

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

ANNUAL FINANCIAL REPORT

2006

WATER AND WASTEWATER UTILITIES

CITY OF LAPORTE

LAPORTE COUNTY, INDIANA



**FILED**  
05/15/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Teresa L. Ludlow	01-01-04 to 12-31-07
Mayor	Leigh E. Morris	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Leigh E. Morris	01-01-04 to 12-31-07
President Pro-Tem of the Common Council	Terry Scherer	01-01-06 to 12-31-07
Superintendent of Water Utility	Todd Taylor	01-01-06 to 12-31-07
Superintendent of Wastewater Utility	Jerry Jackson	01-01-06 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,  
CITY OF LAPORTE, LAPORTE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities, departments of the City of LaPorte, 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.

Except as discussed in the fourth paragraph, 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 LaPorte, 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 LaPorte 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.

The Water Utility does not maintain a complete record of capital assets in accordance with generally accepted accounting principles. The Water Utility does not have records providing historical costs for some of the Utility's capital assets and records classifying and summarizing the Utility's capital assets are incomplete.

In our opinion, except for the effects, if any, of incomplete capital assets records referred to in the fourth paragraph, 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, 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 inquires 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 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 29, 2007

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
STATEMENT OF NET ASSETS  
December 31, 2006

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:		
Cash and cash equivalents	\$ 476,681	\$ 573,008
Accounts receivable	111,164	141,591
Inventories	107,118	34,850
Prepaid items	12,174	12,909
	<u>707,137</u>	<u>762,358</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	82,942	4,593,199
Depreciation system development cash and investments	9,750	-
Bond and interest cash and investments	18,959	540,858
Construction cash and investments	242,236	-
Revenue bond covenant cash and investments	328,500	764,198
Customer deposits	218,864	-
Collections held for other government	15,335	7,407
	<u>916,586</u>	<u>5,905,662</u>
Deferred charges	44,494	112,428
Capital assets:		
Land, intangible assets and construction in progress	279,896	292,294
Other capital assets (net of accumulated depreciation)	11,582,909	18,963,481
	<u>11,862,805</u>	<u>19,255,775</u>
Total noncurrent assets	<u>12,823,885</u>	<u>25,273,865</u>
Total assets	<u>13,531,022</u>	<u>26,036,223</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	52,243	52,878
Accrued wages payable	13,287	10,955
Accrued withholdings payable	-	29,210
Contracts payable	-	24,897
Taxes payable	10,192	-
Interest payable	-	51,789
Capital lease payable	6,412	-
Current liabilities payable from restricted assets:		
Customer deposits	219,364	-
Revenue bonds payable	420,000	-
State revolving loan payable	-	340,000
Collections held for other government	14,659	7,407
	<u>736,157</u>	<u>517,136</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts, premiums and deferred amount on refunding)	1,898,002	4,432,500
State revolving fund loans payable	-	4,527,951
	<u>1,898,002</u>	<u>8,960,451</u>
Total liabilities	<u>2,634,159</u>	<u>9,477,587</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	9,589,297	7,190,685
Restricted for debt service	347,459	1,305,056
Restricted for capital improvements	334,928	4,593,199
Restricted for customer deposits	218,864	-
Restricted for other government	15,335	7,407
Unrestricted	390,980	3,462,289
Total net assets	<u>\$ 10,896,863</u>	<u>\$ 16,558,636</u>

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

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility
Operating revenues:		
Metered revenue	\$ 2,433,983	\$ 3,410,374
Fire protection revenue	345,912	-
Penalties	16,116	76,976
Service start up revenue	26,325	-
System development revenue	9,750	-
Other	<u>52,398</u>	<u>247,374</u>
 Total operating revenues	 <u>2,884,484</u>	 <u>3,734,724</u>
Operating expenses:		
Source of supply and expense - operations and maintenance	302,231	-
Water treatment expense - operations and maintenance	163,993	-
Transmission and distribution - operations and maintenance	492,812	-
Collection system - operations and maintenance	-	310,598
Pumping - operations and maintenance	-	164,729
Treatment and disposal - operations and maintenance	-	1,378,850
Customer accounts	119,299	-
Administration and general	839,903	300,361
Depreciation	221,269	649,863
Amortization	<u>8,089</u>	<u>746</u>
 Total operating expenses	 <u>2,147,596</u>	 <u>2,805,147</u>
 Operating income	 <u>736,888</u>	 <u>929,577</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	51,529	32,596
Interest expense	<u>(106,931)</u>	<u>(231,622)</u>
 Total nonoperating expenses	 <u>(55,402)</u>	 <u>(199,026)</u>
 Change in net assets	 <u>681,486</u>	 <u>730,551</u>
Total net assets - beginning	<u>10,215,377</u>	<u>15,828,085</u>
Total net assets - ending	<u>\$ 10,896,863</u>	<u>\$ 16,558,636</u>

