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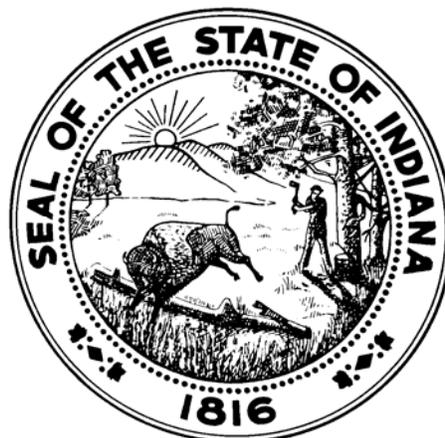
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2006

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES

WHITLEY COUNTY, INDIANA



**FILED**

05/14/2007



## 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 Changes in Fund Net Assets .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-16
Supplementary Information: Schedule of Funding Progress .....	17
Audit Results and Comments:	
Overdrawn Cash Balances .....	18
Sales Tax (Paid on Purchases) .....	18
Credit Card Claims .....	18
Excessive or Unreasonable Costs .....	18
Utility Funds Used for City Expenses .....	19
Service and Time Records .....	19
Promotional Expenses.....	19
Exit Conference.....	20

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rosie Coyle	01-01-04 to 12-31-07
Mayor	James R. Fleck	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	James R. Fleck	01-01-04 to 12-31-07
President of the Common Council	Grace Lotter Walter Crowder	01-01-06 to 12-31-06 01-01-07 to 12-31-07
Superintendent of Water Utility	Michael Dear	01-01-06 to 12-31-07
Superintendent of Wastewater Utility	Howard Lowen	01-01-06 to 12-31-07
Superintendent of Electric Utility	Larry Whetstone	01-01-06 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF COLUMBIA CITY  
MUNICIPAL UTILITIES, WHITLEY COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the City of Columbia City Municipal Utilities (Utilities), departments of the City of Columbia City, as of and for the year ended December 31, 2006. 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 Utilities 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 Columbia City as of December 31, 2006, 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 Utilities, as of December 31, 2006, 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 a required part 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 Utilities have 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

April 30, 2007

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2006

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>Storm Water Utility</u>
<b>Current assets:</b>				
Cash and cash equivalents	\$ -	\$ 513,521	\$ -	\$ 313,239
Accounts receivable (net of allowance)	116,796	258,463	779,170	27,278
Other receivable	-	-	39,130	-
Inventories	85,198	-	420,286	-
Prepaid items	40,239	44,710	67,954	-
	<u>242,233</u>	<u>816,694</u>	<u>1,306,540</u>	<u>340,517</u>
<b>Total current assets</b>				
<b>Noncurrent assets:</b>				
Restricted cash, cash equivalents and investments:				
Improvement cash and investments	33,991	307,182	31,306	-
Bond and interest cash and investments	37,070	133,894	-	-
Debt service reserve cash and investments	141,750	282,663	-	-
Reserve cash and investments	25,688	24,856	875,369	-
Customer deposits	30,625	-	210,600	-
Construction cash and investments	1,547,308	-	-	-
	<u>1,816,432</u>	<u>748,595</u>	<u>1,117,275</u>	<u>-</u>
<b>Total restricted assets</b>				
Deferred charges	141,553	162,163	-	-
Land held for resale	-	-	1,981	-
<b>Capital assets:</b>				
Land, improvements to land and construction in progress	89,949	11,248,925	1,858,027	25,113
Other capital assets (net of accumulated depreciation)	5,226,365	6,436,465	3,862,035	-
	<u>5,316,314</u>	<u>17,685,390</u>	<u>5,720,062</u>	<u>25,113</u>
<b>Total capital assets</b>				
<b>Total noncurrent assets</b>				
	<u>7,274,299</u>	<u>18,596,148</u>	<u>6,839,318</u>	<u>25,113</u>
<b>Total assets</b>				
	<u>7,516,532</u>	<u>19,412,842</u>	<u>8,145,858</u>	<u>365,630</u>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable	24,724	23,588	520,302	-
Accrued wages payable	11,162	10,714	21,763	-
Taxes payable	10,382	-	54,367	-
Current liabilities payable from restricted assets:				
Contracts payable	4,623	820,838	35,378	-
Customer deposits	30,625	-	210,600	-
Revenue bonds payable	124,000	-	-	-
Loans payable	-	302,000	-	-
Accrued interest payable	24,025	-	-	-
	<u>229,541</u>	<u>1,157,140</u>	<u>842,410</u>	<u>-</u>
<b>Total current liabilities</b>				
<b>Noncurrent liabilities:</b>				
Compensated absences	29,148	19,277	55,405	-
Revenue bonds payable (net of deferred amount on refunding)	3,026,961	-	-	-
Loans payable	-	9,925,971	-	-
Contracts payable	106,788	-	-	-
	<u>3,162,897</u>	<u>9,945,248</u>	<u>55,405</u>	<u>-</u>
<b>Total noncurrent liabilities</b>				
<b>Total liabilities</b>				
	<u>3,392,438</u>	<u>11,102,388</u>	<u>897,815</u>	<u>-</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	2,165,353	7,457,419	5,720,062	25,113
Restricted for debt service	178,820	416,557	-	-
Unrestricted	1,779,921	436,478	1,527,981	340,517
	<u>4,124,094</u>	<u>8,310,454</u>	<u>7,248,043</u>	<u>365,630</u>
<b>Total net assets</b>				

