

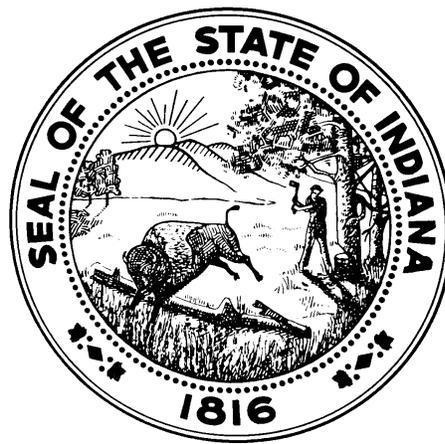
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2007

CITY OF GARRETT

DEKALB COUNTY, INDIANA



**FILED**  
05/13/2008



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jennie DePaolo	01-01-04 to 12-31-11
Mayor	David Wiant	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	David Wiant	01-01-04 to 12-31-11
President of the Common Council	David Wiant	01-01-04 to 12-31-11
Foreman of Water Utility	Pat Kleeman	01-01-07 to 12-31-08
Foreman of Wastewater Utility	Bruce Schlosser	01-01-07 to 12-31-08
Forman of Electric Utility	Michael Steward	01-01-07 to 12-31-08



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF GARRETT, DEKALB COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Garrett (City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than 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 cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2007, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 19, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Funding Progress and Schedule of Contributions From the Employer and Other Contributing Entities as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

March 19, 2008



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF GARRETT, DEKALB COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Garrett (City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City's management, Common Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 19, 2008

CITY OF GARRETT  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2007

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 916,614	\$ 478,431	\$ -	\$ -	\$ (438,183)	\$ -	\$ (438,183)
Public safety	1,009,359	1,122	17,601	-	(990,636)	-	(990,636)
Highways and streets	579,010	750	5,894	-	(572,366)	-	(572,366)
Sanitation	191,910	52,997	-	-	(138,913)	-	(138,913)
Economic development	915,971	-	-	500,000	(415,971)	-	(415,971)
Culture and recreation	228,674	-	-	-	(228,674)	-	(228,674)
Interest on long-term debt	44,264	-	-	-	(44,264)	-	(44,264)
Total governmental activities	<u>3,885,802</u>	<u>533,300</u>	<u>23,495</u>	<u>500,000</u>	<u>(2,829,007)</u>	<u>-</u>	<u>(2,829,007)</u>
Business-type activities:							
Electric	6,833,093	6,931,970	-	-	-	98,877	98,877
Water	946,065	817,767	-	-	-	(128,298)	(128,298)
Wastewater	1,309,738	1,553,973	-	-	-	244,235	244,235
Total business-type activities	<u>9,088,896</u>	<u>9,303,710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,814</u>	<u>214,814</u>
Total primary government	<u>\$ 12,974,698</u>	<u>\$ 9,837,010</u>	<u>\$ 23,495</u>	<u>\$ 500,000</u>	<u>(2,829,007)</u>	<u>214,814</u>	<u>(2,614,193)</u>
General receipts:							
Property taxes					2,327,560	-	2,327,560
Other state sources					1,242,919	-	1,242,919
Other local sources					20,483	-	20,483
Unrestricted investment earnings					11,762	24,416	36,178
Refunds and reimbursements					23,851	41,823	65,674
Other					51,241	151,658	202,899
Total general receipts					<u>3,677,816</u>	<u>217,897</u>	<u>3,895,713</u>
Change in net assets					848,809	432,711	1,281,520
Net assets - beginning					869,214	5,566,642	6,435,856
Net assets - ending					<u>\$ 1,718,023</u>	<u>\$ 5,999,353</u>	<u>\$ 7,717,376</u>
<u>Assets</u>							
Cash and investments					\$ 477,018	\$ 3,452,505	\$ 3,929,523
Restricted assets:							
Cash and investments					1,241,005	2,546,848	3,787,853
Total assets					<u>\$ 1,718,023</u>	<u>\$ 5,999,353</u>	<u>\$ 7,717,376</u>
<u>Net Assets</u>							
Restricted for:							
Public safety					\$ 82,951	\$ -	\$ 82,951
Highways and streets					109,689	-	109,689
Culture and recreation					42,065	-	42,065
Economic development					784,409	-	784,409
Debt service					40,994	1,299,008	1,340,002
Other purposes					180,897	1,247,840	1,428,737
Unrestricted					477,018	3,452,505	3,929,523
Total net assets					<u>\$ 1,718,023</u>	<u>\$ 5,999,353</u>	<u>\$ 7,717,376</u>

