

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2005

WATER AND WASTEWATER UTILITIES

TOWN OF ELLETTSVILLE

MONROE COUNTY, INDIANA



**FILED**  
04/05/2007



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OFFICIALS

| <u>Office</u>                           | <u>Official</u>   | <u>Term</u>  |
|---|---|--|
| Clerk-Treasurer                         | Sandra C. Hash  | 01-01-04 to 12-31-07   |
| President of the<br>Town Council        | Patrick Stoffers<br>William Evans<br>Dennis L. Williamson | 01-01-05 to 12-08-06<br>12-09-06 to 12-31-06<br>01-01-07 to 12-31-07 |
| Superintendent of<br>Water Utility      | Michael Farmer  | 01-01-05 to 12-31-07   |
| Superintendent of<br>Wastewater Utility | Jeffery Farmer  | 01-01-05 to 12-31-07   |
| Utility Office Manager                  | Rebecca S. Wines  | 01-01-05 to 12-31-07   |



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,  
TOWN OF ELLETTSVILLE, MONROE COUNTY, INDIANA

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

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

As discussed in Note I, the financial statements of the Water and Wastewater Utilities, Town of Ellettsville, 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 Utilities. They do not purport to, and do not, present fairly the financial position of the Town of Ellettsville 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 Utilities' have 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

March 15, 2007

TOWN OF ELLETTSVILLE  
STATEMENT OF NET ASSETS  
December 31, 2005

| <u>Assets</u>   | <u>Water<br/>Utility</u> | <u>Wastewater<br/>Utility</u> |
|---|--------------------------|-------------------------------|
| Current assets:   |                          |                               |
| Cash  | \$ 112,773               | \$ 258,690                    |
| Investments   | 176,795                  | 200,000                       |
| Interest receivable                                     | 541                      | 1,735                         |
| Accounts receivable (net of allowance)                  | 107,502                  | 114,209                       |
| Inventories   | <u>102,381</u>           | <u>21,465</u>                 |
| Total current assets                                    | <u>499,992</u>           | <u>596,099</u>                |
| Noncurrent assets:                                      |                          |                               |
| Restricted cash and investments:                        |                          |                               |
| Bond and interest cash and investments                  | 13,687                   | 82,031                        |
| Debt service reserve cash and investments               | 127,584                  | 722,236                       |
| Improvement cash and investments                        | 147,368                  | -                             |
| Customer deposits                                       | 29,545                   | 12,880                        |
| Capacity user fee cash and investments                  | -                        | 436,834                       |
| Equipment replacement cash and investments              | <u>-</u>                 | <u>699,181</u>                |
| Total restricted assets                                 | <u>318,184</u>           | <u>1,953,162</u>              |
| Deferred charges  | <u>24,104</u>            | <u>18,232</u>                 |
| Capital assets:   |                          |                               |
| Land, improvements to land and construction in progress | 32,500                   | 112,210                       |
| Other capital assets (net of accumulated depreciation)  | <u>4,579,050</u>         | <u>9,698,928</u>              |
| Total capital assets                                    | <u>4,611,550</u>         | <u>9,811,138</u>              |
| Total noncurrent assets                                 | <u>4,953,838</u>         | <u>11,782,532</u>             |
| Total assets  | <u>5,453,830</u>         | <u>12,378,631</u>             |
| <u>Liabilities</u>                                      |                          |                               |
| Current liabilities:                                    |                          |                               |
| Accounts payable  | 56,381                   | 39,999                        |
| Taxes payable   | 4,834                    | -                             |
| Wages payable   | 7,136                    | 7,081                         |
| Compensated absences                                    | 1,173                    | 1,173                         |
| Current liabilities payable from restricted assets:     |                          |                               |
| Customer deposits                                       | <u>29,545</u>            | <u>12,880</u>                 |
| Total current liabilities                               | <u>99,069</u>            | <u>61,133</u>                 |
| Noncurrent liabilities:                                 |                          |                               |
| Revenue bonds payable (net of unamortized discounts)    | 1,066,410                | -                             |
| Loan payable  | <u>-</u>                 | <u>6,435,000</u>              |
| Total noncurrent liabilities                            | <u>1,066,410</u>         | <u>6,435,000</u>              |
| Total liabilities                                       | <u>1,165,479</u>         | <u>6,496,133</u>              |
| <u>Net Assets</u>                                       |                          |                               |
| Invested in capital assets, net of related debt         | 3,545,140                | 3,376,138                     |
| Restricted for debt service                             | 141,271                  | 804,267                       |
| Restricted for customer deposits                        | 29,545                   | 12,880                        |
| Restricted for improvements and equipment replacement   | 147,368                  | 1,136,015                     |
| Unrestricted  | <u>425,027</u>           | <u>553,198</u>                |
| Total net assets  | <u>\$ 4,288,351</u>      | <u>\$ 5,882,498</u>           |

