

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

ANNUAL FINANCIAL REPORT

2005

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
KNOX COUNTY, INDIANA



FILED
09/22/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Beverly S. Marsh	01-01-04 to 12-31-07
Mayor	Terry D. Mooney	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Terry D. Mooney	01-01-05 to 12-31-06
President of the Common Council	Mark R. Hill	01-01-05 to 12-31-06
Superintendent of Utilities	Kirk Bouchie	01-01-05 to 12-31-06
President of the Utility Service Board	Gary Hackney William Hopper	01-01-05 to 12-31-05 01-01-06 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 WATER AND WASTEWATER UTILITIES,
CITY OF VINCENNES, KNOX 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 Vincennes, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Utility's 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 Water and Wastewater Utilities, City of Vincennes, 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 Vincennes 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 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Utilities' management has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

August 1, 2006

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

<u>Assets</u>	2005	
	Water Utility	Wastewater Utility
Current assets:		
Cash and cash equivalents	\$ 342,583	\$ 296,253
Investments	815,000	1,600,000
Interest receivable	4,196	1,728
Accounts receivable (net of allowance)	212,166	365,351
Interfund receivables:		
Interfund services provided and used	-	34,177
Inventories	70,817	-
Prepaid items	48,720	31,364
 Total current assets	 1,493,482	 2,328,873
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	341,760	4,298,952
Bond and interest cash and investments	197,316	200,014
Reserve cash and investments	634,907	-
Customer deposits	177,345	-
Interest receivable	5,152	32,637
 Total restricted assets	 1,356,480	 4,531,603
Deferred charges	39,115	56,588
Capital assets:		
Land, improvements to land and construction in progress	6,020,438	29,576,912
Other capital assets (net of accumulated depreciation)	13,482,495	11,970,360
 Total capital assets	 19,502,933	 41,547,272
 Total noncurrent assets	 20,898,528	 46,135,463
 Total assets	 22,392,010	 48,464,336
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	63,774	38,064
Interfund payables:		
Interfund services provided and used	34,177	-
Customer advances for construction	132,091	153,810
Taxes payable	191	-
Payroll withholding payable	1,273	-
Current liabilities payable from restricted assets:		
Customer deposits	177,345	-
Loans payable	172,158	-
Revenue bonds payable	630,000	130,000
Accrued interest payable	14,647	-
 Total current liabilities	 1,225,656	 321,874
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	622,429	2,405,935
Loans payable	3,979,388	26,538,533
 Total noncurrent liabilities	 4,601,817	 28,944,468
 Total liabilities	 5,827,473	 29,266,342
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	14,098,958	12,472,804
Restricted for debt service	634,907	-
Unrestricted	1,830,672	6,725,190
 Total net assets	 \$ 16,564,537	 \$ 19,197,994

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

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

	2005	
	Water Utility	Wastewater Utility
Operating revenues:		
Unmetered water revenue	\$ 180,372	\$ -
Metered water revenue:		
Residential	2,205,683	-
Measured revenue		4,298,352
Other	<u>126,835</u>	<u>-</u>
Total operating revenues	<u>2,512,890</u>	<u>4,298,352</u>
Operating expenses:		
Source of supply and expense - operations and maintenance	301,543	-
Water treatment expense - operations and maintenance	184,036	-
Collection system - operations and maintenance	-	1,467,879
Pumping - operations and maintenance	219,539	-
Customer accounts	346,949	259,767
Administration and general	297,925	67,432
Depreciation and amortization	479,860	424,529
Other	485,582	8,536
Stormwater expense	<u>-</u>	<u>19,638</u>
Total operating expenses	<u>2,315,434</u>	<u>2,247,781</u>
Operating income	<u>197,456</u>	<u>2,050,571</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	92,807	225,217
Miscellaneous revenue	278,113	67,575
Interest expense	(190,283)	(163,208)
Amortization of bond issue costs	(32,185)	(47,197)
Miscellaneous expense	<u>(1,953)</u>	<u>(41,593)</u>
Total nonoperating revenues	<u>146,499</u>	<u>40,794</u>
Income before contributions and transfers	343,955	2,091,365
Capital contributions	<u>5,263</u>	<u>-</u>
Change in net assets	349,218	2,091,365
Total net assets - beginning	<u>16,215,319</u>	<u>17,106,629</u>
Total net assets - ending	<u>\$ 16,564,537</u>	<u>\$ 19,197,994</u>

