

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

CITY OF SOUTHPORT

MARION COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
12/20/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Diana Bossingham	01-01-12 to 12-31-15
Mayor	Hon. V. Jesse Testruth	01-01-12 to 12-31-15
President of the Board of Public Works	Hon. V. Jesse Testruth	01-01-12 to 12-31-15
President of the Common Council	James Cooney	01-01-12 to 12-31-13



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF SOUTHPORT, MARION COUNTY, INDIANA

We have examined the accompanying financial statement of the City of Southport (City), for the year ended December 31, 2012. The financial statement is the responsibility of the City's management. Our responsibility is to express an opinion on the financial statement 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 statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, on the basis of accounting described in Note 1.

Our examination was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the examination procedures applied to the financial statement and, accordingly, we express no opinion on them.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

November 19, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF SOUTHPORT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 35,991	\$ 427,722	\$ 329,929	\$ 133,784
Motor Vehicle Highway	76,924	84,112	88,135	72,901
Local Road and Street	37,292	44,726	78,888	3,130
Law Enforcement Continuing Ed	(2,586)	7,304	4,124	594
Rainy Day	8,288	-	-	8,288
HSIP	(5,575)	5,575	-	-
General Obligation Bond Debt	(1,727)	147,856	235,813	(89,684)
ADIP	230,003	57,437	241,392	46,048
Public Safety	24,423	40,920	47,289	18,054
Parks Recreation and Events	(43,088)	40,839	4,244	(6,493)
Payroll	113	-	113	-
Totals	<u>\$ 360,058</u>	<u>\$ 856,491</u>	<u>\$ 1,029,927</u>	<u>\$ 186,622</u>

The notes to the financial statement are an integral part of this statement.

CITY OF SOUTHPORT
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF SOUTHPORT
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

CITY OF SOUTHPORT
NOTES TO FINANCIAL STATEMENT
(Continued)

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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.

CITY OF SOUTHPORT
 NOTES TO FINANCIAL STATEMENT
 (Continued)

State statutes authorize 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.

Note 5. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of paying a debt payment in advance and insufficient cash balance to cover expenditures.

Note 7. Re-established Fund Balances

Prior to January 1, 2012, the condition of the City's financial records did not allow our auditors to verify the accuracy of our financial statements. Our auditors were unable to issue an opinion on our 2009, 2010, or 2011 financial statements. As a result of the condition of our records in the past, we were unable to determine the accurate balance of each fund at January 1, 2012. Therefore, the Common Council passed a resolution in which beginning balances at January 1, 2012, were established. The following table represents the beginning balances which were established by Resolution 2013-10:

General	\$ 35,991.40
Rainy Day	8,288.00
General Obligation Bond Debt	(1,726.64)
Parks Recreation and Events	(43,088.35)
Public Safety	24,423.45
Law Enforcement Continuing Ed	(2,586.10)
HSIP	(5,575.00)
ADIP	230,002.98
Local Road and Street	37,292.49
Motor Vehicle Highway	76,924.08
Payroll	<u>112.67</u>
Total all funds	<u><u>\$ 360,058.98</u></u>

CITY OF SOUTHPORT
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 8. Subsequent Events

The City of Southport issued \$285,000 in Redevelopment District Taxable Taxing District Bonds, Series 2013 on July 18, 2013. Bond proceeds will be designated for the costs of property acquisition and redevelopment in, serving or benefiting the Southport Road Redevelopment Area. The bonds have a 2 percent interest rate with payments due on January 15 and July 15 with payments of principal ranging from \$46,000 to \$49,000 and final maturing on January 15, 2017.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Reports for years prior to 2011 can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the City's Annual Report information for years 2011 and later can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF SOUTHPORT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road and Street	Law Enforcement Continuing Ed	Rainy Day	HSIP
Cash and investments - beginning	\$ 35,991	\$ 76,924	\$ 37,292	\$ (2,586)	\$ 8,288	\$ (5,575)
Receipts:						
Taxes	162,943	30,059	-	-	-	-
Licenses and permits	35,487	-	600	500	-	-
Intergovernmental	139,502	48,631	23,543	-	-	-
Charges for services	5,920	-	-	1,230	-	-
Fines and forfeits	16,963	-	-	5,574	-	-
Other receipts	66,907	5,422	20,583	-	-	5,575
Total receipts	<u>427,722</u>	<u>84,112</u>	<u>44,726</u>	<u>7,304</u>	<u>-</u>	<u>5,575</u>
Disbursements:						
Personal services	112,511	15,738	-	-	-	-
Supplies	32,228	1,901	1,851	-	-	-
Other services and charges	166,125	44,338	74,888	4,124	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	5,315	-	-	-	-	-
Other disbursements	13,750	26,158	2,149	-	-	-
Total disbursements	<u>329,929</u>	<u>88,135</u>	<u>78,888</u>	<u>4,124</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>97,793</u>	<u>(4,023)</u>	<u>(34,162)</u>	<u>3,180</u>	<u>-</u>	<u>5,575</u>
Cash and investments - ending	<u>\$ 133,784</u>	<u>\$ 72,901</u>	<u>\$ 3,130</u>	<u>\$ 594</u>	<u>\$ 8,288</u>	<u>\$ -</u>