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

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

|   | Water<br>Utility    | Wastewater<br>Utility |
|---|---------------------|-----------------------|
| Operating revenues:                     |                     |                       |
| Unmetered water revenue                 | \$ 470              | \$ -                  |
| Metered water revenue:                  |                     |                       |
| Residential                             | 860,209             | -                     |
| Commercial                              | 71,308              | -                     |
| Residential sales                       | -                   | 845,844               |
| Commercial and industrial sales         | -                   | 58,117                |
| Fire protection revenue                 | 90,104              | -                     |
| Penalties                               | 9,007               | 23,110                |
| Other water revenue                     | 96,738              | -                     |
| Flat rate revenues                      | -                   | 660,938               |
| Other revenue                           | -                   | 62,811                |
|   | <u>1,127,836</u>    | <u>1,650,820</u>      |
| Total operating revenues                |                     |                       |
| Operating expenses:                     |                     |                       |
| Sources and supply - operations         |                     |                       |
| Purchased water                         | 427,936             | -                     |
| Materials and supplies                  | 2,773               | -                     |
| Transmission and distribution-operation |                     |                       |
| Salaries and wages                      | 139,972             | -                     |
| Employees benefits                      | 41,734              | -                     |
| Materials and supplies                  | 79,898              | -                     |
| Purchased power/utilities               | 8,495               | -                     |
| Repairs and maintenance                 | 5,562               | -                     |
| Contractual services                    | 101,927             | -                     |
| Equipment rental                        | 25                  | -                     |
| Transportation                          | 13,857              | -                     |
| Customer accounts                       |                     |                       |
| Salaries and wages                      | 69,056              | 66,841                |
| Employee benefits                       | 22,968              | 23,256                |
| Materials and supplies                  | 13,460              | 13,878                |
| Contractual services                    | 1,880               | 819                   |
| Refunds                                 | 915                 | 822                   |
| Administrative and general              |                     |                       |
| Salaries and wages                      | 50,588              | 50,576                |
| Employee benefits                       | 7,366               | 7,405                 |
| Monthly utility bills                   | 3,308               | 3,205                 |
| Materials and supplies                  | 3,600               | 3,695                 |
| Contractual services                    | 13,719              | 11,925                |
| Taxes                                   | 16,000              | -                     |
| Insurance                               | 14,658              | 36,056                |
| Advertising                             | 104                 | 81                    |
| Payment in lieu of taxes                | 13,600              | -                     |
| Collection system                       |                     |                       |
| Salaries and wages                      | -                   | 136,957               |
| Employees benefits                      | -                   | 41,456                |
| Purchased power                         | -                   | 8,771                 |
| Materials and supplies                  | -                   | 56,412                |
| Repairs and maintenance                 | -                   | 7,527                 |
| Contractual services                    | -                   | 40,720                |
| Transportation                          | -                   | 13,203                |
| Treatment/Disposal                      |                     |                       |
| Purchased power                         | -                   | 71,299                |
| Chemicals                               | -                   | 6,331                 |
| Materials and supplies                  | -                   | 4,558                 |
| Sludge disposal                         | -                   | 19,019                |
| Contractual services                    | -                   | 231,795               |
| Equipment replacement/repair            | -                   | 56,118                |
| Transportation                          | -                   | 2,021                 |
| Depreciation                            | <u>120,157</u>      | <u>282,635</u>        |
| Total operating expenses                | <u>1,173,558</u>    | <u>1,197,381</u>      |
| Operating income (loss)                 | <u>(45,722)</u>     | <u>453,439</u>        |
| Nonoperating revenues (expenses):       |                     |                       |
| Interest and investment revenue         | 15,128              | 70,742                |
| Interest expense                        | (56,407)            | (239,732)             |
| Gain on disposal of capital assets      | 15                  | -                     |
| Amortization expense                    | <u>(3,141)</u>      | <u>(1,658)</u>        |
| Total nonoperating revenues (expenses)  | <u>(44,405)</u>     | <u>(170,648)</u>      |
| Change in net assets                    | (90,127)            | 282,791               |
| Total net assets - beginning            | <u>4,378,478</u>    | <u>5,599,707</u>      |
| Total net assets - ending               | <u>\$ 4,288,351</u> | <u>\$ 5,882,498</u>   |

