10
Utility Office Manager	Susan O'Brien	01-01-09 to 12-31-10



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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF FRANKFORT, CLINTON COUNTY, INDIANA

We have examined the financial information presented herein of City of Frankfort (City), for the period of January 1, 2009 to December 31, 2009. 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 District for the year ended December 31, 2009, 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 a required part 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 3, 2010

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, 2009

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
General	\$ 659,400	\$ 9,613,323	\$ 9,835,748	\$ 436,975
Motor Vehicle Highway	78,146	589,279	651,966	15,459
Local Road and Street	198,819	54,846	154,538	99,127
Police Equipment and Training	-	2,207	-	2,207
Clerk - Treasurer Administrative	-	1,406	-	1,406
City Engineering and Supply	-	125	-	125
Law Enforcement Continuing Education	34,866	13,089	5,359	42,596
Emergency Medical Services	69,367	275,305	262,595	82,077
Hazardous Materials	4,599	6	3,108	1,497
User Fee	189,818	304,643	155,167	339,294
Police Forfeiture	26,350	30,763	17,587	39,526
Special Donation	56,720	33,038	34,331	55,427
Criminal Justice Grant	218	8,893	8,979	132
Flower	123	922	621	424
Petting Zoo Donations	592	1,506	1,421	677
TPA Park Festival	15,880	17,590	14,728	18,742
Softball League	377	1,670	1,228	819
Unsafe Building	14,431	52	1,820	12,663
Riverboat	104,522	104,830	27,498	181,854
County Economic Development Income Tax	814,092	488,877	996,482	306,487
Chipper Grant	892	2	-	894
Rainy Day	302,613	24,669	101,270	226,012
911 Operator	31,421	59,857	59,798	31,480
City Court	2,136	48,466	44,409	6,193
Deferral Program	2,877	1,546	3,267	1,156
Sidewalks and Curbs	3,425	42,448	45,778	95
Cumulative Building and Fire Fighting Equipment	415,723	40,058	143,219	312,562
Cumulative Capital Improvement	218,973	52,039	3,372	267,640
Clerk's Equipment Fund	2,049	630	370	2,309
Chris Pippenger Donation	12,645	991	5,325	8,311
Fire Equipment	-	38,984	38,126	858
Grass Liens	21,252	25,270	16,426	30,096
Proprietary Funds:				
Water Utility - Operating	568,501	3,706,163	3,598,255	676,409
Water Utility - Depreciation	105,598	1,210,935	1,065,142	251,391
Water Utility - Customer Deposit	16,713	12,755	6,710	22,758
Water Utility - Construction	123,888	336,224	86,541	373,571
Water Utility - Construction Bond	-	6,625,161	889,414	5,735,747
Wastewater Utility - Operating	354,269	3,603,034	3,566,119	391,184
Wastewater Utility - Depreciation	616,060	390,721	505,999	500,782
Wastewater Utility - Customer Deposit	42,090	24,315	15,506	50,899
Wastewater Utility - Construction	342,466	236,891	300,975	278,382
Electric Utility - Operating	1,242,246	27,228,960	26,009,214	2,461,992
Electric Utility - Depreciation	1,556,150	42,242	540,692	1,057,700
Electric Utility - Customer Deposit	188,240	78,632	70,665	196,207
Electric Utility - Construction	1,284,039	1,021,816	1,317,004	988,851
Stormwater Utility - Operating	416,352	1,313,650	1,358,388	371,614
Utility Service Board	33,184	1,364,788	1,177,236	220,736
Utility Auditor Operating	8,505	64,890	61,908	11,487
Billing Office Operating	138,913	609,531	702,050	46,394
Utility Credit Card	970,928	2,975,306	3,916,105	30,129
Fiduciary Funds:				
Police Officers' Pension	326,466	394,539	457,596	263,409
Firefighters' Pension	62,321	828,599	730,643	160,277
DROP Retainage	42,552	-	42,552	-
Utility Retirement Pension	4,374,008	306,363	137,672	4,542,699
Payroll	41,891	9,341,784	9,233,743	149,932
Municipal Pool Escrow	13,002	-	4,553	8,449
County Docket Fees	-	3,670	3,670	-
Totals	\$ 16,150,708	\$ 73,598,299	\$ 68,432,888	\$ 21,316,119

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 District 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 District 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 District 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.

