

B27942

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

CITY OF BLUFFTON MUNICIPAL UTILITIES

WELLS COUNTY, INDIANA



FILED
09/19/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Nancy S. Hewitt	01-01-04 to 12-31-07
Mayor	Ted L. Ellis	01-01-04 to 12-31-07
President of the Board of Public Works	Ted L. Ellis	01-01-04 to 12-31-07
President of the Common Council	James E. Phillabaum	01-01-05 to 12-31-06
Superintendent of the Water Utility	Edward C. Davis	01-01-05 to 12-31-06
Superintendent of the Wastewater Utility	Robert Mohler	01-01-05 to 12-31-06
Superintendent of the Electric Utility	Edward C. Davis	01-01-05 to 12-31-06
Utility Office Manager	Roy D. Esmond	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF BLUFFTON MUNICIPAL UTILITIES, WELLS COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the City of Bluffton Municipal Utilities (Utilities), departments of the City of Bluffton, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Bluffton as of December 31, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Utilities, as of December 31, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Utilities have not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

August 23, 2006

CITY OF BLUFFTON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2005

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 76,837	\$ 1,105,220	\$ 2,630,050
Accounts receivable - customers (net of allowance)	68,990	177,902	622,432
Accounts receivable - other	1,172	-	450
Inventories	152,306	-	892,034
Prepaid items	<u>2,797</u>	<u>3,083</u>	<u>4,502</u>
 Total current assets	 <u>302,102</u>	 <u>1,286,205</u>	 <u>4,149,468</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Customer deposits	-	-	244,047
Revenue bond covenant accounts	-	1,049,630	-
Other	30,496	-	443,133
Interest receivable	<u>-</u>	<u>11,441</u>	<u>-</u>
 Total restricted assets	 <u>30,496</u>	 <u>1,061,071</u>	 <u>687,180</u>
Deferred charges	<u>-</u>	<u>112,964</u>	<u>-</u>
Capital assets:			
Land, improvements to land and construction in progress	239,581	501,082	49,116
Other capital assets (net of accumulated depreciation)	<u>4,462,002</u>	<u>9,280,194</u>	<u>6,932,093</u>
 Total capital assets	 <u>4,701,583</u>	 <u>9,781,276</u>	 <u>6,981,209</u>
 Total noncurrent assets	 <u>4,732,079</u>	 <u>10,955,311</u>	 <u>7,668,389</u>
 Total assets	 <u>5,034,181</u>	 <u>12,241,516</u>	 <u>11,817,857</u>
 <u>Liabilities</u>			
Current liabilities:			
Accounts payable	22,068	42,027	716,365
Wages payable	11,650	14,664	21,977
Taxes payable	4,456	-	36,008
Other payable	18,000	-	-
Current liabilities payable from restricted assets:			
Customer deposits	-	-	244,047
Revenue bonds payable	<u>-</u>	<u>180,000</u>	<u>-</u>
 Total current liabilities	 <u>56,174</u>	 <u>236,691</u>	 <u>1,018,397</u>
Noncurrent liabilities:			
Revenue bonds payable	-	4,585,000	-
Compensated absences	<u>12,485</u>	<u>16,593</u>	<u>36,165</u>
 Total noncurrent liabilities	 <u>12,485</u>	 <u>4,601,593</u>	 <u>36,165</u>
 Total liabilities	 <u>68,659</u>	 <u>4,838,284</u>	 <u>1,054,562</u>
 <u>Net Assets</u>			
Invested in capital assets, net of related debt	4,701,583	5,016,276	6,981,209
Restricted for debt service	-	665,968	-
Restricted for other purposes	30,496	395,103	687,180
Unrestricted	<u>233,443</u>	<u>1,325,885</u>	<u>3,094,906</u>
 Total net assets	 <u>\$ 4,965,522</u>	 <u>\$ 7,403,232</u>	 <u>\$ 10,763,295</u>

