

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

ANNUAL FINANCIAL REPORT

2005

WATER AND WASTEWATER UTILITIES

CITY OF KENDALLVILLE

NOBLE COUNTY, INDIANA



FILED

11/16/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Auditor's Report.....	3
Statement of Net Assets.....	4
Statement of Revenues, Expenses and Other Changes in Fund Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-17
Supplementary Information:	
Schedule of Funding Progress	18
Audit Results and Comments:	
Condition of Records – Accounts Receivable Control	19
Bank Account Reconciliations	19
Exit Conference.....	20

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marsha L. Kiersey	01-01-04 to 12-31-07
Mayor	W. SuzAnne Handshoe	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	John Reimke	01-01-05 to 12-31-06
President of the Common Council	W. SuzAnne Handshoe	01-01-04 to 12-31-07
Superintendent of Water Utility	Scott Mosley	01-01-05 to 12-31-06
Superintendent of Wastewater	Richard J. McGee	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 WATER AND WASTEWATER UTILITIES,
CITY OF KENDALLVILLE, NOBLE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities, a department of the City of Kendallville, 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 Kendallville, 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 Kendallville 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.

The Schedule of Funding Progress, as listed in the table of contents, is not required parts 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 City 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

October 24, 2006

WATER AND WASTEWATER UTILITIES
CITY OF KENDALLVILLE
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
December 31, 2005

<u>Assets</u>	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 398,309	\$ 1,109,341	\$ 1,507,650
Accounts receivable (net of allowance)	125,483	122,686	248,169
Inventories	42,200	21,021	63,221
Prepaid items	<u>996</u>	<u>996</u>	<u>1,992</u>
Total current assets	<u>566,988</u>	<u>1,254,044</u>	<u>1,821,032</u>
Noncurrent assets:			
Restricted cash and cash equivalents:			
Bond and interest	34,734	-	34,734
Depreciation	104,742	-	104,742
Reserve	<u>87,413</u>	<u>150,860</u>	<u>238,273</u>
Total restricted assets	<u>226,889</u>	<u>150,860</u>	<u>377,749</u>
Deferred charges	<u>4,142</u>	<u>10,237</u>	<u>14,379</u>
Capital assets:			
Land and construction in progress	43,480	1,536,880	1,580,360
Other capital assets (net of accumulated depreciation)	<u>5,438,315</u>	<u>6,557,769</u>	<u>11,996,084</u>
Total capital assets	<u>5,481,795</u>	<u>8,094,649</u>	<u>13,576,444</u>
Total noncurrent assets	<u>5,712,826</u>	<u>8,255,746</u>	<u>13,968,572</u>
Total assets	<u>6,279,814</u>	<u>9,509,790</u>	<u>15,789,604</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	26,420	22,874	49,294
Accrued wages and benefits payable	24,871	29,539	54,410
Taxes payable	4,032	-	4,032
Compensated absences	3,945	3,427	7,372
Current liabilities payable from restricted assets:			
Accounts payable	14,247	51,228	65,475
Contracts payable	-	38,891	38,891
Revenue bonds payable	70,000	33,976	103,976
Accrued interest payable	<u>2,398</u>	<u>4,521</u>	<u>6,919</u>
Total current liabilities	<u>145,913</u>	<u>184,456</u>	<u>330,369</u>
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts)	<u>65,041</u>	<u>-</u>	<u>65,041</u>
Total liabilities	<u>210,954</u>	<u>184,456</u>	<u>395,410</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	5,346,754	8,060,673	13,407,427
Restricted for debt service	122,147	150,860	273,007
Restricted for capital projects	104,742	-	104,742
Unrestricted	<u>495,217</u>	<u>1,113,801</u>	<u>1,609,018</u>
Total net assets	<u>\$ 6,068,860</u>	<u>\$ 9,325,334</u>	<u>\$ 15,394,194</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF KENDALLVILLE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
For The Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Total
Operating revenues:			
Metered water revenue	\$ 900,965	\$ -	\$ 900,965
Fire protection revenue	110,157	-	110,157
Penalties	7,536	26,622	34,158
Measured revenue	-	1,327,387	1,327,387
Other	<u>124,856</u>	<u>121,404</u>	<u>246,260</u>
Total operating revenues	<u>1,143,514</u>	<u>1,475,413</u>	<u>2,618,927</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	135,783	-	135,783
Water treatment expense - operations and maintenance	322,992	-	322,992
Transmission and distribution	190,681	-	190,681
Collection system - operations and maintenance	-	114,480	114,480
Pumping - operations and maintenance	-	34,785	34,785
Treatment and disposal expense - operations and maintenance	-	632,853	632,853
Customer accounts	67,737	63,985	131,722
Administration and general	274,521	169,414	443,935
Depreciation	<u>148,741</u>	<u>149,649</u>	<u>298,390</u>
Total operating expenses	<u>1,140,455</u>	<u>1,165,166</u>	<u>2,305,621</u>
Operating income	<u>3,059</u>	<u>310,247</u>	<u>313,306</u>
Nonoperating revenues (expenses):			
Interest	13,436	32,269	45,705
Interest expense	(17,685)	(28,217)	(45,902)
Amortization of deferred charges	<u>(1,843)</u>	<u>(10,241)</u>	<u>(12,084)</u>
Total nonoperating revenue (expenses)	<u>(6,092)</u>	<u>(6,189)</u>	<u>(12,281)</u>
Change in net assets	(3,033)	304,058	301,025
Total net assets - beginning	<u>6,071,893</u>	<u>9,021,276</u>	<u>15,093,169</u>
Total net assets - ending	<u>\$ 6,068,860</u>	<u>\$ 9,325,334</u>	<u>\$ 15,394,194</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF KENDALLVILLE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For The Year Ended December 31, 2005