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

CITY OF GARRETT  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2007

	General	Motor Vehicle Highway	Park and Recreation	TIF	CEDIT	Other Governmental Funds	Totals
<b>Receipts:</b>							
Taxes	\$ 1,208,355	\$ 371,013	\$ 169,091	\$ 258,578	\$ -	\$ 320,523	\$ 2,327,560
Licenses and permits	5,548	-	-	-	-	1,225	6,773
Intergovernmental	624,372	251,811	17,287	2,830	162,598	707,516	1,766,414
Charges for services	303,936	750	52,997	-	-	2,122	359,805
Fines and forfeits	11,427	-	-	-	-	2,283	13,710
Other	21,702	1,931	118	-	-	56,615	80,366
<b>Total receipts</b>	<b>2,175,340</b>	<b>625,505</b>	<b>239,493</b>	<b>261,408</b>	<b>162,598</b>	<b>1,090,284</b>	<b>4,554,628</b>
<b>Disbursements:</b>							
General government	611,686	-	-	-	-	23,538	635,224
Public safety	926,710	-	-	-	-	25,942	952,652
Highways and streets	-	484,199	-	-	-	14,995	499,194
Sanitation	191,910	-	-	-	-	-	191,910
Culture and recreation	-	-	180,055	-	-	48,619	228,674
Economic development	-	-	-	-	-	15,852	15,852
Debt service:							
Principal	-	-	-	-	56,707	96,821	153,528
Interest	-	-	-	-	34,293	9,971	44,264
Capital outlay:							
General government	-	-	-	-	-	67,924	67,924
Highways and streets	-	-	-	-	35,299	27,696	62,995
Economic development	-	-	-	320,113	-	580,006	900,119
<b>Total disbursements</b>	<b>1,730,306</b>	<b>484,199</b>	<b>180,055</b>	<b>320,113</b>	<b>126,299</b>	<b>911,364</b>	<b>3,752,336</b>
Excess (deficiency) of receipts over disbursements	445,034	141,306	59,438	(58,705)	36,299	178,920	802,292
<b>Other financing sources (uses):</b>							
Transfers in	-	-	-	-	-	42,110	42,110
Transfers out	-	-	-	-	-	(42,110)	(42,110)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	445,034	141,306	59,438	(58,705)	36,299	178,920	802,292
Cash and investment fund balance - beginning	(258,132)	(47,846)	(38,792)	618,091	45,001	428,804	747,126
Cash and investment fund balance - ending	\$ 186,902	\$ 93,460	\$ 20,646	\$ 559,386	\$ 81,300	\$ 607,724	1,549,418
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because: Internal services funds are used by management to charge the costs of certain services to individual funds. The assets of the internal service fund are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.							168,605
Net assets of governmental activities							\$ 1,718,023
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ 186,902	\$ -	\$ -	\$ -	\$ -	\$ 290,116	\$ 477,018
Restricted assets:							
Cash and investments	-	93,460	20,646	559,386	81,300	317,608	1,072,400
<b>Total cash and investment assets - December 31</b>	<b>\$ 186,902</b>	<b>\$ 93,460</b>	<b>\$ 20,646</b>	<b>\$ 559,386</b>	<b>\$ 81,300</b>	<b>\$ 607,724</b>	<b>\$ 1,549,418</b>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82,951	\$ 82,951
Highways and streets	-	93,460	-	-	-	16,229	109,689
Culture and recreation	-	-	20,646	-	-	21,419	42,065
Economic development	-	-	-	559,386	81,300	143,723	784,409
Debt service	-	-	-	-	-	40,994	40,994
Other purposes	-	-	-	-	-	12,292	12,292
Unrestricted	186,902	-	-	-	-	290,116	477,018
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 186,902</b>	<b>\$ 93,460</b>	<b>\$ 20,646</b>	<b>\$ 559,386</b>	<b>\$ 81,300</b>	<b>\$ 607,724</b>	<b>\$ 1,549,418</b>

