

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

ANNUAL FINANCIAL REPORT

2005

WASTEWATER UTILITY

TOWN OF CUMBERLAND

HANCOCK AND MARION COUNTIES, INDIANA



**FILED**  
10/10/2006



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kay F. Dashley Linda J. Jeter	01-01-04 to 04-22-05 04-23-05 to 12-31-07
President of the Town Council	Sandra Cottey	01-01-05 to 12-31-06
Superintendent of Wastewater Utility	Winston Strunk	01-01-05 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WASTEWATER UTILITY, TOWN OF  
CUMBERLAND, HANCOCK AND MARION COUNTIES, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Wastewater Utility, a department of the Town of Cumberland, 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 Wastewater Utility, Town of Cumberland, 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 Town that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the Town of Cumberland 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 Wastewater Utility, 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 Town has 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

September 21, 2006

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
STATEMENT OF NET ASSETS  
December 31, 2005

Assets

Current assets:	
Cash and cash equivalents	\$ 1,357,870
Accounts receivable	139,634
Prepaid items	<u>9,105</u>
Total current assets	<u>1,506,609</u>
Noncurrent assets:	
Restricted cash and cash equivalents:	
Depreciation cash and cash equivalents	1,056,048
Bond and interest cash and cash equivalents	312,875
Construction cash and cash equivalents	153,121
Bond reserve cash and cash equivalents	<u>553,849</u>
Total restricted assets	<u>2,075,893</u>
Capital assets:	
Land and construction in progress	104,479
Other capital assets (net of accumulated depreciation)	<u>11,756,485</u>
Total capital assets	<u>11,860,964</u>
Total noncurrent assets	<u>13,936,857</u>
Total assets	<u>15,443,466</u>

Liabilities

Current liabilities:	
Contracts payable	15,184
Accrued wages and withholdings payable	2,414
Current liabilities payable from restricted assets:	
Revenue bonds payable	210,000
Accrued interest payable	<u>90,690</u>
Total current liabilities	<u>318,288</u>
Noncurrent liabilities:	
Revenue bonds payable (net of unamortized discounts)	<u>5,439,675</u>
Total liabilities	<u>5,757,963</u>

Net Assets

Invested in capital assets, net of related debt	6,211,289
Restricted for:	
Debt service	866,724
Capital projects	1,209,169
Unrestricted	<u>1,398,321</u>
Total net assets	<u>\$ 9,685,503</u>

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

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2005

Operating revenues:	
Measured revenue:	
Residential and commercial	\$ 1,428,973
Other	<u>47,591</u>
Total operating revenues	<u>1,476,564</u>
Operating expenses:	
Customer accounts	38,667
Administration and general	156,127
Depreciation and amortization	343,210
Salaries and wages	105,493
Employee pensions and benefits	30,547
Purchased wastewater treatment	<u>442,796</u>
Total operating expenses	<u>1,116,840</u>
Operating income	<u>359,724</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	111,409
Interest expense	<u>(296,155)</u>
Total nonoperating expenses	<u>(184,746)</u>
Change in net assets	174,978
Total net assets - beginning	<u>9,510,525</u>
Total net assets - ending	<u>\$ 9,685,503</u>

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

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2005

Cash flows from operating activities:	
Receipts from customers and users	\$ 1,478,432
Payments to suppliers and contractors	(638,496)
Payments to employees	<u>(138,783)</u>
Net cash provided by operating activities	<u>701,153</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(287,632)
Principal paid on capital debt	(200,000)
Interest paid on capital debt	<u>(277,545)</u>
Net cash used by capital and related financing activities	<u>(765,177)</u>
Cash flows from investing activities:	
Interest received	<u>111,409</u>
Net increase in cash and cash equivalents	47,385
Cash and cash equivalents, January 1	<u>3,386,378</u>
Cash and cash equivalents, December 31	<u><u>\$ 3,433,763</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 359,724</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	343,210
(Increase) decrease in assets:	
Accounts receivable	1,868
Prepaid items	(1,436)
Increase (decrease) in liabilities:	
Accounts payable	(14,654)
Accrued wages and withholdings payable	(2,743)
Contracts payable	<u>15,184</u>
Total adjustments	<u>341,429</u>
Net cash provided by operating activities	<u><u>\$ 701,153</u></u>

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

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utility and are not intended to present fairly the position of the Town of Cumberland (Town), and the results of its operations and cash flows of its enterprise funds. The Utility, whose operations are controlled by the Town, represents a substantial portion of the Town'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.

