

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

ANNUAL FINANCIAL REPORT

2007

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
DEKALB COUNTY, INDIANA



FILED
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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 Electric Utility	Michael Steward	01-01-07 to 12-31-08
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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE ELECTRIC, WATER, AND
WASTEWATER UTILITIES, 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 of the City of Garrett, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note I, the financial statements of the Electric, Water, and Wastewater Utilities, 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, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water, Wastewater, and Electric Utilities, as of December 31, 2007, 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 a part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

March 19, 2008

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
STATEMENT OF NET ASSETS
December 31, 2007

<u>Assets</u>	Electric Utility	Water Utility	Wastewater Utility
Current assets:			
Cash and cash equivalents	\$ 1,214,624	\$ 504,157	\$ 1,733,724
Accounts receivable (net of allowance)	689,303	70,507	154,846
Interfund receivables	-	-	76,034
Accrued revenues	653,031	65,339	125,942
Inventories	340,402	63,499	-
Prepaid items	14,154	4,855	6,804
Total current assets	<u>2,911,514</u>	<u>708,357</u>	<u>2,097,350</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	614,515	187,870	205,985
Bond and interest cash and investments	33,009	12,233	362,944
Debt service reserve cash and investments	307,980	66,155	516,687
Customer deposits	129,286	41,405	68,779
Interest receivable	-	-	1,258
Total restricted assets	<u>1,084,790</u>	<u>307,663</u>	<u>1,155,653</u>
Deferred charges	142,855	47,872	143,261
Capital assets:			
Land, improvements to land and construction in progress	486,198	37,983	43,792
Other capital assets (net of accumulated depreciation)	7,226,873	3,261,389	8,983,202
Total capital assets	<u>7,713,071</u>	<u>3,299,372</u>	<u>9,026,994</u>
Total noncurrent assets	<u>8,940,716</u>	<u>3,654,907</u>	<u>10,325,908</u>
Total assets	<u>11,852,230</u>	<u>4,363,264</u>	<u>12,423,258</u>
Liabilities			
Current liabilities:			
Accounts payable	400,874	14,538	49,253
Accrued wages payable	18,787	12,717	11,956
Taxes payable	32,664	3,271	-
Current liabilities payable from restricted assets:			
Customer deposits	129,286	41,405	68,779
Revenue bonds payable	-	-	260,000
Accrued interest payable	-	-	9,219
Total current liabilities	<u>581,611</u>	<u>71,931</u>	<u>399,207</u>
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts)	3,685,000	750,000	4,682,537
Total liabilities	<u>4,266,611</u>	<u>821,931</u>	<u>5,081,744</u>
Net Assets			
Invested in capital assets, net of related debt	4,028,071	2,549,372	4,084,457
Restricted for debt service	340,989	78,388	879,631
Restricted for other purposes	614,515	187,870	207,243
Unrestricted	2,602,044	725,703	2,170,183
Total net assets	<u>\$ 7,585,619</u>	<u>\$ 3,541,333</u>	<u>\$ 7,341,514</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, 2007

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Operating revenues:			
Metered revenue	\$ 6,729,033	\$ -	\$ -
Fire protection revenue	-	160,036	-
Penalties	30,320	6,148	33,774
Measured revenue	-	620,470	1,524,607
Other	<u>13,348</u>	<u>8,894</u>	<u>9,056</u>
 Total operating revenues	 <u>6,772,701</u>	 <u>795,548</u>	 <u>1,567,437</u>
Operating expenses:			
Water treatment expense - operations and maintenance	-	193,231	-
Transmission and distribution	-	142,044	-
Pumping - operations and maintenance	-	-	102,831
Treatment and disposal - operations and maintenance	-	-	82,060
Operations and maintenance	539,583	-	-
Customer accounts	58,049	43,521	32,979
Administration and general	227,881	106,761	205,397
Employee pensions and benefits	149,220	84,166	79,277
Purchased power	4,928,180	75,251	71,403
Sludge removal	-	-	162,446
Contractual services	91,810	6,207	54,944
Rents	10,544	3,333	3,333
Insurance expense	29,400	12,530	22,347
Depreciation	508,709	89,023	409,424
Miscellaneous expenses	<u>21,371</u>	<u>24,224</u>	<u>25,245</u>
 Total operating expenses	 <u>6,564,747</u>	 <u>780,291</u>	 <u>1,251,686</u>
 Operating income	 <u>207,954</u>	 <u>15,257</u>	 <u>315,751</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	9,336	3,627	15,886
Miscellaneous revenue	60,813	9,507	10,887
Interest expense	(159,397)	(36,152)	(108,513)
Amortization of bond issue costs	<u>(8,403)</u>	<u>(2,520)</u>	<u>(10,279)</u>
 Total nonoperating revenues (expenses)	 <u>(97,651)</u>	 <u>(25,538)</u>	 <u>(92,019)</u>
 Income (loss) before contributions and transfers	 110,303	 (10,281)	 223,732
Capital contributions	<u>-</u>	<u>246,500</u>	<u>-</u>
 Change in net assets	 110,303	 236,219	 223,732
Total net assets - beginning	<u>7,475,316</u>	<u>3,305,114</u>	<u>7,117,782</u>
Total net assets - ending	<u>\$ 7,585,619</u>	<u>\$ 3,541,333</u>	<u>\$ 7,341,514</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, 2007