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Electric Utility	Storm Water Utility
Operating revenues:				
Metered water revenue	\$ 880,975	\$ -	\$ -	\$ -
Residential commercial and industrial sales	-	-	7,606,000	-
Public street and highway lighting	-	-	91,542	-
Fire protection revenue	284,314	-	-	-
Penalties	5,693	34,321	31,004	3,499
Flat rate revenues	-	-	-	227,430
Measured revenue	-	2,630,110	-	-
Other	93,297	56,111	115,700	50
Total operating revenues	<u>1,264,279</u>	<u>2,720,542</u>	<u>7,844,246</u>	<u>230,979</u>
Operating expenses:				
Source of supply and expense - operations and maintenance:				
Salaries and wages	-	32,421	-	-
Materials and supplies	-	6,498	-	-
Water treatment expense - operations and maintenance:				
Salaries and wages	47,895	-	-	-
Materials and supplies	8,518	-	-	-
Purchased power	58,272	-	-	-
Chemicals	4,049	-	-	-
Contractual services	11,686	-	-	-
Purchased power	-	-	5,529,583	-
Transmission and distribution:				
Salaries and wages	219,699	-	341,581	-
Materials and supplies	80,003	-	280,084	-
Purchased power and heat	2,307	-	34,221	-
Contractual services	46,811	-	-	-
Transportation expenses	15,352	-	24,876	-
Treatment and disposal - operations and maintenance:				
Salaries and wages	-	269,390	-	4,549
Materials and supplies	-	66,693	-	5,626
Purchased power and heat	-	144,669	-	-
Chemicals	-	53,350	-	-
Sludge removal	-	95,507	-	-
Transportation expenses	-	7,400	-	-
Customer accounts:				
Salaries and wages	47,412	35,191	81,354	-
Materials and supplies	-	-	4,268	-
Bad debt expense	11,383	17,728	18,116	824
Administrative and general:				
Salaries and wages	171,058	169,867	401,923	-
Employee pensions and benefits	285,624	279,220	470,545	-
Materials and supplies	51,804	46,722	179,391	-
Insurance expense	33,006	31,310	76,981	-
Gross income tax	15,905	-	106,374	-
Regulatory commission expenses	-	8,822	-	-
Contractual services	17,198	77,152	37,384	24,697
Rents	6,600	6,945	-	-
Depreciation	129,969	304,546	440,399	-
Total operating expenses	<u>1,264,551</u>	<u>1,653,431</u>	<u>8,027,080</u>	<u>35,696</u>
Operating income (loss)	<u>(272)</u>	<u>1,067,111</u>	<u>(182,834)</u>	<u>195,283</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	17,821	46,252	101,450	11,334
Miscellaneous revenue	6,216	2,024	40,380	-
Interest expense	(82,187)	(24,291)	-	-
Amortization of bond issue costs	(2,209)	(8,468)	-	-
Loss on disposal of assets	-	-	(1,400)	-
Total nonoperating revenues (expenses)	<u>(60,359)</u>	<u>15,517</u>	<u>140,430</u>	<u>11,334</u>
Income (loss) before contributions and transfers	(60,631)	1,082,628	(42,404)	206,617
Capital contributions	84,995	-	-	-
Transfers out	(78,000)	(78,000)	(144,000)	-
Change in net assets	(53,636)	1,004,628	(186,404)	206,617
Total net assets - beginning	<u>4,177,730</u>	<u>7,305,826</u>	<u>7,434,447</u>	<u>159,013</u>
Total net assets - ending	<u>\$ 4,124,094</u>	<u>\$ 8,310,454</u>	<u>\$ 7,248,043</u>	<u>\$ 365,630</u>