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Prepaid Items

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Straight-line	50 years
Improvements other than buildings	5,000	Straight-line	100 years
Machinery and equipment	5,000	Straight-line	10 years
Transportation equipment	5,000	Straight-line	5 years
Wastewater distribution and collection systems	5,000	Straight-line	100 years

For depreciated assets, the costs 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 – Utility employees earn sick leave at the rate of 8 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is not paid to employees upon separation.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 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.

II. Detailed Notes on All Funds

A. Deposits

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:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 28,692	\$ -	\$ -	\$ 28,692
Construction in progress	49,699	26,088	-	75,787
	78,391	26,088	-	104,479
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Improvements other than buildings	5,722,198	261,543	-	5,983,741
Buildings	4,563,531	-	-	4,563,531
Machinery and equipment	1,899,927	-	-	1,899,927
	12,185,656	261,543	-	12,447,199
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Improvements other than buildings	141,876	57,222	-	199,098
Buildings	29,921	91,270	-	121,191
Machinery and equipment	180,432	189,993	-	370,425
	352,229	338,485	-	690,714
Totals				
Total capital assets, being depreciated, net	11,833,427	(76,942)	-	11,756,485
Total capital assets, net	\$ 11,911,818	\$ (50,854)	\$ -	\$ 11,860,964

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Wastewater      \$ 338,485

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2005
Wetlands/East Interceptor	<u>\$ 75,787</u>	<u>\$ 75,787</u>

D. 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	Revenue Bonds	Less Unamortized (Premium) Discount	Net Revenue Bonds
2001 Construction Wastewater Facility	4.13% to 5.10%	<u>\$ 5,730,000</u>	<u>(80,325)</u>	<u>\$ 5,649,675</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended	Principal	Interest
December 31		
2006	\$ 210,000	\$ 267,739
2007	220,000	258,870
2008	235,000	249,456
2009	245,000	239,435
2010	260,000	228,700
2011-2015	1,535,000	949,278
2016-2020	2,035,000	520,443
2021-2022	<u>990,000</u>	<u>51,255</u>
Totals	<u>\$ 5,730,000</u>	<u>\$ 2,765,175</u>

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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
Revenue bonds payable	\$ 5,930,000	\$ -	\$ 200,000	\$ 5,730,000	\$ 210,000

E. Restricted Assets

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

Revenue bond debt accounts	\$ 866,724
Depreciation account	1,056,048
Revenue bond construction account	153,121
Total restricted assets	\$ 2,075,893

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 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.

Job Related Illnesses or injuries to Employees

During 1991, 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 various governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Utility pays an annual premium to the risk pool for its participation. 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. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Rate Structure

The current rate structure was approved by the Town Council on July 16, 2003.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town, 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

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 Town and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the Town as a whole and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds.

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 25,989
Interest on net pension obligation	585
Adjustment to annual required contribution	(667)
Annual pension cost	25,907
Contributions made	23,232
Increase in net pension obligation	2,675
Net pension obligation, beginning of year	8,073
Net pension obligation, end of year	\$ 10,748

Contribution rates:	
Utility	3%
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	\$ 17,434	45%	\$ 279
	06-30-04	21,196	63%	8,073
	06-30-05	25,907	110%	10,748

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
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	\$ 435,368	\$ 353,568	\$ 81,800	123%	\$ 610,867	13%
07-01-04	434,633	431,460	3,173	101%	585,286	1%
07-01-05	452,946	460,151	(7,205)	98%	676,250	(1%)

WASTEWATER UTILITY  
TOWN OF CUMBERLAND  
EXIT CONFERENCE

The contents of this report were discussed on September 21, 2006, with Linda J. Jeter, Clerk-Treasurer; Kay F. Dashley, former Clerk-Treasurer; Sandra Cottey, President of the Town Council; and Debbie Blevins, Chief Deputy Clerk-Treasurer. Our audit disclosed no material items that warrant comment at this time.