

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

ANNUAL FINANCIAL REPORT

2006

ELECTRIC, WATER, AND WASTEWATER UTILITIES

CITY OF GARRETT

DEKALB COUNTY, INDIANA



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jennie DePaolo	01-01-04 to 12-31-07
Mayor	David Wiant	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	David Wiant	01-01-04 to 12-31-07
President of the Common Council	David Wiant	01-01-04 to 12-31-07
Foreman of Electric Utility	Michael Steward	01-01-06 to 12-31-07
Foreman of Water Utility	Pat Kleeman	01-01-06 to 12-31-07
Foreman of Wastewater Utility	Bruce Schlosser	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 ELECTRIC, WATER, AND WASTEWATER
UTILITY, CITY OF GARRETT, DEKALB COUNTY, INDIANA**

We have audited the accompanying financial statements of the business-type activities of the Electric, Water, and Wastewater Utilities (Utilities), departments of the City of Garrett, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note I, the financial statements of the Electric, Water, and Wastewater Utilities, departments of the City of Garrett, 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 Garrett 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 Electric, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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

August 15, 2007

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

<u>Assets</u>	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:			
Cash and cash equivalents	\$ 1,002,404	\$ 551,299	\$ 1,446,218
Accounts receivable (net of allowance)	589,379	63,983	146,520
Interfund receivables:			
Interfund loans	-	-	92,855
Accrued revenue	640,265	57,606	129,108
Inventories	379,562	31,612	-
Prepaid items	14,232	5,206	7,101
	<u>2,625,842</u>	<u>709,706</u>	<u>1,821,802</u>
Total current assets			
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	610,838	242,536	198,558
Bond and interest cash and investments	31,742	12,425	346,065
Debt service reserve	307,980	66,155	516,688
Customer deposits	127,533	42,330	63,862
Interest receivable	-	-	1,536
	<u>1,078,093</u>	<u>363,446</u>	<u>1,126,709</u>
Total restricted assets:			
Deferred charges	<u>151,258</u>	<u>50,392</u>	<u>153,540</u>
Capital assets:			
Land, improvements to land and construction in progress	486,198	37,983	43,792
Other capital assets (net of accumulated depreciation)	<u>7,594,564</u>	<u>2,997,261</u>	<u>9,371,221</u>
	<u>8,080,762</u>	<u>3,035,244</u>	<u>9,415,013</u>
Total capital assets			
Total noncurrent assets			
	<u>9,310,113</u>	<u>3,449,082</u>	<u>10,695,262</u>
Total assets	<u>11,935,955</u>	<u>4,158,788</u>	<u>12,517,064</u>
Liabilities			
Current liabilities:			
Accounts payable	443,570	20,484	25,586
Accrued wages payable	13,486	12,357	10,017
Contracts payable	26,621	-	-
Taxes payable	29,429	3,503	-
Current liabilities payable from restricted assets:			
Customer deposits	127,533	42,330	63,862
Revenue bonds payable	-	-	250,000
Accrued interest payable	-	-	110,061
	<u>640,639</u>	<u>78,674</u>	<u>459,526</u>
Total current liabilities			
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts)	<u>3,820,000</u>	<u>775,000</u>	<u>4,939,756</u>
Total liabilities	<u>4,460,639</u>	<u>853,674</u>	<u>5,399,282</u>
Net Assets			
Invested in capital assets, net of related debt	4,260,762	2,260,244	4,225,257
Restricted for debt service	339,722	77,580	862,753
Restricted for other purposes	610,838	242,536	198,558
Unrestricted	<u>2,263,994</u>	<u>724,754</u>	<u>1,831,214</u>
Total net assets	<u>\$ 7,475,316</u>	<u>\$ 3,305,114</u>	<u>\$ 7,117,782</u>