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Electric Utility	Storm Water Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,249,480	\$ 2,666,238	\$ 7,744,551	\$ 219,829
Payments to suppliers and contractors	(325,524)	(559,727)	(6,512,599)	(38,498)
Payments to employees	(765,683)	(779,178)	(969,802)	(4,549)
Other receipts	6,216	2,024	40,380	-
	<u>164,489</u>	<u>1,329,357</u>	<u>302,530</u>	<u>176,782</u>
Net cash provided by operating activities				
Cash flows from noncapital financing activities:				
Transfer to other funds	(78,000)	(78,000)	(144,000)	-
Cash flows from capital and related financing activities:				
Proceeds from capital debt	1,700,000	21,744	-	-
Acquisition and construction of capital assets	(169,880)	(10,435)	(1,653,369)	(25,113)
Principal paid on capital debt	(67,000)	(228,000)	-	-
Interest paid on capital debt	(72,969)	(171,630)	-	-
Issuance costs paid on capital debt	(117,150)	(1,000)	-	-
	<u>1,273,001</u>	<u>(389,321)</u>	<u>(1,653,369)</u>	<u>(25,113)</u>
Net cash provided (used) by capital and related financing activities				
Cash flows from investing activities:				
Interest received	17,821	46,252	101,450	11,334
Net increase (decrease) in cash and cash equivalents				
	1,377,311	908,288	(1,393,389)	163,003
Cash and cash equivalents, January 1				
	439,121	353,828	2,510,664	150,236
Cash and cash equivalents, December 31				
	<u>\$ 1,816,432</u>	<u>\$ 1,262,116</u>	<u>\$ 1,117,275</u>	<u>\$ 313,239</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (272)	\$ 1,067,111	\$ (182,834)	\$ 195,283
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	129,969	304,546	440,399	-
Bad debt expense	11,383	17,728	18,116	824
Miscellaneous nonoperating revenue	6,216	2,024	40,380	-
(Increase) decrease in assets:				
Accounts receivable	(14,799)	(54,304)	(60,565)	(11,150)
Other receivable	-	-	(39,130)	-
Inventories	6,298	-	28,886	-
Prepaid items	(7,233)	(13,400)	9,025	-
Increase (decrease) in liabilities:				
Accounts payable	22,705	(1,259)	49,290	-
Wages payable	324	(722)	1,791	-
Contracts payable	-	-	-	(8,175)
Taxes payable	1,952	-	(2,208)	-
Compensated absence payable	5,681	7,633	(6,190)	-
Customer deposits	2,265	-	5,570	-
	<u>164,761</u>	<u>262,246</u>	<u>485,364</u>	<u>(18,501)</u>
Total adjustments				
Net cash provided by operating activities				
	<u>\$ 164,489</u>	<u>\$ 1,329,357</u>	<u>\$ 302,530</u>	<u>\$ 176,782</u>
Noncash investing, capital and financing activities:				
Purchase of equipment on account	\$ 4,623	\$ 820,838	\$ 37,775	\$ -
Purchase of equipment through loan payable	-	9,079,866	-	-
Capital contributions through cancellation of debt	84,995	-	-	-

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the City of Columbia City Utilities (Utilities) and are not intended to present fairly the financial position of the City of Columbia City (City). The Utilities, whose operations are controlled by the City, represent all 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 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 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.