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

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

	2005	
	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,363,812	\$ 4,379,152
Payments to suppliers and contractors	(476,744)	(1,085,696)
Payments to employees	(879,343)	(1,544,653)
Interfund services provided (used)	(8,153)	8,153
Other receipts/(payments)	(82,587)	6,344
	<u>916,985</u>	<u>1,763,300</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Proceeds from capital debt	-	46,796
Capital contributions	5,263	-
Acquisition and construction of capital assets	(1,029,903)	(1,329,124)
Principal paid on capital debt	(776,614)	(1,350,208)
Interest paid on capital debt	(192,089)	(163,402)
	<u>(1,993,343)</u>	<u>(2,795,938)</u>
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	12,041,253	17,544,000
Purchase of investments	(12,674,253)	(17,371,000)
Interest received	91,175	212,360
	<u>91,175</u>	<u>212,360</u>
Net cash provided (used) by investing activities	<u>(541,825)</u>	<u>385,360</u>
Net decrease in cash and cash equivalents	(1,618,183)	(647,278)
Cash and cash equivalents, January 1	<u>2,001,094</u>	<u>1,178,497</u>
Cash and cash equivalents, December 31	<u>\$ 382,911</u>	<u>\$ 531,219</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 197,456	\$ 2,050,571
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other non operating income	276,160	25,982
Interest expense considered capital financing activity	-	(864,826)
Depreciation expense	479,860	424,529
(Increase) decrease in assets:		
Accounts receivable	(14,377)	80,800
Interfund services provided or used	-	8,153
Inventories	1,779	-
Prepaid items	(11,418)	1,080
Increase (decrease) in liabilities:		
Accounts payable	10,756	38,064
Interfund payables	(8,153)	-
Customer advances for construction	(8,435)	(1,053)
Taxes payable	(8,713)	-
Payroll w/h payable	1,223	-
Customer deposits	847	-
	<u>719,529</u>	<u>(287,271)</u>
Total adjustments		
Net cash provided by operating activities	<u>\$ 916,985</u>	<u>\$ 1,763,300</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Vincennes (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represents 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.

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.

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

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

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 the 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 they are maintained in separate bank accounts and 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>
Buildings	\$ 400	Straight-line	25-50 years
Improvements other than buildings	400	Straight-line	20-50 years
Machinery and equipment	400	Straight-line	5-25 years
Water collection systems	400	Straight-line	25-50 years
Wastewater distribution and collection systems	400	Straight-line	25-50 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. The total interest expense incurred by the Wastewater and Water Utilities during the current year was \$1,028,228 and \$192,089, respectively. Of the amount, \$864,826, in the Wastewater Utility, was included as part of the cost of capital assets under construction in connection with wastewater improvement projects.

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

5. Compensated Absences

- a. Sick Leave – Utilities employees earn sick leave at the rate of 4 to 10 days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is not paid to employees.
- b. Vacation Leave – Utilities employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave accrued may not exceed the allotted time accrued in a 2 year period. Any time not taken by the employee's anniversary date will be forfeited. Accumulated vacation leave is not paid to employees upon retirement.