CITY OF FRANKFORT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2009

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>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 171,810
Construction in progress	1,949,706
Capital assets, being depreciated (shown net of depreciation):	
Buildings	125,477
Distribution system	3,393,079
Improvements other than buildings	715,674
Machinery and equipment	117,741
Transportation	<u>143,753</u>
Total Water Utility capital assets	<u>6,617,240</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	217,220
Capital assets, being depreciated (shown net of depreciation):	
Buildings	4,302,444
Improvements other than buildings	61,983
Collection system	7,265,966
Machinery and equipment	588,000
Transportation	139,602
Total Wastewater Utility capital assets	<u>12,575,215</u>
Electric Utility:	
Capital assets, not being depreciated:	
Land	154,093
Capital assets, being depreciated (shown net of depreciation):	
Buildings	2,886,458
Improvements other than buildings	831,904
Distribution	4,265,132
Machinery and equipment	645,638
Transportation	<u>196,899</u>
Total Electric Utility capital assets	<u>8,980,124</u>
Total business-type activities capital assets	<u>\$ 28,172,579</u>

CITY OF FRANKFORT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2009

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:		
Surge Tank for TPA Park Pool	\$ 15,248	\$ 16,024
Main Pool Filter for TPA Park Pool	14,898	15,655
Fire Truck (Oshkosh Capital)	625,451	120,285
Garbage Truck Chassis	<u>19,054</u>	<u>20,041</u>
Total governmental activities debt	<u>\$ 674,651</u>	<u>\$ 172,005</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
Waterworks Improvements	<u>\$ 6,715,000</u>	<u>\$ 2,409,994</u>

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were incorrect. Several adjustments were noted on the bank reconciliations performed by the Clerk-Treasurer that could not be substantiated. In addition, outstanding check lists presented for examination contained checks that either cleared or were voided during the prior examination period. As a result of these undocumented adjustments and other bookkeeping errors, the difference between reconciled bank balances and ledger balances could not be determined.

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)

DEPOSITS – RECYCLING RECEIPTS

\$559.52 in recycling receipts paid in cash to Mayor Chris Pippenger between August of 2008 and January of 2009 were not remitted to the Clerk - Treasurer until February 10, 2010. An additional \$206.37 received by the Mayor during this time was held and was used to buy supplies for an employee Christmas party in 2008.

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."

Public funds deposited should be deposited in the same form in which they were received. (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:

<u>Fund</u>	<u>Amount</u>
General	\$ 2,461,010.79
Motor Vehicle Highway	71,505.97
Fire Pension	213,019.91
Utility Auditor Operating	4,681.94
Emergency Medical Service	17,823.27
Criminal Justice Grant	1,249.98

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)

CITY OF FRANKFORT
EXIT CONFERENCE

The contents of this report were discussed on November 4, 2010, with James Moyer, President of the Common Council; Jim Osbon, Board of Works member; Eric Woods, City Council member; and Judith E. Suter, Clerk-Treasurer. The official response has been made a part of this report and may be found on page 12.

The contents of this report were discussed on November 18, 2010, with Chris Pippenger, Mayor.



November 9, 2010

City of Frankfort

Judith E. Suter
CLERK-TREASURER

301 E. Clinton St. • Frankfort, IN 46041-1955

Bruce Hartman, CPA
State Examiner
State Board of Accounts
302 W. Washington Street, Room E418
Indianapolis, IN 46204-2769

Dear Mr. Hartman,

I am writing in response to the Examination Results and Comments for the City of Frankfort for the year ended December 31, 2009.

Since taking office on January 1, 2008, I have worked diligently to correct the comments from the prior examination for the year ended December 31, 2007. There were seventeen examination results and comments at that time. My office has managed to correct all but three of those.

The first comment regarding bank account reconciliations is my chief concern. Many problems with the reconciliation process have been identified and corrected already. For those that have not been corrected, I have hired an independent consultant, a retired field examiner, to assist in finding and making the necessary corrections to the records. I hope to have our records completely reconciled to the banks at the end of December 31, 2010.

In regard to the comment on overdrawn fund balances, the City, as are many other governmental entities, is struggling financially. Cash flow is of great concern to all of the City of Frankfort's officials, and we will work on resolving this comment as quickly as possible.

Sincerely,

Judith E. Suter
Clerk-Treasurer