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

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,860,258	\$ 3,724,263
Payments to suppliers and contractors	(1,167,499)	(913,304)
Payments to employees	(763,224)	(1,222,177)
	<u>929,535</u>	<u>1,588,782</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Proceeds from capital debt	-	4,432,500
Acquisition and construction of capital assets	(150,309)	(324,105)
Principal paid on capital debt	(439,949)	(452,000)
Interest paid on capital debt	(79,249)	(243,268)
Bond issuance cost paid on capital debt	-	(102,730)
	<u>(669,507)</u>	<u>3,310,397</u>
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Interest received	51,529	33,133
	<u>51,529</u>	<u>33,133</u>
Net increase in cash and cash equivalents	311,557	4,932,312
Cash and cash equivalents, January 1	<u>1,081,710</u>	<u>1,546,358</u>
Cash and cash equivalents, December 31	<u>\$ 1,393,267</u>	<u>\$ 6,478,670</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 736,888	\$ 929,577
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	221,269	649,863
Amortization expense	8,089	746
(Increase) decrease in assets:		
Accounts receivable	(34,304)	(10,461)
Inventories	(17,869)	(5,042)
Prepaid items	5,986	5,251
Increase (decrease) in liabilities:		
Accounts payable	13,723	3,715
Accrued wages payable	(17,486)	12,197
Taxes payable	996	-
Customer deposits	10,078	-
Collections held for other government	2,165	2,936
	<u>192,647</u>	<u>659,205</u>
Total adjustments		
Net cash provided by operating activities	<u>\$ 929,535</u>	<u>\$ 1,588,782</u>
Noncash investing, capital and financing activities:		
Purchase of equipment on account	\$ -	\$ 46,553

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

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

Investment income is reported as nonoperating revenue in the operating statement.

2. Inventories and Prepaid Items

Materials and supplies purchased throughout the year for repair and maintenance of the Utilities are charged to expense accounts at the time of purchase. At year end, physical counts of significant inventories are made and are valued at cost using the first in/first out (FIFO) method. Appropriate entries are then made to adjust inventory and expense accounts.

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

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

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 bond covenants. In addition, customer deposits are classified as restricted assets on the statement of net assets because the assets on hand are refundable to the customer upon termination of services.

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	Percentage
Water Utility:			
Buildings	\$ 5,000	Composite rate	1.5%
Improvements other than buildings	5,000	Composite rate	1.5%
Machinery and equipment	5,000	Composite rate	1.5%
Transportation equipment	5,000	Composite rate	1.5%
	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Wastewater Utility:			
Buildings	\$ 5,000	Straight-line	3 to 99 years
Improvements other than buildings	5,000	Straight-line	5 to 99 years
Machinery and equipment	5,000	Straight-line	5 to 10 years
Transportation equipment	5,000	Straight-line	5 to 10 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 – Employees earn sick leave at the rate of 6 days per year. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave is not paid to employees upon termination or retirement.

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

- b. Vacation/Personal Leave – Employees earn vacation/personal leave at rates from 12 days to 28 days per year based upon the number of years of service. Vacation/personal leave does not accumulate from year to year.

No liability is reported for sick or vacation/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, deferral of loss on refunding, 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 and deferral of loss on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The 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, 2006, the Utilities had no investments.