2. Inventories and Prepaid Items

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Water collection systems	\$ 1,000	Composite rate and straight-line	1.5%-5.0% 10 years
Wastewater distribution and collection systems	1,000	Composite rate and straight-line	2.5%-7.5% 10 years
Electric distribution systems	1,000	Composite rate and straight-line	3.5%-6.67% 10Years
Storm water system	1,000	N/A	N/A

N/A = Not applicable

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Utilities during the current year was \$274,704. Of the amount, \$168,226 was included as part of the cost of capital assets under construction in connection with the Water Pollution Control Facility upgrade.

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 paid to employees through cash payments upon retirement at the rate of \$10 for every sick day accumulated. Accumulated sick leave is not paid to employees who resign their position.

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

b. Vacation Leave

Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 2 years' vacation earnings. Accumulated vacation leave is paid to employees through cash payments upon termination.

c. Personal Leave

Utility employees earn personal leave at the rate of 4 days per year. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred. No liability is reported for sick and personal leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 7,654	\$ -	\$ -	\$ 7,654
Construction in progress	<u>-</u>	<u>82,295</u>	<u>-</u>	<u>82,295</u>
Totals	<u>7,654</u>	<u>82,295</u>	<u>-</u>	<u>89,949</u>
Capital assets, being depreciated:				
Improvements other than buildings	5,128,509	43,586	84,309	5,087,786
Buildings	1,587,879	-	-	1,587,879
Machinery and equipment	<u>410,120</u>	<u>48,464</u>	<u>-</u>	<u>458,584</u>
Totals	<u>7,126,508</u>	<u>92,050</u>	<u>84,309</u>	<u>7,134,249</u>

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for:				
Improvements other than buildings	1,248,890	76,928	84,309	1,241,509
Buildings	395,328	23,818	-	419,146
Machinery and equipment	218,006	29,223	-	247,229
Totals	<u>1,862,224</u>	<u>129,969</u>	<u>84,309</u>	<u>1,907,884</u>
Total capital assets, being depreciated	<u>5,264,284</u>	<u>(37,919)</u>	<u>-</u>	<u>5,226,365</u>
Total Water Utility capital assets, net	<u>\$ 5,271,938</u>	<u>\$ 44,376</u>	<u>\$ -</u>	<u>\$ 5,316,314</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 23,396	\$ -	\$ -	\$ 23,396
Construction in progress	2,846,096	8,379,433	-	11,225,529
Totals	<u>2,869,492</u>	<u>8,379,433</u>	<u>-</u>	<u>11,248,925</u>
Capital assets, being depreciated:				
Improvements other than buildings	9,265,095	-	-	9,265,095
Buildings	1,304,341	-	-	1,304,341
Machinery and equipment	647,548	10,435	-	657,983
Totals	<u>11,216,984</u>	<u>10,435</u>	<u>-</u>	<u>11,227,419</u>
Less accumulated depreciation for:				
Improvements other than buildings	3,373,466	231,627	-	3,605,093
Buildings	714,253	32,608	-	746,861
Totals	<u>4,486,408</u>	<u>304,546</u>	<u>-</u>	<u>4,790,954</u>
Total capital assets, being depreciated	<u>6,730,576</u>	<u>(294,111)</u>	<u>-</u>	<u>6,436,465</u>
Total Wastewater Utility capital assets, net	<u>\$ 9,600,068</u>	<u>\$ 8,085,322</u>	<u>\$ -</u>	<u>\$ 17,685,390</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 223,573	\$ -	\$ -	\$ 223,573
Construction in progress	56,485	1,577,969	-	1,634,454
Totals	<u>280,058</u>	<u>1,577,969</u>	<u>-</u>	<u>1,858,027</u>

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Utility (continued):				
Capital assets, being depreciated:				
Improvements other than buildings	7,630,452	-	-	7,630,452
Buildings	1,540,964	4,300	-	1,545,264
Machinery and equipment	1,624,245	100,661	98,173	1,626,733
Totals	10,795,661	104,961	98,173	10,802,449
Less accumulated depreciation for:				
Improvements other than buildings	4,798,210	267,066	-	5,065,276
Buildings	819,582	53,934	-	873,516
Machinery and equipment	978,996	119,399	96,773	1,001,622
Totals	6,596,788	440,399	96,773	6,940,414
Total capital assets, being depreciated	4,198,873	(335,438)	1,400	3,862,035
Total Electric Utility capital assets, net	\$ 4,478,931	\$ 1,242,531	\$ 1,400	\$ 5,720,062
Storm Water Utility:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 25,113	\$ -	\$ 25,113