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

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

	Electric Utility	Water Utility	Wastewater Utility
Operating revenues:			
Metered revenue	\$ 5,991,027	\$ -	\$ -
Fire protection revenue	-	155,654	-
Penalties	29,646	5,671	34,956
Measured revenue	-	577,939	1,487,815
Other	16,469	-	20,272
	<u>6,037,142</u>	<u>739,264</u>	<u>1,543,043</u>
Total operating revenues			
Operating expenses:			
Water treatment expense - operations and maintenance	-	126,861	-
Transmission and distribution	-	139,079	-
Pumping - operations and maintenance	-	-	75,190
Treatment and disposal - operations and maintenance	-	-	15,904
Operations and maintenance	451,691	-	-
Customer accounts	64,406	37,269	34,936
Administration and general	194,452	122,166	202,376
Employee pensions and benefits	123,290	72,944	64,017
Purchased power	4,252,812	77,609	54,302
Sludge removal	-	-	129,911
Contractual services	117,493	3,767	25,789
Rents	7,417	6,667	6,667
Insurance expense	62,428	25,470	44,180
Depreciation	415,683	73,212	400,816
Miscellaneous expenses	1,082	12,410	30,453
	<u>5,690,754</u>	<u>697,454</u>	<u>1,084,541</u>
Total operating expenses			
Operating income	<u>346,388</u>	<u>41,810</u>	<u>458,502</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	11,208	4,305	13,156
Miscellaneous revenue	105,807	15,397	6,746
Interest expense	(1,477)	(3,035)	(335,863)
Amortization of bond issue costs	(8,403)	-	(10,279)
	<u>107,135</u>	<u>16,667</u>	<u>(326,240)</u>
Total nonoperating revenues (expenses)			
Income before contributions and transfers	453,523	58,477	132,262
Capital contributions	63,228	-	-
Change in net assets	516,751	58,477	132,262
Total net assets - beginning	<u>6,958,565</u>	<u>3,246,637</u>	<u>6,985,520</u>
Total net assets - ending	<u>\$ 7,475,316</u>	<u>\$ 3,305,114</u>	<u>\$ 7,117,782</u>

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

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

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 5,799,598	\$ 755,180	\$ 1,559,608
Payments to suppliers and contractors	(5,077,975)	(374,603)	(281,433)
Payments to employees	(160,605)	(244,223)	(376,577)
Other receipts	<u>110,638</u>	<u>15,397</u>	<u>6,746</u>
Net cash provided by operating activities	<u>671,656</u>	<u>151,751</u>	<u>908,344</u>
Cash flows from noncapital financing activities:			
Interfund loans receivable (payable)	<u>66,000</u>	<u>10,871</u>	<u>(92,855)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(1,210,750)	(256,441)	(228,864)
Principal paid on capital debt	(130,000)	(25,000)	(238,000)
Interest paid on capital debt	<u>(246,722)</u>	<u>(36,615)</u>	<u>(338,611)</u>
Net cash used by capital and related financing activities	<u>(1,587,472)</u>	<u>(318,056)</u>	<u>(805,475)</u>
Cash flows from investing activities:			
Interest received	<u>11,208</u>	<u>4,305</u>	<u>11,620</u>
Net increase in cash and cash equivalents	(838,608)	(151,129)	21,634
Cash and cash equivalents, January 1	<u>2,919,105</u>	<u>1,065,874</u>	<u>2,549,757</u>
Cash and cash equivalents, December 31	<u>\$ 2,080,497</u>	<u>\$ 914,745</u>	<u>\$ 2,571,391</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 346,388	\$ 41,810	\$ 458,502
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	415,683	73,212	400,816
Nonoperating revenues	105,807	15,397	6,746
(Increase) decrease in assets:			
Accounts receivable	(95,167)	11,656	16,649
Accrued revenue	(142,377)	4,260	(84)
Inventories	(67,620)	(9,233)	-
Prepaid items	1,559	1,619	(680)
Increase (decrease) in liabilities:			
Accounts payable	94,610	6,873	13,589
Wages payable	(718)	2,965	156
Taxes payable	4,831	122	-
Customer deposits	<u>8,660</u>	<u>3,070</u>	<u>12,650</u>
Total adjustments	<u>325,268</u>	<u>109,941</u>	<u>449,842</u>
Net cash provided by operating activities	<u>\$ 671,656</u>	<u>\$ 151,751</u>	<u>\$ 908,344</u>
Noncash investing, capital and financing activities:			
Purchase of equipment on account	\$ 26,621	\$ -	\$ -
Contributions of capital assets from government	63,228	-	-

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

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
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 Garrett (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represent 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, 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 financial statements.

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 of applicable bond indentures or governing body action.

4. Capital Assets

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

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Electric and Water:			
Buildings	\$ 5,000	Composite	2% to 4%
Improvements other than buildings	5,000	Composite	2% to 4%
Machinery and equipment	5,000	Composite	2% to 4%
Transportation equipment	5,000	Composite	2% to 4%
Wastewater:			
Buildings	5,000	Straight-line	50 years
Improvements other than buildings	5,000	Straight-line	50 to 100 years
Machinery and equipment	5,000	Straight-line	5 to 30 years
Transportation equipment	5,000	Straight-line	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.

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 \$554,964. In addition, \$163,121 in interest was included as part of the cost of capital assets under construction in connection with the Electric Utility and \$36,100 in interest was included as part of the cost of capital assets under construction in connection with the Water Utility. No amount of interest was included as part of the cost of capital assets in the Wastewater Utility.