B. Capital Assets

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

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
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, not being depreciated:				
Land	\$ 42,468	\$ -	\$ -	\$ 42,468
Intangible assets	108,572	-	-	108,572
Construction in progress	<u>241,404</u>	<u>54,869</u>	<u>167,417</u>	<u>128,856</u>
Total capital assets, not being depreciated	<u>392,444</u>	<u>54,869</u>	<u>167,417</u>	<u>279,896</u>
Capital assets, being depreciated:				
Buildings	4,710,031	1,408	-	4,711,439
Improvements other than buildings	6,725,155	190,782	-	6,915,937
Machinery and equipment	3,009,116	10,000	-	3,019,116
Transportation equipment	<u>405,174</u>	<u>58,688</u>	<u>-</u>	<u>463,862</u>
Totals	<u>14,849,476</u>	<u>260,878</u>	<u>-</u>	<u>15,110,354</u>
Less accumulated depreciation for:				
Buildings	1,114,715	66,641	-	1,181,356
Improvements other than buildings	1,345,647	103,752	-	1,449,399
Machinery and equipment	744,841	44,838	-	789,679
Transportation equipment	<u>100,973</u>	<u>6,038</u>	<u>-</u>	<u>107,011</u>
Totals	<u>3,306,176</u>	<u>221,269</u>	<u>-</u>	<u>3,527,445</u>
Total capital assets, being depreciated, net	<u>11,543,300</u>	<u>39,609</u>	<u>-</u>	<u>11,582,909</u>
Total Water Utility capital assets, net	<u>\$ 11,935,744</u>	<u>\$ 94,478</u>	<u>\$ 167,417</u>	<u>\$ 11,862,805</u>
 <u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 131,034	\$ -	\$ -	\$ 131,034
Construction in progress	<u>13,131</u>	<u>148,129</u>	<u>-</u>	<u>161,260</u>
Total capital assets, not being depreciated	<u>144,165</u>	<u>148,129</u>	<u>-</u>	<u>292,294</u>
Capital assets, being depreciated:				
Buildings	4,725,115	66,447	-	4,791,562
Improvements other than buildings	25,788,187	141,413	-	25,929,600
Machinery and equipment	1,747,256	14,669	-	1,761,925
Transportation equipment	<u>205,399</u>	<u>-</u>	<u>-</u>	<u>205,399</u>
Totals	<u>32,465,957</u>	<u>222,529</u>	<u>-</u>	<u>32,688,486</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Wastewater Utility (continued)</u>				
Capital assets, being depreciated:				
Less accumulated depreciation for:				
Buildings	2,623,178	100,781	-	2,723,959
Improvements other than buildings	9,230,878	485,489	-	9,716,367
Machinery and equipment	1,053,613	47,551	-	1,101,164
Transportation equipment	<u>167,473</u>	<u>16,042</u>	<u>-</u>	<u>183,515</u>
Totals	<u>13,075,142</u>	<u>649,863</u>	<u>-</u>	<u>13,725,005</u>
Total capital assets, being depreciated, net	<u>19,390,815</u>	<u>(427,334)</u>	<u>-</u>	<u>18,963,481</u>
Total Wastewater Utility capital assets, net	<u>\$ 19,534,980</u>	<u>\$ (279,205)</u>	<u>\$ -</u>	<u>\$ 19,255,775</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2006</u>	<u>Committed</u>
Water Utility:			
Monroe Street	\$ 240,200	\$ 122,956	\$ 117,244
Fairgrounds West	<u>5,900</u>	<u>5,900</u>	<u>-</u>
Water Utility Totals	<u>\$ 246,100</u>	<u>\$ 128,856</u>	<u>\$ 117,244</u>
Wastewater Utility:			
Monroe Street	\$ 25,183	\$ 25,183	\$ -
Darlington-Factory Sewer Separation*	1,500,000	16,551	1,483,449
CSO Remediation	4,423,040	113,053	4,309,987
Brighton/Rush Drain	5,048	5,048	-
West Street Lift Station*	<u>25,000</u>	<u>1,425</u>	<u>23,575</u>
Wastewater Utility Totals	<u>\$ 5,978,271</u>	<u>\$ 161,260</u>	<u>\$ 5,817,011</u>

\*Official bidding has not occurred and these amounts are an estimate.

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

D. Capital Leases

The Water Utility has entered into a capital lease for a backhoe. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2006, are as follows:

2007	\$	6,496
Less amount representing interest		<u>(84)</u>
Present value of net minimum lease payments	\$	<u><u>6,412</u></u>

Assets acquired through capital leases still in effect are as follows:

		<u>Water Utility</u>
Transportation equipment	\$	57,900
Accumulated depreciation		<u>(3,474)</u>
Total	\$	<u><u>54,426</u></u>

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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
2005 waterworks refunding revenue bonds for waterworks system improvements	2.5% to 3.3%	<u><u>\$ 2,470,000</u></u>
2006 wastewater revenue bonds for system improvements	4%	<u><u>\$ 4,500,000</u></u>

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2007	\$ 420,000	\$ 67,615	\$ -	\$ 125,000
2008	435,000	57,053	-	180,000
2009	445,000	45,785	-	180,000
2010	465,000	33,177	-	180,000
2011	475,000	19,033	-	180,000
2012-2016	230,000	3,795	-	900,000
2017-2021	-	-	-	900,000
2022-2026	-	-	3,665,000	619,800
2027-2031	-	-	835,000	33,400
Totals	<u>\$ 2,470,000</u>	<u>\$ 226,458</u>	<u>\$ 4,500,000</u>	<u>\$ 3,298,200</u>

2. State Revolving Fund Loans Payable

The Wastewater Utility has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$1,411,652, are as follows:

2007	\$ 510,378
2008	425,430
2009	424,135
2010	423,510
2011	423,570
2012-2016	2,121,800
2017-2021	<u>1,950,780</u>
Total	<u>\$ 6,279,603</u>

3. Advance Refunding

In prior years, the Water Utility defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Utility's financial statements. The following outstanding bonds, at December 31, 2006, were considered defeased:

	<u>Amount</u>
1995 Waterworks revenue bonds	<u>\$ 405,000</u>

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

4. 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	\$ 2,880,000	\$ -	\$ 410,000	\$ 2,470,000	\$ 420,000
Less deferred amount on refunding	(166,252)	-	(25,577)	(140,675)	-
Less bond discount	(17,620)	-	(2,711)	(14,909)	-
Add bond premium	4,192	-	606	3,586	-
Capital lease	36,361	-	29,949	6,412	6,412
<b>Total Water long-term liabilities</b>	<b><u>\$ 2,736,681</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 412,267</u></b>	<b><u>\$ 2,324,414</u></b>	<b><u>\$ 426,412</u></b>
Wastewater Utility:					
Revenue bonds payable	\$ 185,000	\$ 4,500,000	\$ 185,000	\$ 4,500,000	\$ -
Less bond discount	-	(67,500)	-	(67,500)	-
State revolving fund loans payable	5,134,951	-	267,000	4,867,951	340,000
<b>Total Wastewater long-term liabilities</b>	<b><u>\$ 5,319,951</u></b>	<b><u>\$ 4,432,500</u></b>	<b><u>\$ 452,000</u></b>	<b><u>\$ 9,300,451</u></b>	<b><u>\$ 340,000</u></b>

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; and natural disasters.

The risks torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the City's 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 \$85,000 per eligible participant per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds 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 affected fund and are reported as quasi-external interfund transactions. As needed, the Common Council contributes funds from budgeted accounts within the general, CEDIT, and riverboat gaming funds.

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

Job Related Illnesses or Injuries to Employees

During 2003, the City (including the utilities) joined with other governmental entities in the Indiana Public Employers' Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for approximately 740 member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The City (including the utilities) pays an annual premium to the risk pool for its job related illnesses or injuries to employees' coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Subsequent Events

On October 16, 2006, the Common Council approved a bond ordinance to sell an estimated \$7,250,000 of revenue bonds to fund collection system improvements to the City's wastewater treatment plant and for the elimination of combined sewer flows. In December 2006, the Wastewater Utility sold \$4,500,000 of Sewage Works Revenue Bonds. The Wastewater Utility anticipates to sell 2007 Sewage Works Revenue Bonds for approximately \$2,750,000 in April 2007.

On March 28, 2007, the Board of Public Works and Safety awarded the combined sewer overflow (CSO) project to Bowen Engineering Corporation for \$4,423,040.

C. Rate Structure

The current rate structure for the water and wastewater utilities was approved by the Council on November 15, 2004, which included an incremental increase in rates effective January 1, 2006.

D. Agent Multiple-Employer and Single-Employer Defined Benefit 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 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:

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

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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 218,640
Interest on net pension obligation	(4,441)
Adjustment to annual required contribution	5,061
Annual pension cost	219,260
Contributions made	240,809
Decrease in net pension obligation	(21,549)
Net pension obligation, beginning of year	(61,262)
Net pension obligation, end of year	\$ (82,811)
Contribution rates:	
Utilities	6.5%
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	4 year smoothed market

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

<u>Actuarial Assumptions</u>	<u>PERF</u>
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 Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 237,039	91%	\$ (32,952)
	06-30-04	202,261	114%	(61,262)
	06-30-05	219,260	119%	(82,811)

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
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	\$ 3,644,980	\$ 4,124,833	\$ (479,853)	88%	\$ 3,536,823	(14%)
07-01-04	3,733,722	4,457,976	(724,254)	84%	3,404,761	(21%)
07-01-05	3,924,083	4,310,377	(386,294)	91%	3,291,086	(12%)

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
AUDIT RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

The Water Utility does not maintain sufficient detailed records of capital assets for its Utility Plant in Service accounts. Upon purchase, the costs of the capital assets are added to an aggregate Utility Plant in Service account, and to subsidiary accounts for land, buildings, etc., in the General Ledger. However, records providing historical costs for some of the Utility's capital assets are not available, and records classifying and summarizing the Utility's capital assets are incomplete. Deletions or disposals of capital assets are not recorded. The Water Utility has contracted with a vendor to help develop the utility's detailed capital asset records.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET POLICY

The Wastewater Utility's capital asset additions included items under the approved capital asset policy threshold of \$5,000. The effect of including the items under \$5,000 was determined to be immaterial to the financial statements. However, officials need to research the additions and make adjustments to avoid future material misstatements.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND WASTEWATER UTILITIES  
CITY OF LAPORTE  
EXIT CONFERENCE

The contents of this report were discussed on April 16, 2007, with Leigh E. Morris, Mayor; Teresa L. Ludlow, Clerk-Treasurer; Joanne Layman, Deputy Clerk-Treasurer; Jerry Jackson, Wastewater Director; Lanette Smith, Water Bookkeeper; Linda Howell, Wastewater Bookkeeper; and Arthur L. Royle, Jr., City Attorney. The officials concurred with our audit findings.