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 6,660,010	\$ 781,291	\$ 1,562,277
Payments to suppliers and contractors	(5,876,776)	(448,601)	(411,754)
Payments to employees	(172,430)	(280,946)	(399,688)
Other receipts	<u>60,813</u>	<u>9,507</u>	<u>10,887</u>
Net cash provided by operating activities	<u>671,617</u>	<u>61,251</u>	<u>761,722</u>
Cash flows from noncapital financing activities:			
Interfund loan receivable	<u>-</u>	<u>-</u>	<u>16,821</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(167,639)	(106,651)	(21,405)
Principal paid on capital debt	(135,000)	(25,000)	(250,000)
Interest paid on capital debt	<u>(159,397)</u>	<u>(36,152)</u>	<u>(206,574)</u>
Net cash used by capital and related financing activities	<u>(462,036)</u>	<u>(167,803)</u>	<u>(477,979)</u>
Cash flows from investing activities:			
Interest received	<u>9,336</u>	<u>3,627</u>	<u>16,164</u>
Net increase (decrease) in cash and cash equivalents	218,917	(102,925)	316,728
Cash and cash equivalents, January 1	<u>2,080,497</u>	<u>914,745</u>	<u>2,571,391</u>
Cash and cash equivalents, December 31	<u>\$ 2,299,414</u>	<u>\$ 811,820</u>	<u>\$ 2,888,119</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 207,954</u>	<u>\$ 15,257</u>	<u>\$ 315,751</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	508,709	89,023	409,424
Nonoperating revenues	60,813	9,507	10,887
(Increase) decrease in assets:			
Accounts receivable	(99,924)	(6,524)	(8,326)
Accrued revenue	(12,766)	(7,733)	3,166
Inventories	39,160	(31,887)	-
Prepaid items	78	351	297
Increase (decrease) in liabilities:			
Accounts payable	(42,696)	(5,946)	23,667
Wages payable	5,301	360	1,939
Taxes payable	3,235	(232)	-
Customer deposits	<u>1,753</u>	<u>(925)</u>	<u>4,917</u>
Total adjustments	<u>463,663</u>	<u>45,994</u>	<u>445,971</u>
Net cash provided by operating activities	<u>\$ 671,617</u>	<u>\$ 61,251</u>	<u>\$ 761,722</u>
Noncash investing, capital and financing activities:			
Contributions of capital assets from government	<u>\$ -</u>	<u>\$ 246,500</u>	<u>\$ -</u>

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.

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

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Electric and Water:			
Buildings	\$ 5,000	Composite	2% to 4%
Improvement 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
Improvement 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. No amount of interest was included as part of the cost of capital assets in the Utilities.

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

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.
- 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, 2007, was as follows:

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

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 183,832	\$ -	\$ -	\$ 183,832
Construction in progress	302,366	-	-	302,366
 Total capital assets, not being depreciated	 486,198	 -	 -	 486,198
Capital assets, being depreciated:				
Buildings	54,044	-	-	54,044
Improvements other than buildings	11,922,612	75,111	-	11,997,723
Machinery and equipment	312,757	65,907	-	378,664
Transportation equipment	428,306	-	-	428,306
Less accumulated depreciation	(5,123,155)	(508,709)	-	(5,631,864)
 Total capital assets, being depreciated, net	 7,594,564	 (367,691)	 -	 7,226,873
 Total Electric Utility capital assets, net	 \$ 8,080,762	 \$ (367,691)	 \$ -	 \$ 7,713,071
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 37,983	\$ -	\$ -	\$ 37,983
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	3,957,362	301,357	-	4,258,719
Machinery and equipment	120,468	51,794	-	172,262
Transportation equipment	83,158	-	-	83,158
Less accumulated depreciation	(1,453,884)	(89,023)	-	(1,542,907)
 Total capital assets, being depreciated, net	 2,997,261	 264,128	 -	 3,261,389
 Total Water Utility capital assets, net	 \$ 3,035,244	 \$ 264,128	 \$ -	 \$ 3,299,372