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

CITY OF GARRETT  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Year Ended December 31, 2007

	Electric Utility	Water Utility	Wastewater Utility	Totals	Internal Service Fund
Operating receipts:					
Metered receipts	\$ 6,901,650	\$ -	\$ -	\$ 6,901,650	\$ -
Fire protection receipts	-	160,036	-	160,036	-
Penalties	30,320	6,148	33,774	70,242	-
Measured revenue	-	651,583	1,520,199	2,171,782	-
Customer deposits	38,400	9,950	20,860	69,210	-
Other	10,390	1,895	18,609	30,894	6,488
Employee/employer contributions	-	-	-	-	322,026
<b>Total operating receipts</b>	<b>6,980,760</b>	<b>829,612</b>	<b>1,593,442</b>	<b>9,403,814</b>	<b>328,514</b>
Operating disbursements:					
Equipment and capital improvements	21,637	114,152	23,105	158,894	-
Operations and maintenance	223,902	261,682	186,093	671,677	-
Customer accounts	53,611	11,158	31,898	96,667	-
Administration and general	295,385	135,631	155,193	586,209	-
Insurance claims and premiums	36,145	17,061	29,555	82,761	-
Taxes	279,646	45,154	-	324,800	-
Employee pensions and benefits	148,518	68,890	61,381	278,789	-
Purchased power	4,965,108	78,743	53,140	5,096,991	-
Sludge removal	-	-	144,806	144,806	-
Chemicals	-	40,140	8,837	48,977	-
Material and supplies	287,886	39,852	48,401	376,139	-
Contractual services	141,053	28,074	64,333	233,460	-
Rents	9,544	3,333	3,333	16,210	-
Transportation disbursements	25,500	18,696	5,228	49,424	-
Insurance disbursements	-	-	-	-	281,623
Customer deposit refund	36,647	10,876	15,943	63,466	-
Miscellaneous disbursements	14,113	11,470	21,919	47,502	374
<b>Total operating disbursements</b>	<b>6,538,695</b>	<b>884,912</b>	<b>853,165</b>	<b>8,276,772</b>	<b>281,997</b>
Excess (deficiency) of operating receipts over operating disbursements	<u>442,065</u>	<u>(55,300)</u>	<u>740,277</u>	<u>1,127,042</u>	<u>46,517</u>
Nonoperating receipts (disbursements):					
Interest and investment receipts	9,336	3,588	11,492	24,416	-
Miscellaneous receipts	61,914	9,931	21,532	93,377	-
Debt service of principal	(135,000)	(25,000)	(250,000)	(410,000)	-
Interest and investment disbursement	(159,398)	(36,153)	(206,573)	(402,124)	-
<b>Total nonoperating receipts (disbursements)</b>	<b>(223,148)</b>	<b>(47,634)</b>	<b>(423,549)</b>	<b>(694,331)</b>	<b>-</b>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	218,917	(102,934)	316,728	432,711	46,517
Transfers in	-	-	42,110	42,110	-
Transfers out	-	-	(42,110)	(42,110)	-
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	218,917	(102,934)	316,728	432,711	46,517
Cash and investment fund balance - beginning	<u>2,080,497</u>	<u>914,754</u>	<u>2,571,391</u>	<u>5,566,642</u>	<u>122,088</u>
Cash and investment fund balance - ending	<u>\$ 2,299,414</u>	<u>\$ 811,820</u>	<u>\$ 2,888,119</u>	<u>\$ 5,999,353</u>	<u>\$ 168,605</u>
<b><u>Cash and Investment Assets - December 31</u></b>					
Cash and investments	\$ 1,214,624	\$ 504,157	\$ 1,733,724	\$ 3,452,505	\$ -
Restricted assets:					
Cash and investments	<u>1,084,790</u>	<u>307,663</u>	<u>1,154,395</u>	<u>2,546,848</u>	<u>168,605</u>
<b>Total cash and investment assets - December 31</b>	<b><u>\$ 2,299,414</u></b>	<b><u>\$ 811,820</u></b>	<b><u>\$ 2,888,119</u></b>	<b><u>\$ 5,999,353</u></b>	<b><u>\$ 168,605</u></b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>					
Restricted for:					
Debt service	\$ 340,989	\$ 78,388	\$ 879,631	\$ 1,299,008	\$ -
Other purposes	743,801	229,275	274,764	1,247,840	168,605
Unrestricted	<u>1,214,624</u>	<u>504,157</u>	<u>1,733,724</u>	<u>3,452,505</u>	<u>-</u>
<b>Total cash and investment fund balance - December 31</b>	<b><u>\$ 2,299,414</u></b>	<b><u>\$ 811,820</u></b>	<b><u>\$ 2,888,119</u></b>	<b><u>\$ 5,999,353</u></b>	<b><u>\$ 168,605</u></b>

