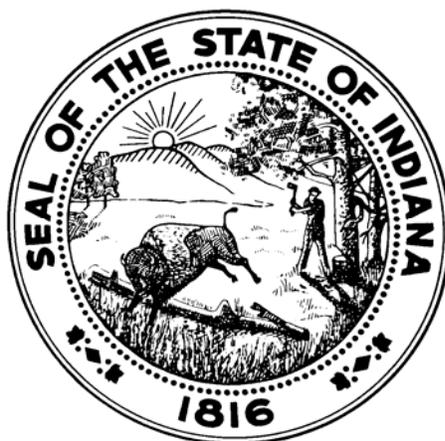


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
ELKHART COUNTY, INDIANA



FILED
09/19/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Stephen J. Malone	01-01-05 to 12-31-07
Mayor	David L. Miller	01-01-04 to 12-31-07
President of the Board of Public Works	James Beattie	01-01-05 to 12-31-06
President of the Common Council	James Pettit Brian A. Thomas	01-01-05 to 12-31-05 01-01-06 to 12-31-06



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,
CITY OF ELKHART, ELKHART COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities, departments of the City of Elkhart, 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.

Except as discussed in the following paragraphs, 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.

We were not able to obtain sufficient evidential matter to substantiate the fund balances at year end due to bank reconciliation problems. The cash balances of the City funds, including Water and Wastewater Utility funds exceed the control account by \$325,238. This difference could represent an amount necessary to balance or represent an overstatement of fund balances.

Additionally, the Utilities do not maintained sufficient detail records of capital assets and completed work in progress projects are not being depreciated.

As discussed in Note I, the financial statements of the Water and Wastewater Utilities, City of Elkhart, 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 Elkhart 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, except for the effect of the unreconciled cash balances as and lack of detail capital asset records and undepreciated completed work in progress as noted in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water and Wastewater 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.

STATE BOARD OF ACCOUNTS

July 20, 2006

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
STATEMENT OF NET ASSETS
December 31, 2005

<u>Assets</u>	Water Utility	Wastewater Utility
Current assets:		
Cash and cash equivalents	\$ 869,335	\$ 2,949,443
Accounts receivable (net of allowance)	418,967	655,052
Accounts receivable other (net of allowance)	64,863	215,171
Interfund receivables:		
Interfund services provided and used	-	26,311
Inventories	161,195	-
Prepaid items	405	703
Total current assets	1,514,765	3,846,680
Noncurrent assets:		
Restricted cash, cash equivalents:		
Repair accounts	2,651,289	437,454
Customer deposits	156,863	-
Revenue bond covenant accounts	1,360,880	2,569,603
Capital outlay accounts	-	2,449,191
Interest receivable	6,198	4,807
Assessment receivable	-	189,686
Total restricted assets	4,175,230	5,650,741
Deferred charges	31,884	254,680
Capital assets:		
Land and construction in progress	3,450,649	4,897,676
Other capital assets (net of accumulated depreciation)	31,563,592	57,987,834
Total capital assets	35,014,241	62,885,510
Total noncurrent assets	39,221,355	68,790,931
Total assets	40,736,120	72,637,611
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	29,133	77,897
Interfund payables:		
Interfund services provided and used	26,311	162,500
Accrued wages and benefits payable	48,123	74,524
Retainage payable	-	61,822
Taxes payable	21,254	-
Matured unpaid bonds and coupons	6,817	4,423
Compensated absences	13,263	7,272
Current liabilities payable from restricted assets:		
Accounts payable	31,997	77,970
Customer deposits	65,137	-
Capital lease	-	34,945
Revenue bonds payable	805,000	1,075,000
Interest payable	-	42,031
Total current liabilities	1,047,035	1,618,384
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	1,972,950	2,782,632
Compensated absences	68,356	37,476
Total noncurrent liabilities	2,041,306	2,820,108
Total liabilities	3,088,341	4,438,492
<u>Net Assets</u>		
Invested in capital assets, net of related debt	29,383,012	54,161,325
Restricted for debt service	1,360,880	2,569,603
Unrestricted	6,903,887	11,468,191
Total net assets	\$ 37,647,779	\$ 68,199,119