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

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

|  | Water<br>Utility | Wastewater<br>Utility |
|--|------------------|-----------------------|
| Cash flows from operating activities:  |                  |                       |
| Receipts from customers and users  | \$ 1,094,290     | \$ 1,641,163          |
| Payments to suppliers and contractors  | (740,703)        | (568,330)             |
| Payments to employees  | (329,941)        | (324,749)             |
| Other receipts   | 26,001           | 9,346                 |
| Net cash provided by operating activities  | 49,647           | 757,430               |
| Cash flows from capital and related financing activities:                                      |                  |                       |
| Principal paid on capital debt   | (65,873)         | (420,873)             |
| Interest paid on capital debt  | (56,407)         | (239,732)             |
| Purchase of capital assets   | (200)            | -                     |
| Net cash used by capital and related financing activities                                      | (122,480)        | (660,605)             |
| Cash flows from investing activities:  |                  |                       |
| Interest received  | 15,128           | 70,742                |
| Net increase (decrease) in cash and cash equivalents   | (57,705)         | 167,567               |
| Cash and cash equivalents, January 1   | 261,557          | 615,195               |
| Cash and cash equivalents, December 31   | \$ 203,852       | \$ 782,762            |
| Reconciliation of operating income (loss) to net cash provided by operating activities:        |                  |                       |
| Operating income (loss)  | \$ (45,722)      | \$ 453,439            |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: |                  |                       |
| Depreciation expense   | 120,157          | 282,635               |
| (Increase) decrease in assets:   |                  |                       |
| Accounts receivable  | (7,011)          | (46)                  |
| Interest receivable  | -                | (195)                 |
| Inventories  | (32,535)         | (6,992)               |
| Prepaid items  | 7,857            | 22,323                |
| Increase (decrease) in liabilities:  |                  |                       |
| Accounts payable   | 5,237            | 4,594                 |
| Accrued wages payable  | 570              | 569                   |
| Taxes payable  | 455              | -                     |
| Compensated absences payable   | 1,173            | 1,173                 |
| Customer deposits  | (534)            | (70)                  |
| Total adjustments  | 95,369           | 303,991               |
| Net cash provided by operating activities  | \$ 49,647        | \$ 757,430            |

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

WATER AND WASTEWATER UTILITIES  
TOWN OF ELLETTSVILLE  
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 Town of Ellettsville (Town), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the Town, are the Town's only enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other 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 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 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.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

WATER AND WASTEWATER UTILITIES  
TOWN OF ELLETTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

2. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the enterprise 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 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:

|                                   | Capitalization<br>Threshold | Depreciation<br>Method | Estimated<br>Useful Life |
|-----------------------------------|-----------------------------|------------------------|--------------------------|
| Buildings                         | \$ 10,000                   | Straight-line          | 50 to 75 years           |
| Improvements other than buildings | 10,000                      | Straight-line          | 50 to 75 years           |
| Machinery and equipment           | 10,000                      | Straight-line          | 5 to 15 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.

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 indefinitely. Accumulated sick leave is not paid to employees upon termination.

WATER AND WASTEWATER UTILITIES  
TOWN OF ELLETTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

- b. Paid Time Off – Utility employees earn paid time off hours at rates from 108 hours to 224 hours per year based upon the number of years of service. Paid time off may accumulate indefinitely. Accumulated paid time off, up to a maximum of 336 hours, is paid to employees through cash payments upon termination.

Paid time off is accrued when incurred.

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>Primary Government</u>               | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Business-type activities:               |                              |                  |                  |                           |
| Water Utility:                          |                              |                  |                  |                           |
| Capital assets, not being depreciated:  |                              |                  |                  |                           |
| Land                                    | \$ 32,500                    | \$ -             | \$ -             | \$ 32,500                 |
| Capital assets, being depreciated:      |                              |                  |                  |                           |
| Buildings                               | 1,260,179                    | -                | -                | 1,260,179                 |
| Improvements other than buildings       | 4,772,368                    | -                | -                | 4,772,368                 |
| Machinery and equipment                 | 336,694                      | 200              | 37,104           | 299,790                   |
| Less accumulated depreciation for:      |                              |                  |                  |                           |
| Buildings                               | (294,940)                    | (42,445)         | -                | (337,385)                 |
| Improvements other than buildings       | (1,153,389)                  | (63,660)         | -                | (1,217,049)               |
| Machinery and equipment                 | (221,920)                    | (14,052)         | 37,119           | (198,853)                 |
| Total Water Utility capital assets, net | <u>4,731,492</u>             | <u>(119,957)</u> | <u>15</u>        | <u>4,611,550</u>          |