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

CITY OF GARRETT  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For The Year Ended December 31, 2007

	Pension Trust Funds	Agency Funds
Additions:		
Contributions:		
Taxes	\$ 630	\$ -
Intergovernmental	28,221	-
Other	1,626	-
Total contributions	30,477	-
Agency fund additions	-	2,832,028
Total additions	30,477	2,832,028
Deductions:		
Benefits	69,894	-
Administrative and general	4,434	-
Agency fund deductions	-	2,833,262
Total deductions	74,328	2,833,262
Deficiency of total additions over total deductions	(43,851)	(1,234)
Cash and investment fund balance - beginning	192,992	14,999
Cash and investment fund balance - ending	\$ 149,141	\$ 13,765

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

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, electric, water, wastewater, and urban redevelopment.

The City's financial reporting entity is composed of the following:

Primary Government: City of Garrett

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets - Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund balances, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The motor vehicle highway fund (special revenue) accounts for the financial resources and expenses for construction, operation and maintenance of local and arterial roads and street system.

The parks and recreation fund (special revenue) accounts for financial resources and expenses for construction, operation and maintenance of the City's park system.

The TIF fund (capital projects) accounts for the City's use of tax increment financing revenues.

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The CEDIT fund (capital projects) accounts for the City's use of economic development income tax revenues.

The City reports the following major proprietary funds:

The electric utility fund accounts for the operation of the electric distribution system.

The water utility fund accounts for the operation of the water distribution system.

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection systems.

Additionally, the City reports the following fund types:

The internal service fund accounts for medical benefits provided to employees on a cost-reimbursement basis.

The pension trust fund accounts for the activities of the 1925 Police Officers' Pension, which accumulates resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for employee payroll withholdings, sales tax payable and retainage payable.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and payments between the utility funds and the governmental funds for goods and services received such as water, wastewater and electric services provided. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is also classified as fund balance.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets - Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers - Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets - Cash and Investment Basis.

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2007, the bank balances held in the amount of \$7,869,906 were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, were as follows:

Transfer From	Transfer To	2007
Wastewater Utility Fund	Other governmental fund - Debt Service Fund	\$ 42,110
Other governmental fund - Debt Service Fund	Wastewater Utility Fund	42,110
Total		\$ 84,220

The City typically uses transfers for cash flow purposes as provided by various statutory provisions.

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; 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 City has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the Employee Benefits Trust Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$20,000 per year. 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's gross wages and are reported as quasi-external interfund transactions.

Workers' Compensation

During 1993, the City joined with other governmental entities in the Indiana Public Employers' Plan, 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 City pays 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. Holding Corporation

The City has entered into a capital lease with City of Garrett Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during the year totaled \$91,000.

C. Conduit Debt Obligation

From time to time, the City has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying notes to the financial statements.

As of December 31, 2007, there was one series of revenue bonds outstanding with an aggregate principal amount payable of \$5,230,000.

D. Rate Structure – Enterprise Funds

Electric Utility

On July 6, 2004, the City Council adopted Ordinance No. 2004-12 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on January 17, 2006.

Water Utility

On April 15, 1997, the City Council adopted Ordinance No. 97-8 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on June, 19, 2001.

Wastewater Utility

The current rate structure was approved by the City Council on November 19, 2002.

E. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City 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 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:

CITY OF GARRETT  
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 City'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.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension
Annual required contribution	\$ 66,880	\$ 57,400
Interest on net pension obligation	(2,948)	44,600
Adjustment to annual required contribution	3,359	(48,600)
Annual pension cost	67,291	53,400
Contributions made	57,990	21,787
Increase in net pension obligation	9,301	31,613
Net pension obligation, beginning of year	(40,661)	660,285
Net pension obligation, end of year	\$ (31,360)	\$ 691,898

	PERF	1925 Police Officers' Pension
Contribution rates:		
City	5.5%	164%
Plan members	3%	6%
Actuarial valuation date	07-01-06	01-01-06
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	30 years
Amortization period (from date)	07-01-97	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital

Actuarial Assumptions

Investment rate of return	7.25%	6%
Projected future salary increases:		
Total	5%	4%
Attributed to inflation	4%	4%
Attributed to merit/seniority	1%	0%
Cost-of-living adjustments	2%	2.75/4%*

\*2.75% converted members; 4% nonconverted members

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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)
1925 Police Officers' Pension Plan	12-31-03	101,000	22%	600,163
	12-31-04	103,300	42%	660,285
	12-31-05	53,400	41%	691,898

Membership in the 1925 Police Officers' Pension Plan at January 1, 2007, was comprised of the following:

	<u>1925 Police Officers' Pension</u>
Retirees and beneficiaries currently receiving benefits	3

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That 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

CITY OF GARRETT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2007, 2006, and 2005, were \$83,751, \$80,038, and \$53,628, respectively, equal to the required contributions for each year.

CITY OF GARRETT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULES 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%)

1925 Police Officers' Pension Plan

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)
01-01-01	\$ 152,091	\$ 952,600	\$ (800,509)	16%	\$ 61,800	(1,295%)
01-01-02	162,938	948,100	(785,162)	17%	64,300	(1,221%)
01-01-03	168,669	960,700	(792,031)	18%	65,900	(1,202%)
01-01-04	173,156	1,014,300	(841,144)	17%	67,800	(1,241%)
01-01-05	239,074	1,018,700	(779,626)	23%	68,800	(1,133%)
01-01-06	227,962	668,100	(440,138)	34%	34,900	(1,261%)

CITY OF GARRETT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS FROM THE  
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan					
	Year Ending	Annual Required Contribution (ARC)	Percentage OF ARC Contributed		
1925 Police Officers' Pension Plan	12-31-00	\$ 105,900	35%		
	12-31-01	109,700	21%		
	12-31-02	112,300	19%		
	12-31-03	124,500	17%		
	12-31-04	133,600	32%		
	12-31-05	57,400	38%		

CITY OF GARRETT  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2007

	Local Road and Street	Park Donation	Cumulative Park	Rainy Day	City Donation	Law Enforcement Training	Operation Pullover
<b>Receipts:</b>							
Taxes	\$ -	\$ -	\$ 24,419	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	1,225	-
Intergovernmental	28,879	-	2,489	71,338	-	-	-
Charges for services	-	-	-	-	-	1,122	-
Fines and forfeits	-	-	-	-	-	-	-
Other	-	1,089	-	-	3,517	-	-
<b>Total receipts</b>	<b>28,879</b>	<b>1,089</b>	<b>26,908</b>	<b>71,338</b>	<b>3,517</b>	<b>2,347</b>	<b>-</b>
<b>Disbursements:</b>							
General government	-	-	-	9,634	7,775	-	-
Public safety	-	-	-	-	-	8,091	250
Highways and streets	14,995	-	-	-	-	-	-
Culture and recreation	-	2,835	45,093	-	-	-	-
Economic development	-	-	-	-	-	-	-
<b>Debt service:</b>							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
<b>Capital outlay:</b>							
General government	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Economic development	-	-	-	5,880	-	-	-
<b>Total disbursements</b>	<b>14,995</b>	<b>2,835</b>	<b>45,093</b>	<b>15,514</b>	<b>7,775</b>	<b>8,091</b>	<b>250</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>13,884</b>	<b>(1,746)</b>	<b>(18,185)</b>	<b>55,824</b>	<b>(4,258)</b>	<b>(5,744)</b>	<b>(250)</b>
<b>Other financing sources (uses):</b>							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>13,884</b>	<b>(1,746)</b>	<b>(18,185)</b>	<b>55,824</b>	<b>(4,258)</b>	<b>(5,744)</b>	<b>(250)</b>
<b>Cash and investment fund balance - beginning</b>	<b>2,345</b>	<b>2,553</b>	<b>38,797</b>	<b>145,545</b>	<b>21,739</b>	<b>5,827</b>	<b>250</b>
<b>Cash and investment fund balance - ending</b>	<b>\$ 16,229</b>	<b>\$ 807</b>	<b>\$ 20,612</b>	<b>\$ 201,369</b>	<b>\$ 17,481</b>	<b>\$ 83</b>	<b>\$ -</b>
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ -	\$ -	\$ -	\$ 201,369	\$ 17,481	\$ -	\$ -
<b>Restricted assets:</b>							
Cash and investments	16,229	807	20,612	-	-	83	-
<b>Total cash and investment assets - December 31</b>	<b>\$ 16,229</b>	<b>\$ 807</b>	<b>\$ 20,612</b>	<b>\$ 201,369</b>	<b>\$ 17,481</b>	<b>\$ 83</b>	<b>\$ -</b>
<b>Cash and Investment Fund Balance - December 31</b>							
<b>Restricted for:</b>							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83	\$ -
Highways and streets	16,229	-	-	-	-	-	-
Culture and recreation	-	807	20,612	-	-	-	-
Economic development	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-
Unrestricted	-	-	-	201,369	17,481	-	-
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 16,229</b>	<b>\$ 807</b>	<b>\$ 20,612</b>	<b>\$ 201,369</b>	<b>\$ 17,481</b>	<b>\$ 83</b>	<b>\$ -</b>