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

CITY OF BLUFFTON MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Operating revenues:			
Metered water revenue:			
Residential and commercial	\$ 965,680	\$ -	\$ -
Residential sales	-	-	2,851,737
Commercial and industrial sales	-	-	7,644,911
Public street and highway lighting	-	-	153,192
Fire protection revenue	204,902	-	-
Penalties	7,498	3,211	42,024
Flat rate revenues	1,727	82,104	-
Measured revenue:			
Residential and commercial	-	1,859,400	-
Other	<u>48,738</u>	<u>519,054</u>	<u>59,543</u>
 Total operating revenues	 <u>1,228,545</u>	 <u>2,463,769</u>	 <u>10,751,407</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	142,968	-	-
Water treatment expense - operations and maintenance	375,666	-	-
Transmission and distribution	470,796	-	1,079,898
Collection system - operations and maintenance	-	279,254	-
Treatment and disposal - operations and maintenance	-	1,321,787	-
Customer accounts	17,458	14,596	30,501
Administration and general	172,842	393,690	851,211
Purchased power	-	-	8,431,304
Bad debt expense	2,500	2,000	13,000
Depreciation	<u>153,514</u>	<u>290,930</u>	<u>437,246</u>
 Total operating expenses	 <u>1,335,744</u>	 <u>2,302,257</u>	 <u>10,843,160</u>
 Operating income (loss)	 <u>(107,199)</u>	 <u>161,512</u>	 <u>(91,753)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	3,185	68,601	93,819
Miscellaneous revenue	8,409	37,658	25,513
Interest expense	-	(257,123)	-
Amortization of bond issue costs	-	(11,296)	-
Miscellaneous expense	<u>-</u>	<u>(649)</u>	<u>-</u>
 Total nonoperating revenues (expenses)	 <u>11,594</u>	 <u>(162,809)</u>	 <u>119,332</u>
 Income (loss) before contributions and transfers	 (95,605)	 (1,297)	 27,579
Capital contributions	28,945	-	57,462
Transfers out	<u>-</u>	<u>-</u>	<u>(50,724)</u>
 Change in net assets	 (66,660)	 (1,297)	 34,317
Total net assets - beginning	<u>5,032,182</u>	<u>7,404,529</u>	<u>10,728,978</u>
Total net assets - ending	<u>\$ 4,965,522</u>	<u>\$ 7,403,232</u>	<u>\$ 10,763,295</u>

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

CITY OF BLUFFTON MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,216,198	\$ 2,444,769	\$ 10,545,273
Payments to suppliers and contractors	(564,000)	(1,230,413)	(10,007,967)
Payments to employees	(625,400)	(795,132)	(733,304)
Net cash provided (used) by operating activities	<u>26,798</u>	<u>419,224</u>	<u>(195,998)</u>
Cash flows from noncapital financing activities:			
Other receipts (payments)	8,409	37,009	25,513
Transfer to other funds	-	-	(50,724)
Net cash provided (used) by noncapital financing activities	<u>8,409</u>	<u>37,009</u>	<u>(25,211)</u>
Cash flows from capital and related financing activities:			
Capital contributions	28,945	-	57,462
Acquisition and construction of capital assets	(91,161)	(201,845)	(179,345)
Proceeds from asset disposal	4,550	-	102
Principal paid on capital debt	-	(345,000)	-
Interest paid on capital debt	-	(257,123)	-
Net cash used by capital and related financing activities	<u>(57,666)</u>	<u>(803,968)</u>	<u>(121,781)</u>
Cash flows from investing activities:			
Interest received	3,185	66,159	93,819
Net decrease in cash and cash equivalents	(19,274)	(281,576)	(249,171)
Cash and cash equivalents, January 1	<u>126,607</u>	<u>1,798,894</u>	<u>3,566,401</u>
Cash and cash equivalents, December 31	<u>\$ 107,333</u>	<u>\$ 1,517,318</u>	<u>\$ 3,317,230</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (107,199)	\$ 161,512	\$ (91,753)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	153,514	290,930	437,246
Bad debt expense	2,500	2,000	13,000
(Increase) decrease in assets:			
Accounts receivable - customers	(15,063)	(21,000)	(230,209)
Accounts receivable - other	216	-	-
Inventories	(23,580)	-	(380,077)
Prepaid items	(631)	549	(514)
Deferred debit	-	-	11,075
Increase (decrease) in liabilities:			
Accounts payable	7,222	(14,931)	24,401
Wages payable	(5)	204	(1,314)
Taxes payable	393	-	7,047
Other payable	8,000	-	-
Compensated absences payable	1,431	(40)	487
Customer deposits	-	-	14,613
Total adjustments	<u>133,997</u>	<u>257,712</u>	<u>(104,245)</u>
Net cash provided (used) by operating activities	<u>\$ 26,798</u>	<u>\$ 419,224</u>	<u>\$ (195,998)</u>
Noncash investing, capital and financing activities:			
Purchase of capital assets on account	\$ 3,261	\$ -	\$ -
Additions to capital assets from inventory	17,857	-	199,535

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

CITY OF BLUFFTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the City of Bluffton Municipal Utilities and are not intended to present fairly the position of the City of Bluffton (City). The Utilities, whose operations are controlled by the City, represent all of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utility's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utility 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.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CITY OF BLUFFTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

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.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Electric distribution systems	\$ 5,000	Composite rate and straight-line	3% 3 to 5 years
Water collection systems	5,000	Composite rate and straight-line	2% 3 to 5 years
Wastewater distribution and collection systems	5,000	Composite rate and straight-line	2% 3 to 5 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

- a. Sick Leave – Employees earn sick leave at the rate of ½ day per month. Unused sick leave may be accumulated indefinitely. Accumulated sick leave of up to 42 days is paid to employees upon termination at ½ of the employee's hourly wage.
- b. Vacation Leave – Employees earn vacation leave at rates from 5 days to 20 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 4 days per year. Personal leave does not accumulate from year to year.