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

Water	\$ 129,969
Wastewater	304,546
Electric	440,399
Total depreciation expense	\$ 874,914

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed
Water Utility:			
North pressure booster station	\$ 1,285,547	\$ 82,295	\$ 1,203,252
Wastewater Utility:			
WPCF project upgrade	\$ 23,471,721	\$ 11,225,529	\$ 12,246,192

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Project	Total Project Authorized	Expended to December 31, 2006	Committed
Electric Utility:			
Southwest substation	\$ 1,667,604	\$ 1,634,454	\$ 33,150
Storm Water Utility:			
Planning phase engineering	\$ 32,500	\$ 25,113	\$ 7,387

D. Interfund Transfers

Interfund transfers during the year ended December 31, 2006, were as follows:

Transfer From	Transfer To General Fund
Water Utility	\$ 78,000
Wastewater Utility	78,000
Electric Utility	144,000
Total	\$ 300,000

These transfers represent payments made in lieu of taxes.

E. 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:

Purpose	Interest Rates	Balance at December 31	Less: Unamortized Deferred Loss on Refunding	Revenue Bonds
2004 Waterworks refunding	4.7%	\$ 1,502,000	\$ 51,039	\$ 1,450,961
2006 Waterworks north pressure booster station	4.5%	1,700,000	-	1,700,000
Totals		\$ 3,202,000	\$ 51,039	\$ 3,150,961

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2007	\$ 124,000	\$ 132,936
2008	131,000	139,873
2009	136,000	133,782
2010	142,000	127,438
2011	150,000	120,794
2012-2016	861,000	492,428
2017-2021	1,083,000	271,533
2022-2026	575,000	73,485
Totals	<u>\$ 3,202,000</u>	<u>\$ 1,492,269</u>

2. State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank. The proceeds are set aside to finance the construction of the Wastewater WPCF upgrade and the Blue River Interceptor Sewer project. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The State Revolving Loan Fund loan established a maximum draw of \$16,672,000 for the Wastewater WPCF upgrade and \$6,928,000 for the Blue River Interceptor Sewer project. As of December 31, 2006, the loan principal balance was \$10,173,460 for the Wastewater WPCF upgrade and \$54,511 for the Blue River Interceptor Sewer project. Annual debt service requirements for the State Revolving Loan Fund loans will not be determined until planned construction projects are completed.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 1,569,000	\$ 1,700,000	\$ 67,000	\$ 3,202,000	\$ 124,000
Compensated absences	23,467	5,681	-	29,148	-
Total Water Utility				-	
Long-term liabilities	<u>\$ 1,592,467</u>	<u>\$ 1,705,681</u>	<u>\$ 67,000</u>	<u>\$ 3,231,148</u>	<u>\$ 124,000</u>
Wastewater Utility:					
Revenue bonds payable	\$ 227,000	\$ -	\$ 227,000	\$ -	\$ -
Compensated absences	11,644	7,633	-	19,277	-
Loans payable	1,052,850	9,176,121	1,000	10,227,971	302,000
Total Wastewater Utility					
Long-term liabilities	<u>\$ 1,291,494</u>	<u>\$ 9,183,754</u>	<u>\$ 228,000</u>	<u>\$ 10,247,248</u>	<u>\$ 302,000</u>

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Electric Utility:					
Compensated absences	\$ 61,595	\$ -	\$ 6,190	\$ 55,405	\$ -

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; 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 were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The City has chosen to establish a risk financing fund for risks associated with medical benefits to employees. A risk financing fund is accounted for in the Group Insurance Fund, an internal service fund on the City's financial statements, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$45,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions.

B. Postemployment Benefits

In addition to the pension benefits described below, the Utilities provide postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utilities on or after attaining age 55 with at least 20 years of service. Currently, 1 retiree meets these eligibility requirements. The Utilities provide ½ of the cost of single coverage of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, expenditures of \$2,860 were recognized for postemployment benefits.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on October 11, 2006. The Utility has 3,319 customers.