CITY OF GARRETT  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2007  
 (Continued)

	Code Enforcement	Redevelopment	Riverboat	DNR Grant	Homeland Security/ Firefighters	Debt Service	Downtown Improvement
<b>Receipts:</b>							
Taxes	\$ -	\$ 60,933	\$ -	\$ -	\$ -	\$ 111,505	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	6,255	36,593	5,000	12,601	11,368	-
Charges for services	700	-	-	-	-	-	300
Fines and forfeits	2,283	-	-	-	-	-	-
Other	11,590	-	12,654	-	-	42	27,723
<b>Total receipts</b>	<b>14,573</b>	<b>67,188</b>	<b>49,247</b>	<b>5,000</b>	<b>12,601</b>	<b>122,915</b>	<b>28,023</b>
<b>Disbursements:</b>							
General government	6,129	-	-	-	-	-	-
Public safety	-	-	-	5,000	12,601	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	15,852	-	-	-	-	-
<b>Debt service:</b>							
Principal	-	-	-	-	-	80,000	-
Interest	-	-	-	-	-	5,260	-
<b>Capital outlay:</b>							
General government	-	-	-	-	-	-	-
Highways and streets	-	-	27,696	-	-	-	-
Economic development	-	-	-	-	-	-	74,126
<b>Total disbursements</b>	<b>6,129</b>	<b>15,852</b>	<b>27,696</b>	<b>5,000</b>	<b>12,601</b>	<b>85,260</b>	<b>74,126</b>
Excess (deficiency) of receipts over disbursements	8,444	51,336	21,551	-	-	37,655	(46,103)
<b>Other financing sources (uses):</b>							
Transfers in	-	-	-	-	-	42,110	-
Transfers out	-	-	-	-	-	(42,110)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	8,444	51,336	21,551	-	-	37,655	(46,103)
Cash and investment fund balance - beginning	2,540	23,082	38,731	-	-	3,339	46,149
Cash and investment fund balance - ending	<u>\$ 10,984</u>	<u>\$ 74,418</u>	<u>\$ 60,282</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,994</u>	<u>\$ 46</u>
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ 10,984	\$ -	\$ 60,282	\$ -	\$ -	\$ -	\$ -
<b>Restricted assets:</b>							
Cash and investments	-	74,418	-	-	-	40,994	46
<b>Total cash and investment assets - December 31</b>	<b>\$ 10,984</b>	<b>\$ 74,418</b>	<b>\$ 60,282</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 40,994</b>	<b>\$ 46</b>
<b>Cash and Investment Fund Balance - December 31</b>							
<b>Restricted for:</b>							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Economic development	-	74,418	-	-	-	-	46
Debt service	-	-	-	-	-	40,994	-
Other purposes	-	-	-	-	-	-	-
Unrestricted	10,984	-	60,282	-	-	-	-
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 10,984</b>	<b>\$ 74,418</b>	<b>\$ 60,282</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 40,994</b>	<b>\$ 46</b>