5. Compensated Absences

- a. Sick Leave – Utilities employees earn sick leave at the rate of 5 days per year. Unused sick leave may be accumulated to a maximum of 65 days. Accumulated sick leave is paid to employees through cash payments at a rate of \$20 per day upon retirement.

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
NOTES TO FINANCIAL STATEMENTS
(Continued)

- b. Vacation Leave – Utilities employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utilities employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, 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

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 5-15-18-1 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.

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>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 183,832	\$ -	\$ -	\$ 183,832
Construction in progress	<u>1,164,287</u>	<u>1,456,520</u>	<u>2,318,441</u>	<u>302,366</u>
 Total capital assets, not being depreciated	 <u>1,348,119</u>	 <u>1,456,520</u>	 <u>2,318,441</u>	 <u>486,198</u>

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Utility (continued):				
Capital assets, being depreciated:				
Buildings	54,044	-	-	54,044
Improvements other than buildings	9,604,171	2,318,441	-	11,922,612
Machinery and equipment	305,557	7,200	-	312,757
Transportation equipment	428,306	-	-	428,306
Less accumulated depreciation	<u>(4,707,472)</u>	<u>(415,683)</u>	<u>-</u>	<u>(5,123,155)</u>
Totals	<u>5,684,606</u>	<u>1,909,958</u>	<u>-</u>	<u>7,594,564</u>
Total Electric Utility capital assets, net	<u>\$ 7,032,725</u>	<u>\$ 3,366,478</u>	<u>\$ 2,318,441</u>	<u>\$ 8,080,762</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 37,983	\$ -	\$ -	\$ 37,983
Construction in progress	<u>541,553</u>	<u>292,541</u>	<u>834,094</u>	<u>-</u>
Total capital assets, not being depreciated	<u>579,536</u>	<u>292,541</u>	<u>834,094</u>	<u>37,983</u>
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	3,166,831	834,094	43,563	3,957,362
Machinery and equipment	120,468	-	-	120,468
Transportation equipment	83,158	-	-	83,158
Less accumulated depreciation	<u>(1,424,235)</u>	<u>(73,212)</u>	<u>(43,563)</u>	<u>(1,453,884)</u>
Totals	<u>2,236,379</u>	<u>760,882</u>	<u>-</u>	<u>2,997,261</u>
Total Water Utility capital assets, net	<u>\$ 2,815,915</u>	<u>\$ 1,053,423</u>	<u>\$ 834,094</u>	<u>\$ 3,035,244</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 43,792	\$ -	\$ -	\$ 43,792
Capital assets, being depreciated:				
Buildings	1,157,697	-	-	1,157,697
Improvements other than buildings	7,294,844	109,363	-	7,404,207
Machinery and equipment	4,991,078	108,632	-	5,099,710
Transportation equipment	<u>35,941</u>	<u>-</u>	<u>25,941</u>	<u>10,000</u>
Totals	<u>13,479,560</u>	<u>217,995</u>	<u>25,941</u>	<u>13,671,614</u>

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Wastewater Utility (continued):				
Less accumulated depreciation for:				
Buildings	(443,210)	(23,154)	-	(466,364)
Improvements other than buildings	(2,214,799)	(156,988)	-	(2,371,787)
Machinery and equipment	(1,241,568)	(219,007)	-	(1,460,575)
Transportation equipment	<u>(25,941)</u>	<u>(1,667)</u>	<u>(25,941)</u>	<u>(1,667)</u>
 Totals	 <u>(3,925,518)</u>	 <u>(400,816)</u>	 <u>(25,941)</u>	 <u>(4,300,393)</u>
 Total capital assets, being depreciated, net	 <u>9,554,042</u>	 <u>(182,821)</u>	 <u>-</u>	 <u>9,371,221</u>
 Total capital assets, net	 <u>\$ 9,597,834</u>	 <u>\$ (182,821)</u>	 <u>\$ -</u>	 <u>\$ 9,415,013</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>
Electric Utility west substation	<u>\$ 302,366</u>	<u>\$ 302,366</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2006, is as follows:

<u>Due To</u>	<u>Due From City - General Fund</u>
Wastewater Utility	<u>\$ 92,855</u>