No liability is reported for vacation and sick 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 deferral on refunding and 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 and deferral on refunding. 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

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Investment Policies

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

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

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Utilities may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

B. Capital Assets

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

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 259,093	\$ -	\$ -	\$ 259,093
Construction in progress	<u>5,730,219</u>	<u>31,126</u>	<u>-</u>	<u>5,761,345</u>
Capital assets, being depreciated:				
Buildings	2,575,919	205,098	-	2,781,017
Improvements other than buildings	15,633,363	427,658	-	16,061,021
Machinery and equipment	894,727	227,623	28,839	1,093,511
Transportation equipment	141,783	138,398	49,049	231,132
Less accumulated depreciation for:				
Buildings	(1,216,713)	(56,259)	-	(1,272,972)
Improvements other than buildings	(4,377,322)	(374,458)	(16,021)	(4,735,759)
Machinery and equipment	(588,348)	(34,022)	(16,568)	(605,802)
Transportation equipment	(99,831)	(15,121)	(45,299)	(69,653)
Total Water Utility capital assets, net	<u>18,952,890</u>	<u>550,043</u>	<u>-</u>	<u>19,502,933</u>

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

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities (continued):				
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	95,000	-	-	95,000
Construction in progress	<u>28,572,455</u>	<u>909,457</u>	<u>-</u>	<u>29,481,912</u>
Capital assets, being depreciated:				
Buildings	7,934,710	43,657	-	7,978,367
Improvements other than buildings	8,724,801	798,265	-	9,523,066
Machinery and equipment	1,144,918	257,225	151,664	1,250,479
Transportation equipment	158,330	185,345	17,600	326,075
Less accumulated depreciation for:				
Buildings	(2,766,148)	(178,847)	-	(2,944,995)
Improvements other than buildings	(3,412,507)	(170,542)	-	(3,583,049)
Machinery and equipment	(529,094)	(54,195)	(151,664)	(431,625)
Transportation equipment	(144,614)	(20,944)	(17,600)	(147,958)
Total Wastewater Utility capital assets, net	<u>39,777,851</u>	<u>1,769,421</u>	<u>-</u>	<u>41,547,272</u>
Total business-type activities capital assets, net	<u>\$ 58,730,741</u>	<u>\$ 2,319,464</u>	<u>\$ -</u>	<u>\$ 61,050,205</u>

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

Water	\$ 479,860
Wastewater	<u>424,529</u>
Total depreciation expense	<u>\$ 904,389</u>

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>
Water utility improvements	\$ 5,761,345	\$ 5,761,345
Wastewater utility improvements	<u>29,481,912</u>	<u>29,481,912</u>
Totals	<u>\$ 35,243,257</u>	<u>\$ 35,243,257</u>

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

D. Interfund Balances and Activity

Interfund Receivables and Payables

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

Due To	Water Utility
Wastewater Utility	<u>\$ 34,177</u>

The interfund balance results from the time lag between the dates that transactions are recorded in the accounting system for customer revenues to the gross revenue account and the transfer of said revenues to each utility.

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
2003 Waterworks refunding revenue bonds	2.85% to 3.25%	\$ 1,275,000
1998 Sewageworks revenue refunding bonds	4.10% to 4.40%	<u>2,655,000</u>
 Total		 <u><u>\$ 3,930,000</u></u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2006	\$ 630,000	\$ 34,264	\$ 130,000	\$ 57,136
2007	645,000	15,522	275,000	106,141
2008	-	-	285,000	94,590
2009	-	-	290,000	82,479
2010	-	-	305,000	70,010
2011-2015	-	-	<u>1,370,000</u>	<u>138,920</u>
 Totals	 <u><u>\$ 1,275,000</u></u>	 <u><u>\$ 49,786</u></u>	 <u><u>\$ 2,655,000</u></u>	 <u><u>\$ 549,276</u></u>

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

2. Loan Payable

The Water Utility has entered into a loan. Annual debt service requirements to maturity for the loan, including interest of \$1,387,533, are as follows:

2006	\$	307,750
2007		307,539
2008		307,757
2009		307,757
2010		307,757
2011-2015		1,538,742
2016-2020		1,538,793
2021-2023		<u>922,984</u>
 Total		 <u>\$ 5,539,079</u>

3. Advance Refunding

In prior years, the Utilities 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 Utility's financial statements. The following outstanding bonds, at December 31, 2005, were considered defeased:

	<u>Amount</u>
Water and Wastewater Utilities revenue bonds	<u>\$ 4,295,000</u>

4. State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank. The proceeds of which are set aside to finance the construction costs are accrued to the maximum allowed. The wastewater improvement loans established a maximum draw of \$27,000,000. As of December 31, 2005, the loan principal balance was \$26,538,533. Annual debt service requirements for the loans will not be determined until planned construction projects are completed.