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Wastewater Utility

The current rate structure was approved by the Common Council on February 22, 2005. The Utility has 3,347 customers.

3. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 1, 2000. The Utility has 4,622 customers.

4. Storm Water Utility

The current rate structure was approved by the Common Council on July 25, 2006. The Utility has 3,671 customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, 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) 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 Utilities' 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.

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 105,053
Interest on net pension obligation	(15,187)
Adjustment to annual required contribution	17,307
Annual pension cost	107,173
Contributions made	166,507
Decrease in net pension obligation	(59,334)
Net pension obligation, beginning of year	(209,475)
Net pension obligation, end of year	\$ (268,809)
Contribution rates:	
Utilities	7%
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%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 149,489	107%	\$ (154,778)
	06-30-04	122,355	145%	(209,475)
	06-30-05	107,173	136%	(268,809)

CITY OF COLUMBIA CITY MUNICIPAL 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	\$ 1,950,879	\$ 2,309,577	\$ (358,698)	84%	\$ 2,122,540	(17%)
07-01-04	2,041,385	2,216,697	(175,312)	92%	2,097,850	(8%)
07-01-05	2,174,609	2,656,335	(481,726)	82%	2,284,916	(21%)

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balances of the Electric Operating Fund (\$351,994) and Water Operating Fund (\$16,022) were overdrawn at December 31, 2006.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALES TAX (PAID ON PURCHASES)

Sales tax was paid on numerous purchases. All of the credit card statements reviewed during the audit contained purchases that included sales tax. A similar comment was noted in prior Report B26888.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARD CLAIMS

The following items were noted during the review of credit card claims paid during the audit period:

1. All six of the credit card claims reviewed were lacking adequate supporting documentation for the various purchases and travel related expenses paid.
2. The total amount paid to Platinum Plus for Business for the City and Utilities' credit card purchases during 2006 totaled \$55,059.
3. Various personal items were purchased with the City and Utilities' credit cards and subsequently paid directly by the City employee to Platinum Plus for Business.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

EXCESSIVE OR UNREASONABLE COSTS

The City and the Utilities have provided 58 cell phones for various employees of the City, including the City attorney, a maintenance employee and council members. The total amount paid to the wireless provider in 2006 totaled \$27,631.

In addition, the Utilities' paid \$236 for 1 meal purchased by 4 employees (\$59 per employee) while attending the spring Indiana Association of Cities and Towns meeting in Indianapolis.

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
AUDIT RESULTS AND COMMENTS  
(Continued)

UTILITY FUNDS USED FOR CITY EXPENSES

City Officials used utility operating funds to pay for salaries and wages of City employees. The deputy clerk-treasurer, the information systems director, and city hall maintenance and custodial employees were paid entirely from utility operating funds. In addition, there were other City employees whose salaries and wages were partially paid from utility operating funds in a larger proportion than what their utility duties would indicate. A similar comment was noted in prior Report B26888.

Expenses paid from utility operating funds should be directly related to the operation of the municipally owned utility. Expenditures for City operating costs should not be paid from utility operating funds.

A municipal utility may establish a Cash Reserve Fund which permits transfer of surplus utility funds to the City general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SERVICE AND TIME RECORDS

Three City and Utilities' employees played in a golf outing sponsored by a Utility supplier. A review of the employees' time/attendance/service records for that same date indicated that there were eight hours worked with no time off. There was no indication that this was approved as a "city business function" by either the Mayor or Board of Works.

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

PROMOTIONAL EXPENSES

Promotional type expenses (service awards given to fifteen City and Utility employees) totaling \$4,224 were paid during 2006. These expenses were posted to supply accounts within the general fund, motor vehicle highway fund and utility funds.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-7-2-7 allows cities and towns to promote economic development and tourism. Such statute replaced a prior law which authorized cities and towns to budget and appropriate funds from the general fund to pay the expense of, or to reimburse city or town officials as the case may be, for expenses incurred in promoting the best interest of the city or town. (Cities and Towns Bulletin, December 2005)

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on April 30, 2007, with Rosie Coyle, Clerk-Treasurer; and Walter Crowder, President of the Common Council. The officials concurred with our audit findings.

The contents of this report were also discussed on April 30, 2007, with James R. Fleck, Mayor.