WATER AND WASTEWATER UTILITIES  
TOWN OF ELLETTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

| <u>Primary Government</u>                           | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Business-type activities:                           |                              |                     |                  |                           |
| Wastewater Utility:                                 |                              |                     |                  |                           |
| Capital assets, not being depreciated:              |                              |                     |                  |                           |
| Land  | 112,210                      | -                   | -                | 112,210                   |
| Capital assets, being depreciated:                  |                              |                     |                  |                           |
| Buildings   | 8,164,631                    | -                   | -                | 8,164,631                 |
| Improvements other than buildings                   | 3,509,971                    | -                   | -                | 3,509,971                 |
| Machinery and equipment                             | 715,182                      | -                   | 12,738           | 702,444                   |
| Less accumulated depreciation for:                  |                              |                     |                  |                           |
| Buildings   | (1,426,272)                  | (163,293)           | -                | (1,589,565)               |
| Improvements other than buildings                   | (595,559)                    | (70,199)            | -                | (665,758)                 |
| Machinery and equipment                             | (386,390)                    | (49,143)            | 12,738           | (422,795)                 |
| Total Wastewater Utility capital assets, net        | <u>10,093,773</u>            | <u>(282,635)</u>    | <u>-</u>         | <u>9,811,138</u>          |
| Total business-type activities, capital assets, net | <u>\$ 14,825,265</u>         | <u>\$ (402,592)</u> | <u>\$ 15</u>     | <u>\$ 14,422,688</u>      |

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

|                    |            |
|--------------------|------------|
| Water Utility      | \$ 120,157 |
| Wastewater Utility | 282,635    |

C. Long-Term Liabilities

1. Revenue Bonds

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

| <u>Purpose</u>   | <u>Interest<br/>Rates</u> |
|--|---------------------------|
| 1998 Waterworks Revenue Bonds - Storage Tank and Supply Main | 4.6 to 5.2%               |

Revenue bonds debt service requirements to maturity are as follows:

| <u>Year Ended<br/>December 31</u> | <u>Water Utility</u> |                   |
|-----------------------------------|----------------------|-------------------|
|                                   | <u>Principal</u>     | <u>Interest</u>   |
| 2006                              | \$ -                 | \$ 26,722         |
| 2007                              | 65,000               | 51,950            |
| 2008                              | 70,000               | 48,828            |
| 2009                              | 75,000               | 45,419            |
| 2010                              | 80,000               | 41,717            |
| 2011-2015                         | 450,000              | 145,926           |
| 2016-2018                         | <u>340,000</u>       | <u>27,075</u>     |
| Totals                            | <u>\$ 1,080,000</u>  | <u>\$ 387,637</u> |

WATER AND WASTEWATER UTILITIES  
TOWN OF ELLETTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of a wastewater treatment facility. Funds were loaned to the Town as construction costs accrued to the maximum allowed. The 1996 loan established a maximum draw of \$9,425,000. At the completion of construction, the outstanding principal balance of \$9,425,000 was amortized over a period of 20 years. Annual debt service requirements to maturity for this loan, including \$1,429,076 in interest, is as follows:

|           | Year Ended<br>December 31, 2005 | Principal | Interest     |
|-----------|---------------------------------|-----------|--------------|
| 2006      | \$ -                            | \$ -      | \$ 112,615   |
| 2007      | 490,000                         | -         | 216,655      |
| 2008      | 505,000                         | -         | 199,242      |
| 2009      | 525,000                         | -         | 181,216      |
| 2010      | 545,000                         | -         | 162,490      |
| 2011-2015 | 3,010,000                       | -         | 508,908      |
| 2016-2017 | 1,360,000                       | -         | 47,950       |
| Totals    | \$ 6,435,000                    | -         | \$ 1,429,076 |

3. Changes in Long-Term Liabilities

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

|  | Beginning<br>Balance | Additions | Reductions | Ending<br>Balance | Due<br>Within<br>One Year |
|--|----------------------|-----------|------------|-------------------|---------------------------|
| Water Utility:                               |                      |           |            |                   |                           |
| Revenue bonds payable                        | \$ 1,145,000         | \$ -      | \$ 65,000  | \$ 1,080,000      | \$ -                      |
| Loans payable                                | 873                  | -         | 873        | -                 | -                         |
| Total Water Utility<br>long-term liabilities | 1,145,873            | -         | 65,873     | 1,080,000         | -                         |
| Wastewater Utility:                          |                      |           |            |                   |                           |
| Loans payable                                | 6,855,873            | -         | 420,873    | 6,435,000         | -                         |
| Total long-term liabilities                  | \$ 8,001,746         | \$ -      | \$ 486,746 | \$ 7,515,000      | \$ -                      |