Sick leave is accrued when incurred. No liability is reported for vacation and personal leave.

CITY OF BLUFFTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. 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.

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 223,166	\$ -	\$ 4,550	\$ 218,616
Construction in progress	<u>20,965</u>	<u>-</u>	<u>-</u>	<u>20,965</u>
Total capital assets, not being depreciated	<u>244,131</u>	<u>-</u>	<u>4,550</u>	<u>239,581</u>
Capital assets, being depreciated:				
Buildings	363,412	-	-	363,412
Improvements other than buildings	6,395,918	103,987	10,144	6,489,761
Machinery and equipment	325,162	8,292	5,195	328,259
Transportation equipment	<u>111,089</u>	<u>-</u>	<u>-</u>	<u>111,089</u>
Totals	<u>7,195,581</u>	<u>112,279</u>	<u>15,339</u>	<u>7,292,521</u>
Less accumulated depreciation for:				
Buildings	(88,123)	(7,268)	-	(95,391)
Improvements other than buildings	(2,451,977)	(127,919)	(10,144)	(2,569,752)
Machinery and equipment	(73,741)	(6,503)	(5,195)	(75,049)
Transportation equipment	<u>(78,503)</u>	<u>(11,824)</u>	<u>-</u>	<u>(90,327)</u>
Totals	<u>(2,692,344)</u>	<u>(153,514)</u>	<u>(15,339)</u>	<u>(2,830,519)</u>
Total capital assets, being depreciated, net	<u>4,503,237</u>	<u>(41,235)</u>	<u>-</u>	<u>4,462,002</u>
Total Water Utility capital assets, net	<u>\$ 4,747,368</u>	<u>\$ (41,235)</u>	<u>\$ 4,550</u>	<u>\$ 4,701,583</u>

CITY OF BLUFFTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 487,102	\$ 13,980	\$ -	\$ 501,082
Capital assets, being depreciated:				
Buildings	413,239	-	-	413,239
Improvements other than buildings	9,603,604	160,169	17,524	9,746,249
Machinery and equipment	3,223,624	27,696	5,068	3,246,252
Transportation equipment	395,636	-	-	395,636
Totals	<u>13,636,103</u>	<u>187,865</u>	<u>22,592</u>	<u>13,801,376</u>
Less accumulated depreciation for:				
Buildings	(95,922)	(8,265)	-	(104,187)
Improvements other than buildings	(3,385,407)	(192,072)	(17,524)	(3,559,955)
Machinery and equipment	(450,201)	(64,473)	(5,068)	(509,606)
Transportation equipment	(321,314)	(26,120)	-	(347,434)
Totals	<u>(4,252,844)</u>	<u>(290,930)</u>	<u>(22,592)</u>	<u>(4,521,182)</u>
Total capital assets, being depreciated, net	<u>9,383,259</u>	<u>(103,065)</u>	<u>-</u>	<u>9,280,194</u>
Total Wastewater Utility capital assets, net	<u>\$ 9,870,361</u>	<u>\$ (89,085)</u>	<u>\$ -</u>	<u>\$ 9,781,276</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 49,116	\$ -	\$ -	\$ 49,116
Capital assets, being depreciated:				
Buildings	1,358,071	-	-	1,358,071
Improvements other than buildings	9,208,198	350,070	31,833	9,526,435
Machinery and equipment	3,119,430	28,088	6,597	3,140,921
Transportation equipment	479,496	-	-	479,496
Totals	<u>14,165,195</u>	<u>378,158</u>	<u>38,430</u>	<u>14,504,923</u>
Less accumulated depreciation for:				
Buildings	(772,201)	(40,742)	-	(812,943)
Improvements other than buildings	(4,895,206)	(276,246)	(13,135)	(5,158,317)
Machinery and equipment	(1,097,683)	(93,583)	(6,597)	(1,184,669)
Transportation equipment	(390,226)	(26,675)	-	(416,901)
Totals	<u>(7,155,316)</u>	<u>(437,246)</u>	<u>(19,732)</u>	<u>(7,572,830)</u>
Total capital assets, being depreciated, net	<u>7,009,879</u>	<u>(59,088)</u>	<u>18,698</u>	<u>6,932,093</u>
Total Electric Utility capital assets, net	<u>\$ 7,058,995</u>	<u>\$ (59,088)</u>	<u>\$ 18,698</u>	<u>\$ 6,981,209</u>