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

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

	<u>Water Utility</u>	<u>Wastewater Utility</u>
Operating revenues:		
Metered water revenue	\$ 5,341,283	\$ -
Measured revenue	-	7,455,615
Other	<u>905,457</u>	<u>1,947,108</u>
 Total operating revenues	 <u>6,246,740</u>	 <u>9,402,723</u>
 Operating expenses:		
Source of supply and expense - operations and maintenance	150,072	-
Water treatment expense - operations and maintenance	1,049,984	-
Transmission and distribution	619,275	-
Treatment and disposal - operations and maintenance	-	514,453
Plant treatment - operations	-	1,280,805
Plant treatment - maintenance	-	982,853
Collection system - operations and maintenance	-	926,008
Customer accounts	286,397	124,760
Administration and general	1,223,694	781,566
Payment in lieu of tax	550,000	650,000
Depreciation expense	<u>717,765</u>	<u>1,535,574</u>
 Total operating expenses	 <u>4,597,187</u>	 <u>6,796,019</u>
 Operating income	 <u>1,649,553</u>	 <u>2,606,704</u>
 Nonoperating revenues (expenses):		
Interest and investment revenue	49,974	85,671
Interest expense	(101,700)	(186,590)
Amortization expense	<u>(16,488)</u>	<u>(16,384)</u>
 Total nonoperating revenues (expenses)	 <u>(68,214)</u>	 <u>(117,303)</u>
 Income	 1,581,339	 2,489,401
Total net assets - beginning	<u>36,066,440</u>	<u>65,709,718</u>
Total net assets - ending	<u>\$ 37,647,779</u>	<u>\$ 68,199,119</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2005

	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 6,244,338	\$ 10,008,099
Payments to suppliers and contractors	(2,119,909)	(2,611,049)
Payments to employees	(2,041,834)	(2,590,707)
	<u>2,082,595</u>	<u>4,806,343</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Transfers from other funds	114,212	187,156
	<u>114,212</u>	<u>187,156</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	-	585,749
Acquisition and construction of capital assets	(1,141,681)	(1,673,474)
Principal paid on revenue bonds	(785,000)	(965,000)
Principal paid on capital leases	(25,276)	(62,162)
Interest paid on revenue bonds	(101,700)	(161,327)
Interest paid on capital leases	(1,078)	(6,962)
	<u>(2,054,735)</u>	<u>(2,283,176)</u>
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Interest received	45,574	83,369
	<u>45,574</u>	<u>83,369</u>
Net increase in cash and cash equivalents (Including \$2,695,372, \$163,441, \$4,729,331 and \$2,360,903 for the repair fund, customer deposits, revenue covenants and capital outlays, respectively, reported in restricted accounts)	187,646	2,793,692
Cash and cash equivalents, January 1 (Including \$3,088,743, \$156,863, \$3,930,483 and \$2,449,191 for the repair fund, customer deposits, revenue covenants and capital outlays, respectively, reported in restricted accounts)	<u>4,850,721</u>	<u>5,611,999</u>
Cash and cash equivalents, December 31	<u>\$ 5,038,367</u>	<u>\$ 8,405,691</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,649,553	\$ 2,606,704
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	717,765	1,535,574
(Increase) decrease in assets:		
Accounts receivable	(2,402)	540,689
Interfund services provided or used	-	64,687
Inventories	(10,731)	8,894
Prepaid items	(202)	-
Increase (decrease) in liabilities:		
Accounts payable	(102,899)	(9,535)
Interfund payables	(64,687)	162,500
Accrued wages and benefits payable	(60,121)	(113,822)
Taxes payable	(49,017)	-
Compensated absence payable	12,941	10,652
Customer deposits	(7,605)	-
	<u>433,042</u>	<u>2,199,639</u>
Total adjustments		
Net cash provided by operating activities	<u>\$ 2,082,595</u>	<u>\$ 4,806,343</u>
Noncash investing, capital and financing activities:		
Purchase of equipment on account	\$ 31,997	\$ 77,970
Ending retainage payable	-	61,822

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

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Water and Wastewater Utilities (Utilities) and are not intended to present fairly the position of the City of Elkhart (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represents a substantial portion 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 on the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when cash is received and expenses are recognized when cash is disbursed.

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. The activity has been classified Class (A or B), requiring full accrual accounting records, by the National Association of Regulatory Utility Commissioners. However, the utilities continue to maintain Class C (cash basis) accounts.

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 Utilities' 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 Utilities 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.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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>
Water collection systems	\$ 5,000	Composite rate	83 years
Wastewater distribution and collection systems	5,000	Composite rate	66 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. There was no interest capitalized during the current year.

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 13 days per year. Unused sick leave may be accumulated to a maximum of 640 hours. Accumulated sick leave is paid to employees through cash payments upon retirement.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utility employees earn personal leave at the rate of 2 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.