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:				
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	7,404,207	21,405	-	7,425,612
Machinery and equipment	5,099,710	-	-	5,099,710
Transportation equipment	10,000	-	-	10,000
Totals	<u>13,671,614</u>	<u>21,405</u>	<u>-</u>	<u>13,693,019</u>
Less accumulated depreciation for:				
Buildings	(466,364)	(23,154)	-	(489,518)
Improvements other than buildings	(2,371,787)	(164,604)	-	(2,536,391)
Machinery and equipment	(1,460,575)	(219,999)	-	(1,680,574)
Transportation equipment	(1,667)	(1,667)	-	(3,334)
Totals	<u>(4,300,393)</u>	<u>(409,424)</u>	<u>-</u>	<u>(4,709,817)</u>
Total capital assets, being depreciated, net	<u>9,371,221</u>	<u>(388,019)</u>	<u>-</u>	<u>8,983,202</u>
Total Wastewater Utility capital assets, net	<u>\$ 9,415,013</u>	<u>\$ (388,019)</u>	<u>\$ -</u>	<u>\$ 9,026,994</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, 2007</u>
Electric Utility west substation	<u>\$ 302,366</u>	<u>\$ 302,366</u>

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2007, is as follows:

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

Due To	Due From City - General Fund
Wastewater Utility	\$ 76,034

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.

2. Interfund Transfers

Interfund transfers at December 31, 2007, were as follows:

Transfer From	Transfer To		
	City Bond and Interest Fund	Wastewater Utility	Totals
Wastewater Utility	\$ 42,110	\$ -	\$ 42,110
City - Bond and Interest Fund	-	42,110	42,110
Totals	\$ 42,110	\$ 42,110	\$ 84,220

The Utility typically uses transfers to fund ongoing operating subsidies.

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	6.25%	\$ 295,000	\$ 1,957	\$ 293,043
2002A Sewage works, wastewater expansion	3.5% to 4.375%	4,685,000	35,506	4,649,494
2004 Waterworks improvement	4.25% to 4.85%	750,000	-	750,000
2005 Electric Utility improvements and extension	4.0% to 4.4%	3,685,000	-	3,685,000
Totals		\$ 9,415,000	\$ 37,463	\$ 9,377,537

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

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
2008	\$ -	\$ 76,824	\$ -	\$ 17,245	\$ 260,000	\$ 114,649
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	160,000	133,048	30,000	30,028	265,000	162,762
2013-2017	895,000	562,738	175,000	129,143	1,380,000	656,304
2018-2022	1,100,000	359,862	225,000	83,764	1,785,000	334,010
2023-2027	1,095,000	99,139	230,000	22,796	420,000	18,375
Totals	<u>\$ 3,685,000</u>	<u>\$ 1,666,854</u>	<u>\$ 750,000</u>	<u>\$ 380,710</u>	<u>\$ 4,980,000</u>	<u>\$ 1,850,985</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Electric Utility	\$ 3,820,000	\$ -	\$ 135,000	\$ 3,685,000	\$ -
Water Utility	775,000	-	25,000	750,000	-
Wastewater Utility	5,230,000	-	250,000	4,980,000	260,000
Total long-term liabilities	<u>\$ 9,825,000</u>	<u>\$ -</u>	<u>\$ 410,000</u>	<u>\$ 9,415,000</u>	<u>\$ 260,000</u>

III. Other Information

A. Risk Management

The Utility 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.

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

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 \$20,000 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. Provisions are also made for unexpected and unusual claims.

Workers' Compensation

During 1993, the Utility joined together with other governmental entities to form 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 Utility 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. Rate Structure

1. 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 Utility on January 17, 2006. The Utility has 3,155 customers.

2. 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 Utility on June 19, 2001. The Utility has 2,132 customers.

3. Wastewater Utility

The current rate structure was approved by the Utility on November 19, 2002. The Utility has 2,186 customers.

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

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utility, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utility authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utility's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole (and is presented in the governmental activities of the financial statements 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	5.5%
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 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)
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 UTILITIES
CITY OF GARRETT
EXIT CONFERENCE

The contents of this report were discussed on March 19, 2008, with Jennie DePaolo, Clerk-Treasurer. Our audit disclosed no material items that warrant comment at this time.