5. Changes in Long-Term Liabilities

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

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable:					
Water Utility	\$ 1,885,000	\$ -	\$ 610,000	\$ 1,275,000	\$ 630,000
Wastewater Utility	3,630,000	-	975,000	2,655,000	130,000
Less unamortized discount	(7,354)	-	(1,558)	(5,796)	-
Less deferred amount on refunding	<u>(178,051)</u>	<u>-</u>	<u>(42,211)</u>	<u>(135,840)</u>	<u>-</u>
Total revenue bonds payable	<u>5,329,595</u>	<u>-</u>	<u>1,541,231</u>	<u>3,788,364</u>	<u>760,000</u>
Loans payable:					
Water Utility	4,318,160	-	166,614	4,151,546	172,158
Wastewater Utility	<u>26,866,944</u>	<u>46,796</u>	<u>375,207</u>	<u>26,538,533</u>	<u>-</u>
Total long-term liabilities	<u>\$ 36,514,699</u>	<u>\$ 46,796</u>	<u>\$ 2,083,052</u>	<u>\$ 34,478,443</u>	<u>\$ 932,158</u>

F. Restricted Assets

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

	<u>Water Utility</u>	<u>Wastewater Utility</u>
Depreciation	\$ 345,180	\$ 4,331,532
Bond and interest	197,535	200,071
Debt reserve	636,226	-
Customer deposits	<u>177,539</u>	<u>-</u>
Total restricted assets	<u>\$ 1,356,480</u>	<u>\$ 4,531,603</u>

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.

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

Job Related Injuries

During 1994, the City, including the Utility, joined together with other governmental entities in the Indiana Public Employer's Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers compensation claims. The City, including the Utility, pays an annual premium to the risk pool for its job related injuries coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on March 25, 2002. The Utility has 6,710 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on March 25, 2002. The Utility has 5,684 customers.

C. Pension Plan

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. 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:

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

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
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 Utility's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	Water Utility PERF
Annual required contribution	\$ 65,822
Interest on net pension obligation	1,013
Adjustment to annual required contribution	(1,154)
Annual pension cost	65,681
Contributions made	63,625
Increase in net pension obligation	2,056
Net pension obligation, beginning of year	13,967
Net pension obligation, end of year	\$ 16,023

	Water Utility PERF
Contribution rates:	
Utilities	6.50%
Plan members	3%
Actuarial valuation date	07-01-04
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

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

Actuarial Assumptions	Water Utility PERF
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	\$ 64,115	72%	\$ 13,067
	06-30-04	58,519	98%	13,967
	06-30-05	65,681	109%	16,023

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

Water Utility PERF Pension Plan

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	\$ 1,124,390	\$ 1,489,066	\$ (364,676)	76%	\$ 771,902	(47%)
07-01-04	1,141,048	1,478,411	(337,363)	77%	912,814	(37%)
07-01-05	1,194,460	1,441,131	(246,671)	83%	731,973	(34%)

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
AUDIT RESULT AND COMMENT

CUSTOMER DEPOSIT REGISTER (Applies to Water Utility only)

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger.

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)

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
EXIT CONFERENCE

The contents of this report were discussed on August 7, 2006, with Kirk Bouchie, Superintendent of Utilities; Rebecca J. Willis, Utilities Bookkeeper; William Hopper, President of Utility Service Board; Beverly S. Marsh, Clerk-Treasurer; Mark R. Hill, President of the Common Council; and Donald Kirk, City Council Member. The officials concurred with our audit finding.