WATER AND WASTEWATER UTILITIES  
TOWN OF ELLETTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Restricted Assets

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

|                       | Water      | Wastewater   |  |
|-----------------------|------------|--------------|--|
| Customer Deposits     | \$ 29,545  | \$ 12,880    |  |
| Bond and Interest     | 13,687     | 82,031       |  |
| Debt Service Reserve  | 127,584    | 722,236      |  |
| Improvement           | 147,368    | -            |  |
| Capacity User Fee     | -          | 436,834      |  |
| Equipment Replacement | -          | 699,181      |  |
|                       | \$ 318,184 | \$ 1,953,162 |  |
| Totals                | \$ 318,184 | \$ 1,953,162 |  |

III. Other Information

A. Risk Management

The Utilities are 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.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 11, 2006.

2. Wastewater Utility

The current rate structure was approved by the Town Council on August 5, 1996.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3)

WATER AND WASTEWATER UTILITIES  
TOWN OF ELLETTSVILLE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

govern, through the PERF Board, most requirements of the system and give the Town 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 three percent 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 Town'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 is not presented as an asset/liability of the proprietary funds.

Actuarial Information for the Above Plan

|  | PERF        |
|--|-------------|
| Annual required contribution               | \$ 84,173   |
| Interest on net pension obligation         | (2,585)     |
| Adjustment to annual required contribution | 2,946       |
| Annual pension cost                        | 84,534      |
| Contributions made                         | 87,983      |
| Decrease in net pension obligation         | (3,449)     |
| Net pension obligation, beginning of year  | (35,659)    |
| Net pension obligation, end of year        | \$ (39,108) |

WATER AND WASTEWATER UTILITIES  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

|                                    | <u>PERF</u>   |
|------------------------------------|---|
| Contribution rates:                |   |
| Utilities                          | 7%  |
| Plan members                       | 3%  |
| Actuarial valuation date           | 07-01-05  |
| Actuarial cost method              | Entry age   |
| Amortization method                | Level percentage<br>of projected<br>payroll, closed |
| Amortization period                | 40 years  |
| Amortization period<br>(from date) | 07-01-97  |
| Asset valuation method             | 4 year<br>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

|      | <u>Year Ending</u> | <u>Annual<br/>Pension Cost<br/>(APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|------|--------------------|--|--|---------------------------------------|
| PERF | 06-30-03           | \$ 77,873                                | 108%   | \$ (22,073)                           |
|      | 06-30-04           | 76,355                                   | 118%   | (35,659)                              |
|      | 06-30-05           | 84,534                                   | 115%   | (39,108)                              |

TOWN OF ELLETTSVILLE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Plan

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(a-b) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | Unfunded<br>AAL as a<br>Percentage<br>of Covered<br>Payroll<br>((a-b)/c) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| 07-01-03                       | \$ 1,104,908                           | \$ 1,322,642                                      | \$ (217,734)             | 84%                      | \$ 1,353,038              | (16%)  |
| 07-01-04                       | 1,147,881                              | 1,410,059   | (262,178)                | 81%                      | 1,356,258                 | (19%)  |
| 07-01-05                       | 1,217,582                              | 1,703,567   | (485,985)                | 71%                      | 1,479,992                 | (33%)  |

WATER AND WASTEWATER UTILITIES  
TOWN OF ELLETTSVILLE  
AUDIT RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties for 2005 and 2006 had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states, in part:

“(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
  - (B) a description of the premises, as shown by the records of the county auditor; and
  - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent.”

“(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . . .”

“(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May . . . .”

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

The Utilities do not have a written policy concerning procedures for writing off bad debts or uncollectible accounts. For the year ended December 31, 2005, the accounts receivable balances in arrears ninety days or more were: Water Utility - \$21,957 and Wastewater Utility - \$28,096. Payments have not been made on some of the accounts since 1987.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND WASTEWATER UTILITIES  
TOWN OF ELLETTSVILLE  
EXIT CONFERENCE

The contents of this report were discussed on March 22, 2007, with Dennis L. Williamson, President of the Town Council; Sandra C. Hash, Clerk-Treasurer; Jeffery Farmer, Superintendent of the Wastewater Utility; and Michael Farmer, Superintendent of the Water Utility; and Rebecca Wines, Utility Office Manager. The officials concurred with our audit findings.