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,193,967	\$ 1,485,319	\$ 2,679,286
Payments to suppliers	(548,727)	(462,034)	(1,010,761)
Payments to employees	(403,220)	(492,132)	(895,352)
Payments for taxes	(13,315)	-	(13,315)
Other receipts	<u>62,694</u>	<u>80,188</u>	<u>142,882</u>
Net cash provided by operating activities	<u>291,399</u>	<u>611,341</u>	<u>902,740</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(41,744)	(446,824)	(488,568)
Principal paid on capital debt	(70,000)	(370,000)	(440,000)
Interest paid on capital debt	<u>(9,514)</u>	<u>(12,673)</u>	<u>(22,187)</u>
Net cash used by capital and related financing activities	<u>(121,258)</u>	<u>(829,497)</u>	<u>(950,755)</u>
Cash flows from investing activities:			
Interest received	<u>13,436</u>	<u>32,269</u>	<u>45,705</u>
Net increase (decrease) in cash and cash equivalents	183,577	(185,887)	(2,310)
Cash and cash equivalents, January 1	<u>441,621</u>	<u>1,446,088</u>	<u>1,887,709</u>
Cash and cash equivalents, December 31	<u>\$ 625,198</u>	<u>\$ 1,260,201</u>	<u>\$ 1,885,399</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 3,059	\$ 310,247	\$ 313,306
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	148,741	149,649	298,390
(Increase) decrease in assets:			
Accounts receivable	113,147	90,094	203,241
Inventories	-	3,724	3,724
Prepaid items	78	78	156
Increase (decrease) in liabilities:			
Accounts payable	11,307	39,900	51,207
Accrued wages and benefits payable	9,556	14,222	23,778
Taxes payable	1,566	-	1,566
Compensated absence payable	<u>3,945</u>	<u>3,427</u>	<u>7,372</u>
Total adjustments	<u>288,340</u>	<u>301,094</u>	<u>589,434</u>
Net cash provided by operating activities	<u>\$ 291,399</u>	<u>\$ 611,341</u>	<u>\$ 902,740</u>

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

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
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 City of Kendallville (City), and the results of its operations and cash flows of its enterprise funds. The Utility, 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 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 UTILITY
CITY OF KENDALLVILLE
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 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 of debt payments.

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	\$ 5,000	Straight-line	50 years
Improvements other than building	5,000	Straight-line	25-50 years
Machinery and equipment	5,000	Straight-line	5-20 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 – Utility employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 90 days. Accumulated sick leave up to 45 days is paid to employees upon retirement at \$10 per day.
- b. Vacation Leave – Utility 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.