CITY OF GARRETT  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2007  
 (Continued)

	Cumulative Capital Improvement	Cumulative Capital Development	Cumulative Capital Fire	Heritage Nonverting	General Improvement	Downtown Improvement Grant	Totals
<b>Receipts:</b>							
Taxes	\$ -	\$ 74,514	\$ 49,152	\$ -	\$ -	\$ -	\$ 320,523
Licenses and permits	-	-	-	-	-	-	1,225
Intergovernmental	20,382	7,599	5,012	-	-	500,000	707,516
Charges for services	-	-	-	-	-	-	2,122
Fines and forfeits	-	-	-	-	-	-	2,283
Other	-	-	-	-	-	-	56,615
<b>Total receipts</b>	<b>20,382</b>	<b>82,113</b>	<b>54,164</b>	<b>-</b>	<b>-</b>	<b>500,000</b>	<b>1,090,284</b>
<b>Disbursements:</b>							
General government	-	-	-	-	-	-	23,538
Public safety	-	-	-	-	-	-	25,942
Highways and streets	-	-	-	-	-	-	14,995
Culture and recreation	-	-	-	691	-	-	48,619
Economic development	-	-	-	-	-	-	15,852
Debt service:							
Principal	-	-	16,821	-	-	-	96,821
Interest	-	-	4,711	-	-	-	9,971
Capital outlay:							
General government	27,973	39,951	-	-	-	-	67,924
Highways and streets	-	-	-	-	-	-	27,696
Economic development	-	-	-	-	-	500,000	580,006
<b>Total disbursements</b>	<b>27,973</b>	<b>39,951</b>	<b>21,532</b>	<b>691</b>	<b>-</b>	<b>500,000</b>	<b>911,364</b>
Excess (deficiency) of receipts over disbursements	(7,591)	42,162	32,632	(691)	-	-	178,920
<b>Other financing sources (uses):</b>							
Transfers in	-	-	-	-	-	-	42,110
Transfers out	-	-	-	-	-	-	(42,110)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(7,591)	42,162	32,632	(691)	-	-	178,920
Cash and investment fund balance - beginning	22,696	11,992	50,236	691	12,292	-	428,804
Cash and investment fund balance - ending	<u>\$ 15,105</u>	<u>\$ 54,154</u>	<u>\$ 82,868</u>	<u>\$ -</u>	<u>\$ 12,292</u>	<u>\$ -</u>	<u>\$ 607,724</u>
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 290,116
Restricted assets:							
Cash and investments	15,105	54,154	82,868	-	12,292	-	317,608
<b>Total cash and investment assets - December 31</b>	<b>\$ 15,105</b>	<b>\$ 54,154</b>	<b>\$ 82,868</b>	<b>\$ -</b>	<b>\$ 12,292</b>	<b>\$ -</b>	<b>\$ 607,724</b>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Public safety	\$ -	\$ -	\$ 82,868	\$ -	\$ -	\$ -	\$ 82,951
Highways and streets	-	-	-	-	-	-	16,229
Culture and recreation	-	-	-	-	-	-	21,419
Economic development	15,105	54,154	-	-	-	-	143,723
Debt service	-	-	-	-	-	-	40,994
Other purposes	-	-	-	-	12,292	-	12,292
Unrestricted	-	-	-	-	-	-	290,116
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 15,105</b>	<b>\$ 54,154</b>	<b>\$ 82,868</b>	<b>\$ -</b>	<b>\$ 12,292</b>	<b>\$ -</b>	<b>\$ 607,724</b>

CITY OF GARRETT  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For The Year Ended December 31, 2007

	Payroll	Electronic Transfer	Downtown Retainage	Totals
Additions:				
Agency fund additions	\$ 1,921,237	\$ 886,984	\$ 23,807	\$ 2,832,028
Deductions:				
Agency fund deductions	1,920,427	889,028	23,807	2,833,262
Excess (deficiency) of total additions over total deductions	810	(2,044)	-	(1,234)
Cash and investment fund balance - beginning	4,175	10,824	-	14,999
Cash and and investment fund balance - ending	\$ 4,985	\$ 8,780	\$ -	\$ 13,765

CITY OF GARRETT  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

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.