CITY OF BLUFFTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Depreciation expense was charged to functions/programs of the Utilities as follows:

Water	\$ 153,514
Wastewater	290,930
Electric	<u>437,246</u>
 Total depreciation expense	 <u>\$ 881,690</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2005	Committed	Required Future Funding
Water Utility:				
North Oaks addition	<u>\$ 354,000</u>	<u>\$ 20,965</u>	<u>\$ 18,000</u>	<u>\$ 336,000</u>

D. Interfund Transfers

Interfund transfers at December 31, 2005, were as follows:

Transfer From	Transfer To General Fund
Electric Utility	<u>\$ 50,724</u>

The Utility typically uses Reserve Fund transfers to fund ongoing operating subsidies.

E. Long-Term Liabilities

1. Revenue Bonds

The Utility issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
1995 Sewage works revenue bonds	5.1% to 5.125%	\$ 4,180,000
1996 Sewage works revenue bonds	5.125%	<u>585,000</u>
 Total		 <u>\$ 4,765,000</u>

CITY OF BLUFFTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2006	\$ 180,000	\$ 121,931
2007	375,000	229,965
2008	400,000	210,585
2009	420,000	189,930
2010	440,000	168,228
2011-2015	2,675,000	465,478
2016-2020	<u>275,000</u>	<u>7,047</u>
Totals	<u>\$ 4,765,000</u>	<u>\$ 1,393,164</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Compensated absences	\$ 11,054	\$ 1,431	\$ -	\$ 12,485	\$ -
Wastewater Utility:					
Revenue bonds payable	5,110,000	-	345,000	4,765,000	180,000
Compensated absences	<u>16,633</u>	<u>-</u>	<u>40</u>	<u>16,593</u>	<u>-</u>
Total Wastewater Utility long-term liabilities	<u>5,126,633</u>	<u>-</u>	<u>345,040</u>	<u>4,781,593</u>	<u>180,000</u>
Electric Utility:					
Compensated absences	<u>35,678</u>	<u>487</u>	<u>-</u>	<u>36,165</u>	<u>-</u>
Total long-term liabilities	<u>\$ 5,173,365</u>	<u>\$ 1,918</u>	<u>\$ 345,040</u>	<u>\$ 4,830,243</u>	<u>\$ 180,000</u>

CITY OF BLUFFTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	Water Utility	Wastewater Utility	Electric Utility
Customer deposits	\$ -	\$ -	\$ 244,047
Reserve	-	637,532	76,054
Bond and interest	-	28,436	-
Depreciation	12,496	-	236,739
North Oaks escrow	18,000	-	-
Improvement	-	383,662	-
Insurance reserve	-	-	130,340
Interest receivable	-	11,441	-
	-	11,441	-
Total restricted assets	\$ 30,496	\$ 1,061,071	\$ 687,180

III. Other Information

A. Risk Management

The City is 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 (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is accounted for in the Self-Insurance Fund on the City's records, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$25,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions.

CITY OF BLUFFTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Common Council on December 20, 2005. On November 3, 1987, the Common Council adopted Ordinance No. 789 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The Utility has 3,613 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on December 5, 1995. The Utility has 3,838 customers.

3. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on November 20, 1987. On May 26, 1998, the Common Council adopted Ordinance No. 1052 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The ordinance became effective July 25, 1998. The Utility has 5,649 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, 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 the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and gives the Utilities 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 member's 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. The 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

CITY OF BLUFFTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utilities' annual pension costs and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 157,966
Interest on net pension obligation	(13,736)
Adjustment to annual required contribution	15,653
Annual pension cost	159,883
Contributions made	170,154
Decrease in net pension obligation	(10,271)
Net pension obligation, beginning of year	(189,459)
Net pension obligation, end of year	\$ (199,730)
Contribution rates:	
Utilities	6%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

CITY OF BLUFFTON MUNICIPAL UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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	06-30-03	\$ 166,880	91%	\$ (155,025)
	06-30-04	131,798	126%	(189,459)
	06-30-05	159,883	129%	(199,730)

CITY OF BLUFFTON MUNICIPAL UTILITIES
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 3,126,962	\$ 3,381,503	\$ (254,541)	92%	\$ 2,564,854	(10%)
07-01-04	3,178,289	3,630,855	(452,566)	88%	2,760,623	(16%)
07-01-05	3,317,178	3,955,681	(638,503)	84%	2,906,932	(22%)

CITY OF BLUFFTON MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on August 23, 2006, with Nancy S. Hewitt, Clerk-Treasurer; and Ted L. Ellis, Mayor. Our audit disclosed no material items that warrant comment at this time.