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

- c. Personal Leave – Utility employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

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

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. At December 31, 2005, the bank balance held at Campbell and Fetter Bank in the amount of \$3,216,692 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor - City of Kendallville's name. The remaining bank 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

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the City had the following investments:

Investment Type	Primary Government Market Value
Repurchase agreements	\$ 3,216,692

Investment Policies

Indiana Code 5-13-9 authorizes the City 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

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 City 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 City 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>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 33,480	\$ -	\$ -	\$ 33,480
Construction in progress	<u>2,824</u>	<u>7,176</u>	<u>-</u>	<u>10,000</u>
 Total capital assets, not being depreciated	 <u>36,304</u>	 <u>7,176</u>	 <u>-</u>	 <u>43,480</u>
Capital assets, being depreciated:				
Buildings	461,912	-	-	461,912
Improvements other than buildings	8,332,759	34,569	-	8,367,328
Machinery and equipment	<u>1,121,414</u>	<u>-</u>	<u>-</u>	<u>1,121,414</u>
 Totals	 <u>9,916,085</u>	 <u>34,569</u>	 <u>-</u>	 <u>9,950,654</u>

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued:)				
Less accumulated depreciation for:				
Buildings	257,676	6,928	-	264,604
Improvements other than buildings	3,303,640	124,992	-	3,428,632
Machinery and equipment	<u>802,282</u>	<u>16,821</u>	<u>-</u>	<u>819,103</u>
 Totals	<u>4,363,598</u>	<u>148,741</u>	<u>-</u>	<u>4,512,339</u>
 Total capital assets, being depreciated, net	<u>5,552,487</u>	<u>(114,172)</u>	<u>-</u>	<u>5,438,315</u>
 Total capital assets, net	<u>\$ 5,588,791</u>	<u>\$ (106,996)</u>	<u>\$ -</u>	<u>\$ 5,481,795</u>
 <u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 1,433,724	\$ -	\$ -	\$ 1,433,724
Construction in progress	<u>91,613</u>	<u>182,363</u>	<u>170,820</u>	<u>103,156</u>
 Total capital assets, not being depreciated	<u>1,525,337</u>	<u>182,363</u>	<u>170,820</u>	<u>1,536,880</u>
 Capital assets, being depreciated:				
Buildings	416,938	-	-	416,938
Improvements other than buildings	9,260,409	474,172	-	9,734,581
Machinery and equipment	<u>299,229</u>	<u>-</u>	<u>-</u>	<u>299,229</u>
 Totals	<u>9,976,576</u>	<u>474,172</u>	<u>-</u>	<u>10,450,748</u>
 Less accumulated depreciation for:				
Buildings	203,548	6,254	-	209,802
Improvements other than buildings	3,257,928	138,907	-	3,396,835
Machinery and equipment	<u>281,854</u>	<u>4,488</u>	<u>-</u>	<u>286,342</u>
 Totals	<u>3,743,330</u>	<u>149,649</u>	<u>-</u>	<u>3,892,979</u>
 Total capital assets, being depreciated, net	<u>6,233,246</u>	<u>324,523</u>	<u>-</u>	<u>6,557,769</u>
 Total capital assets, net	<u>\$ 7,758,583</u>	<u>\$ 506,886</u>	<u>\$ 170,820</u>	<u>\$ 8,094,649</u>

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

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Water	\$ 148,741
Wastewater	<u>149,649</u>
 Total depreciation expense	 <u>\$ 298,390</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	\$ 10,000	\$ 10,000	\$ -	\$ -
Waterwater Utility	<u>152,890</u>	<u>103,156</u>	<u>40,134</u>	<u>9,600</u>
 Totals	 <u>\$ 162,890</u>	 <u>\$ 113,156</u>	 <u>\$ 40,134</u>	 <u>\$ 9,600</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	Amount	Less Discounts Loss on Refunding	Net Amount
Waterworks refunding revenue bonds of 1998	5%	\$ 155,000	\$ 19,959	\$ 135,041
Waterwater refunding revenue bonds of 2002	4%	<u>45,000</u>	<u>11,024</u>	<u>33,976</u>
 Totals		 <u>\$ 200,000</u>	 <u>\$ 30,983</u>	 <u>\$ 169,017</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		WastewaterUtility	
	Principal	Interest	Principal	Interest
2006	\$ 70,000	\$ 6,311	\$ 45,000	\$ 884
2007	70,000	3,099	-	-
2008	<u>15,000</u>	<u>344</u>	<u>-</u>	<u>-</u>
 Totals	 <u>\$ 155,000</u>	 <u>\$ 9,754</u>	 <u>\$ 45,000</u>	 <u>\$ 884</u>