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	\$ 597,370	\$ -	\$ -	\$ 597,370
Construction in progress	<u>1,803,426</u>	<u>1,049,853</u>	<u>-</u>	<u>2,853,279</u>
 Total capital assets, not being depreciated	 <u>2,400,796</u>	 <u>1,049,853</u>	 <u>-</u>	 <u>3,450,649</u>

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Capital assets, being depreciated:				
Buildings	460,953	-	-	460,953
Improvements other than buildings	37,712,546	68,042	-	37,780,588
Machinery and equipment	4,320,965	55,783	-	4,376,748
Totals	42,494,464	123,825	-	42,618,289
Less accumulated depreciation for:				
Buildings	54,457	5,297	-	59,754
Distribution and collection systems	7,613,823	518,055	-	8,131,878
Machinery and equipment	2,668,652	194,413	-	2,863,065
Totals	10,336,932	717,765	-	11,054,697
Total capital assets, being depreciated, net	32,157,532	(593,940)	-	31,563,592
Total capital assets, net	\$ 34,558,328	\$ 455,913	\$ -	\$ 35,014,241
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 60,086	\$ 5,982	\$ -	\$ 66,068
Construction in progress	3,692,462	1,139,146	-	4,831,608
Total capital assets, not being depreciated	3,752,548	1,145,128	-	4,897,676
Capital assets, being depreciated:				
Buildings	30,190,982	259,767	585,749	29,865,000
Improvements other than buildings	49,423,523	239,791	-	49,663,314
Machinery and equipment	7,610,619	153,734	-	7,764,353
Totals	87,225,124	653,292	585,749	87,292,667
Less accumulated depreciation for:				
Buildings	9,517,146	450,631	-	9,967,777
Distribution and collection systems	11,415,964	739,785	-	12,155,749
Machinery and equipment	6,836,149	345,158	-	7,181,307
Totals	27,769,259	1,535,574	-	29,304,833
Total capital assets, being depreciated, net	59,455,865	(882,282)	585,749	57,987,834
Total capital assets, net	\$ 63,208,413	\$ 262,846	\$ 585,749	\$ 62,885,510

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
Business-type activities:				
Water Utility	*	\$ 2,853,279	*	\$ -
Wastewater Utility	*	4,831,608	*	-

*The City Utilities do not maintain records which accurately segregate construction work in progress projects which would allow disclosure of the information.

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2005, is as follows:

<u>Due To</u>	<u>Due From</u>	
	<u>Water Utility</u>	<u>Wastewater Utility</u>
General Fund	\$ -	\$ 162,500
Wastewater Utility	26,311	-
Totals	<u>\$ 26,311</u>	<u>\$ 162,500</u>

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

E. Leases

Capital Leases

The Wastewater Utility has entered into a capital lease for Wastewater Utility improvements. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2005, are as follows:

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS
(Continued)

2006	\$	36,430
Less amount representing interest		1,485
Present value of net minimum lease payments	\$	34,945

Assets acquired through capital leases still in effect are as follows:

		Wastewater Utility
Improvements other than buildings	\$	299,920
Accumulated depreciation		20,245
Total	\$	279,675

F. Long-Term Liabilities

1. Revenue Bonds

The Utility issues bonds to be paid by income derived from the acquired or constructed assets.

Purpose	Interest Rates		Amount
2003 Waterworks refunding	3%	\$	2,800,000
2004 Wastewater refunding	2.5% to 5%		3,900,000

Unamortized Amounts of Bonds

Revenue bonds at year end include the following amounts of unamortized bond discount.

Purpose	Balance at December 31		Less: Unamortized Discount	Revenue Bonds
2003 Waterworks refunding	\$ 2,800,000	\$	22,050	\$ 2,777,950
2004 Wastewater refunding	3,900,000		42,368	3,857,632

Revenue bonds debt service requirements to maturity are as follows:

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2006	\$ 805,000	\$ 78,000	\$ 1,075,000	\$ 161,250
2007	830,000	53,700	1,025,000	128,125
2008	855,000	28,575	1,000,000	77,500
2009	310,000	4,650	800,000	30,000
Totals	<u>\$ 2,800,000</u>	<u>\$ 164,925</u>	<u>\$ 3,900,000</u>	<u>\$ 396,875</u>

2. Advance Refunding

In prior years, the Utility defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The following outstanding bonds, at December 31, 2005, were considered defeased:

	Amount
Water Utility	\$ 6,020,000
Wastewater Utility	3,840,000

3. 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:					
Revenue bonds payable	\$ 3,585,000	\$ -	\$ 785,000	\$ 2,800,000	\$ 805,000
Capital leases	25,276	-	25,276	-	-
Compensated absences	68,678	35,738	22,797	81,619	13,263
Total Water Utility long-term liabilities	<u>\$ 3,678,954</u>	<u>\$ 35,738</u>	<u>\$ 833,073</u>	<u>\$ 2,881,619</u>	<u>\$ 818,263</u>
Wastewater Utility:					
Revenue bonds payable	\$ 4,865,000	\$ -	\$ 965,000	\$ 3,900,000	\$ 1,075,000
Capital leases	97,107	-	62,162	34,945	34,945
Compensated absences	34,096	10,652	-	44,748	7,272
Total Wastewater Utility long-term liabilities	<u>\$ 4,996,203</u>	<u>\$ 10,652</u>	<u>\$ 1,027,162</u>	<u>\$ 3,979,693</u>	<u>\$ 1,117,217</u>

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Other Information

A. Risk Management

The Utility 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; 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. Risk financing is not utilized for the other risks of loss.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on December 22, 1993.

2. Wastewater Utility

The current rate structure was approved by the Utility on December 12, 1994.

C. Pension Plan

Agent Multiple-Employer Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utility, 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 give the Utility 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:

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utility's annual pension cost 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 and is not presented as an asset/liability of the proprietary funds.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 671,366
Interest on net pension obligation	(40,649)
Adjustment to annual required contribution	46,322
Annual pension cost	677,039
Contributions made	616,848
Increase in net pension obligation	60,191
Net pension obligation, beginning of year	(560,672)
Net pension obligation, end of year	\$ (500,481)

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
Utilities	4.75%
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%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 651,732	88%	\$ (481,742)
	06-30-04	538,182	115%	(560,672)
	06-30-05	677,039	115%	(500,481)

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 12,208,469	\$ 11,560,881	\$ 647,588	106%	\$ 12,950,882	5%
07-01-04	12,381,963	12,850,184	(468,221)	96%	13,907,410	(3%)
07-01-05	12,868,962	14,405,379	(1,536,417)	89%	13,003,857	(12%)

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS

CONDITION OF FINANCIAL RECORDS

The City maintains eight bank accounts. Seven bank accounts are reconciled with individual City funds and are in balance at December 31, 2005. The eighth bank account includes all other City funds and Water and Wastewater Utility operating funds, repair funds, customer deposits funds and capital outlay funds. A control account is maintained for these funds. The eighth bank account and the control account are in balance at December 31, 2005. However, the cash balances of the individual other City funds that comprise the control account exceed the control total by \$325,238. This difference could represent an amount necessary to balance the records or represent an overstatement of fund balances.

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)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT REGISTER

At December 31, 2005, the detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger. At December 31, 2005, the customer deposit asset account and the customer deposit liability account are \$156,863 and \$65,139, respectively. The balance of these two accounts should be the same.

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)

CAPITAL ASSET RECORDS

The Utilities do not maintain sufficient detailed records of capital assets for Utility Plant in Service accounts. Upon purchase, the costs of the capital assets are added to an aggregate Utility Plant in Service. Records providing historical costs for some of the Utilities capital assets are not available and records classifying and summarizing the Utilities capital assets are incomplete. Each year the Utilities' accountants include additions. However, deletions or disposals of capital assets are not recorded. An inventory of capital assets has not been done for the last two years.

A detailed list of Construction Work in Progress for each project is not maintained. Additions to work in progress are recorded each year, but removals to Plant in Service for completed projects are not recorded. Work in Progress balances have gone from \$94,423 in 2001 to \$2,071,108 in 2005 for the Water Utility and from \$1,610,142 in 2001 to \$4,236,143 in 2005 for the Wastewater Utility. No completed projects have been removed and added to Plant in Service since 2002.

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS
(Continued)

Adequate internal control of capital assets needs to be maintained to ensure an accurate total and avoid a material misstatement of assets and accumulated depreciation. Utility personnel need to maintain asset records as required, posting transactions currently, to avoid misstatement. No one person is charged with the duties to maintain these records.

Without the recording of disposals, the capital asset balance and the related accumulated depreciation can become materially overstated. Also, when Work In Progress projects are completed and not removed and added to the capital asset records, depreciation on these assets is not recorded.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND WASTEWATER UTILITIES
CITY OF ELKHART
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2006, with Brian A. Thomas, President of the Common Council; Stephen J. Malone; Controller; and Christy Holman, Deputy Controller.