CITY OF SOUTHPORT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	General Obligation Bond Debt	ADIP	Public Safety	Parks Recreation and Events	Payroll	Totals
Cash and investments - beginning	\$ (1,727)	\$ 230,003	\$ 24,423	\$ (43,088)	\$ 113	\$ 360,058
Receipts:						
Taxes	143,156	-	-	28,498	-	364,656
Licenses and permits	-	-	-	-	-	36,587
Intergovernmental	3,501	54,707	38,085	697	-	308,666
Charges for services	-	-	-	500	-	7,650
Fines and forfeits	-	-	-	-	-	22,537
Other receipts	1,199	2,730	2,835	11,144	-	116,395
Total receipts	147,856	57,437	40,920	40,839	-	856,491
Disbursements:						
Personal services	-	-	-	909	-	129,158
Supplies	-	-	6,230	-	-	42,210
Other services and charges	-	94,452	41,059	3,335	-	428,321
Debt service - principal and interest	235,813	-	-	-	-	235,813
Capital outlay	-	146,940	-	-	-	152,255
Other disbursements	-	-	-	-	113	42,170
Total disbursements	235,813	241,392	47,289	4,244	113	1,029,927
Excess (deficiency) of receipts over disbursements	(87,957)	(183,955)	(6,369)	36,595	(113)	(173,436)
Cash and investments - ending	\$ (89,684)	\$ 46,048	\$ 18,054	\$ (6,493)	\$ -	\$ 186,622

CITY OF SOUTHPORT
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 12,700</u>	<u>\$ -</u>

CITY OF SOUTHPORT
 SCHEDULE OF LEASES AND DEBT
 December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Ricoh	Copier	\$ 1,320	07-24-12	07-24-16
Stanley Convergent Security Solutions	Card Access to Police Department	1,260	02-22-12	02-22-17
Stanley Convergent Security Solutions	Card Access to City Building	<u>2,220</u>	11-14-12	11-14-17
Total of annual lease payments		<u>\$ 4,800</u>		

CITY OF SOUTHPORT
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2012

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.

	Ending Balance
Governmental activities:	
Land	\$ 8,000
Infrastructure	13,700,326
Buildings	300,000
Improvements other than buildings	27,500
Machinery, equipment, and vehicles	181,940
Total	\$ 14,217,766

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

The records supporting the 2012 financial information were substantially improved, but contained a few posting errors which affected the balances of four funds. Audit adjustments were recommended and accepted in the Financial Statement for the following items:

- A local excise tax distribution was incorrectly recorded in the Parks Recreation and Events Fund. The receipt for \$6,493.13 should have been recorded in the General Obligation Bond Debt Fund.
- A claim was posted to the incorrect fund. A payment for \$6,800 was posted to the Motor Vehicle Highway Fund, but was an expense of the Local Road and Street Fund.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPT ISSUANCE

The following deficiencies in receipt issuance were identified in the current examination:

- Receipts were not issued for all money received by the City and the accounting system assigned receipt numbers which did not reflect the actual handwritten numbers used during the year.
- Receipts were not issued for electronic fund transfers and interest earned on the bank account. A journal entry was made to reflect this type of transaction.
- No receipts were issued to the payer for rental fees paid for use of the Community Room and Shelter House. We were able to verify collections through the contracts provided for examination, but receipts were not written.
- The Police Department did not use the prescribed receipt form during 2012. However, the Police Department did use prenumbered, two part receipt form in which included the payment type for most of the receipts completed.
- Late in 2012, the Clerk-Treasurer changed to a new accounting system and all information prior to that date was entered into the new system. Receipt numbers were assigned by the new system and did not agree with the handwritten receipt numbers. For those deposits made without a receipt, the system also assigned a receipt number. Because current and prior information was being entered at the same time, the entries were not in chronological order, thus making the number series difficult to follow.

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Comments on receipt issuance were included in prior reports, most recently Report B42368.

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)

APPROPRIATIONS

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

Fund	Year	Excess Amount Expended
General Obligation Bond Debt	2012	<u>\$ 95,179</u>

A similar comment also appeared in prior Report B42638.

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."

OVERDRAWN CASH BALANCES

The financial statement included the following funds with overdrawn cash balances at December 31, 2012:

Fund	Amount Overdrawn
General Obligation Bond Debt Fund	\$ 89,684
Park Recreation and Events	6,493

A similar comment also appeared in prior Report B42638.

The cash 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 SOUTHPORT
EXIT CONFERENCE

The contents of this report were discussed on November 19, 2013, with Diana Bossingham, Clerk-Treasurer; Hon. V. Jesse Testruth, Mayor; and James Cooney, President of the Common Council.