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
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:

	<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	\$ 225,000	\$ -	\$ 70,000	\$ 155,000	\$ 70,000
Wastewater Utility	415,000		370,000	45,000	45,000
Less deferred amount on refunding	<u>43,331</u>	<u>-</u>	<u>16,292</u>	<u>27,039</u>	<u>-</u>
Total revenue bonds payable	596,669	-	423,708	172,961	115,000
Compensated absences	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>\$ 596,669</u>	<u>\$ -</u>	<u>\$ 423,708</u>	<u>\$ 172,961</u>	<u>\$ 115,000</u>

E. Restricted Assets

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

Bond and interest	\$ 34,734
Depreciation	104,742
Reserve	<u>238,273</u>
Total restricted assets	<u>\$ 377,749</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; 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 are no significant reductions in insurance by major category of risk.

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Public Entity Risk Pool

During 2004, the City joined with other governmental entities to form the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 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 Worker's Compensation. 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.

Group Health Insurance

The City has chosen to establish a risk financing fund for risk associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is accounted for in the Health Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$20,000 per year and an aggregate claim in excess of \$581,111. Settled claims resulting from this risk did not exceed commercial insurance coverage for the past three years. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon the percentage of each fund's current payroll as it relates to total payroll, and are reported as quasiexternal transactions. Provisions are also made for unexpected and unusual claims.

Unemployment Insurance

The City has chosen to establish a risk financing fund for risk associated with unemployment compensation. The risk financing is accounted for in the Employment Security Fund, an internal service fund, where assets are set aside for claim settlements.

B. Subsequent Events

In 2006, the Utility issued \$4,075,000 of wastewater revenue bonds to finance the costs of additions, extensions and improvements to wastewater plant.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on March 14, 1992. The Utility has 3,689 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on November 2, 2004. The Utility has 3,547 customers.

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plan

Agent Multiple-Employer and Single-Employer Defined 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:

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 presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds).

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 89,516
Interest on net pension obligation	(1,611)
Adjustment to annual required contribution	1,836
Annual pension cost	89,741
Contributions made	116,998
Decrease in net pension obligation	(27,257)
Net pension obligation, beginning of year	(22,218)
Net pension obligation, end of year	\$ (49,475)
Contribution rates:	
Utilities	5.5%
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	75 % of expected actuarial value plus 25% of market value

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%

WATER AND WASTEWATER UTILITY
 CITY OF KENDALLVILLE
 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	\$ 112,489	88%	\$ (11,427)
	06-30-04	95,927	111%	(22,218)
	06-30-05	89,741	122%	(49,475)

WATER AND WASTEWATER 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	\$ 1,879,680	\$ 2,009,199	\$ (129,519)	94%	\$ 1,844,696	(7%)
07-01-04	1,915,675	1,983,503	(67,828)	97%	1,768,157	(4%)
07-01-05	2,008,091	2,467,118	(459,027)	81%	2,005,253	(23%)

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS - ACCOUNTS RECEIVABLE CONTROL

The Accounts Receivable detail in the Book Totals Report did not agree with the control account in the Trial Balance. The differences at December 31, 2005, for the Water and Wastewater Utilities were \$9,699 and \$(17,779), respectively. This was also mentioned in prior Audit Report B25494.

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)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not presented for audit or were incorrect. The funds ledger balance was \$53,235.24 more than the bank balance. The Clerk-Treasurer was advised to perform monthly bank reconciliations so that the bank and funds ledger will be in agreement. This was also mentioned in prior Audit Report B25494.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

WATER AND WASTEWATER UTILITY
CITY OF KENDALLVILLE
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2006, with Marsha L. Kiersey, Clerk-Treasurer; and W. SuzAnne Handshoe, Mayor.