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	Amount	Less Unamortized Discount	Revenue Bonds
1992 Sewage Utility expansion	6.15% to 6.25%	\$ 350,000	\$ 2,447	\$ 347,553
2002A Sewage works, wastewater expansion	2.5% to 4.375%	4,880,000	37,797	4,842,203
2004 Waterworks improvement	4.25% to 4.85%	775,000	-	775,000
2005 Electric Utility improvements and extension	4% to 4.4%	<u>3,820,000</u>	-	<u>3,820,000</u>
Totals		<u>\$ 9,825,000</u>	<u>\$ 40,244</u>	<u>\$ 9,784,756</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Electric Utility		Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ -	\$ 79,524	\$ -	\$ 17,776	\$ 250,000	\$ 220,122
2008	135,000	156,348	25,000	35,021	260,000	210,861
2009	140,000	150,848	30,000	33,853	275,000	200,112
2010	145,000	145,147	30,000	32,578	290,000	188,699
2011	150,000	139,248	30,000	31,303	305,000	176,074
2012-2016	860,000	597,838	165,000	136,425	1,340,000	710,027
2017-2021	1,055,000	404,913	215,000	94,142	1,695,000	407,393
2022-2026	<u>1,335,000</u>	<u>152,036</u>	<u>280,000</u>	<u>35,164</u>	<u>815,000</u>	<u>54,031</u>
Totals	<u>\$ 3,820,000</u>	<u>\$ 1,825,902</u>	<u>\$ 775,000</u>	<u>\$ 416,262</u>	<u>\$ 5,230,000</u>	<u>\$ 2,167,319</u>

2. 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
Revenue bonds payable:					
Electric Utility	\$ 3,950,000	\$ -	\$ 130,000	\$ 3,820,000	\$ -
Water Utility	800,000	-	25,000	775,000	-
Wastewater Utility	<u>5,468,000</u>	-	<u>238,000</u>	<u>5,230,000</u>	<u>250,000</u>
Total long-term liabilities	<u>\$ 10,218,000</u>	<u>\$ -</u>	<u>\$ 393,000</u>	<u>\$ 9,825,000</u>	<u>\$ 250,000</u>

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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; 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.

Group Health Insurance

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$12,000 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.

Workers' Compensation

During 1993, the Utilities joined together with other governmental entities in the Indiana Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The Utilities pay an annual premium to the risk pool for its workers' compensation 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. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Rate Structure

1. Electric Utility

The current rate structure was approved by the Utility on January 17, 2006. The Utility has 3,245 customers.

2. Water Utility

The current rate structure was approved by the Utility on June 19, 2001. The Utility has 2,209 customers.

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Wastewater Utility

The current rate structure was approved by the Utility on November 19, 2002. The Utility has 2,249 customers.

C. 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 gives the City 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 and is not presented as an asset/liability of the proprietary funds.

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 66,880
Interest on net pension obligation	(2,948)
Adjustment to annual required contribution	3,359
Annual pension cost	67,291
Contributions made	57,990
Increase in net pension obligation	9,301
Net pension obligation, beginning of year	(40,661)
Net pension obligation, end of year	\$ (31,360)
Contribution rates:	
Utilities	5%
Plan members	3%
Actuarial valuation date	07-01-06
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	06-30-04	\$ 56,500	115%	\$ (38,070)
	06-30-05	59,837	104%	(40,661)
	06-30-06	67,291	86%	(31,360)

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
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)
07-01-04	\$ 1,579,657	\$ 1,594,163	\$ (14,506)	99%	\$ 1,224,813	(1%)
07-01-05	1,629,478	1,685,837	(56,359)	97%	1,269,795	(4%)
07-01-06	1,354,958	1,591,995	(237,037)	85%	1,250,617	(19%)

ELECTRIC, WATER, AND WASTEWATER UTILITY
CITY OF GARRETT
AUDIT RESULTS AND COMMENTS

PUBLIC WORKS LAW

The timeline for the receiving of Water Tank Repainting bids and the awarding of the contract was as follows:

- December 19, 2006: Bids were opened. Lowest bid was \$345,000.
- January 16, 2007: During a Board meeting, a discussion was held to obtain revised specs from another consultant.
- February 20, 2007: During a Board meeting, a discussion was held on whether or not the Board could request the low bidder to change bid to reduce cost or if City could just agree on changes and accept.
- March 6, 2007: A change order in the amount of \$103,500 was signed by the engineer.
- March 20, 2007: Mayor approved change order.
- March 21, 2007: Mayor gave Notice of Award.
- March 30, 2007: Lower bidder accepted Notice of Award and change order.

Indiana Code 36-1-12-18(c) states: "A change order may not be issued before commencement of the actual construction, reconstruction, or repairs except in the case of an emergency. In that case, the board must make a declaration, and the board's minutes must show the nature of the emergency."

ELECTRIC, WATER, AND WASTEWATER UTILITY
CITY OF GARRETT
EXIT CONFERENCE

The contents of this report were discussed on August 15, 2007, with Jennie DePaolo, Clerk-Treasurer.