General infrastructure assets completed in the current and prior years have been reported. Retroactive reporting of general infrastructure assets will not be done.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 2,293,577
Infrastructure	10,457,318
Buildings	1,691,633
Improvements other than buildings	495,630
Machinery and equipment	2,099,600
Construction in progress	<u>6,246</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 17,044,004</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Electric Utility:	
Capital assets, not being depreciated:	
Land	\$ 183,832
Construction in progress	302,366
Buildings	54,044
Improvements other than buildings	11,997,723
Machinery and equipment	378,664
Transportation equipment	<u>428,306</u>
Total Electric Utility capital assets	<u>13,344,935</u>
Water Utility:	
Capital assets, not being depreciated:	
Land	37,983
Buildings	290,157
Improvements other than buildings	4,258,719
Machinery and equipment	172,262
Transportation equipment	<u>83,158</u>
Total Water Utility capital assets	<u>4,842,279</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	43,792
Buildings	1,157,697
Improvements other than buildings	7,425,612
Machinery and equipment	5,099,710
Transportation equipment	<u>10,000</u>
Total Wastewater Utility capital assets	<u>13,736,811</u>
Total business-type activities capital assets	<u>\$ 31,924,025</u>

CITY OF GARRETT  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal Due Within One Year	Interest Due Within One Year
<b>Governmental Activities:</b>			
Loan payable:			
Fire rescue truck	\$ 76,034	\$ 176,514	\$ 3,764
Capital leases:			
Police/fire station	449,931	59,344	31,156
Street sweeper	41,296	20,313	1,360
Bonds payable:			
General obligation bonds:			
Equipment and sidewalk repair	<u>40,000</u>	<u>40,000</u>	<u>1,060</u>
<b>Total governmental activities debt</b>	<b><u>\$ 607,261</u></b>	<b><u>\$ 296,171</u></b>	<b><u>\$ 37,340</u></b>
<b>Business-type Activities:</b>			
Electric Utility:			
Revenue bonds:			
Electric Utility improvements and extension	<u>\$ 3,685,000</u>	<u>\$ -</u>	<u>\$ 76,824</u>
Water Utility			
Revenue bonds:			
Waterworks improvement	<u>750,000</u>	<u>-</u>	<u>17,245</u>
Wastewater Utility			
Revenue bonds:			
Sewage Utility expansion	295,000	60,000	18,437
Sewageworks, wastewater expansion	<u>4,685,000</u>	<u>200,000</u>	<u>96,212</u>
<b>Total Wastewater Utility</b>	<b><u>4,980,000</u></b>	<b><u>260,000</u></b>	<b><u>114,649</u></b>
<b>Total business-type activities debt:</b>	<b><u>\$ 9,415,000</u></b>	<b><u>\$ 260,000</u></b>	<b><u>\$ 208,718</u></b>

CITY OF GARRETT  
AUDIT RESULT AND COMMENT

POLICE DEPARTMENT RECEIPTS AND FEES

As stated in prior Report B30601, receipts and fees collected by the Police Department were remitted to the Clerk-Treasurer less frequently than once a week.

Receipts and fees collected by a police department should be remitted to the clerk-treasurer or city controller at least once each week. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2003)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF GARRETT, DEKALB COUNTY, INDIANA

### Compliance

We have audited the compliance of the City of Garrett (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2007. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the City's management, the Common Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 19, 2008

CITY OF GARRETT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2007

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Natural Resources Cooperative Forestry Assistance Volunteer Fire Department Grant (DNR)	10.664		\$ <u>5,000</u>
<u>U.S. HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Office of Community and Rural Affairs Community Development Block Grants/States Program CF-05-133	14.228		<u>500,000</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct grant Assistance to Firefighters Grant	97.044		<u>12,601</u>
Pass-Through Indiana Department of Homeland Security Disaster Grants - Public Assistance (Presidentially Declared Disaster) 2274-EM	97.036		<u>5,894</u>
Total for federal grantor agency			<u>18,495</u>
Total federal awards expended			<u>\$ <u>523,495</u></u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARRETT  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Garrett (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF GARRETT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program
14.228	Community Development Block Grant/States Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF GARRETT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF GARRETT  
EXIT CONFERENCE

The contents of this report were discussed on March 19, 2008, with Jennie DePaolo, Clerk-Treasurer. The official concurred with our audit finding.