

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

ANNUAL FINANCIAL REPORT

2007

WATER AND WASTEWATER UTILITIES

CITY OF ANGOLA

STEUBEN COUNTY, INDIANA



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Debra A. Twitchell	01-01-04 to 12-31-11
Mayor	Richard M. Hickman	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	Richard M. Hickman	01-01-04 to 12-31-11
President of the Common Council	Richard M. Hickman	01-01-04 to 12-31-11
Superintendent of Water Utility	Daniel D. Olis	01-01-07 to 12-31-08
Superintendent of Wastewater Utility	Craig Williams	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 WATER AND WASTEWATER UTILITIES,
CITY OF ANGOLA, STEUBEN COUNTY, INDIANA

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

Management has 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

September 2, 2008

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

<u>Assets</u>	Water Utility	Wastewater Utility
Current assets:		
Cash and cash equivalents	\$ 188,230	\$ 227,125
Accounts receivable (net of allowance)	13,517	10,056
Accounts receivable - other	2,337	1,614
Inventories	88,995	23,349
Prepaid items	2,265	3,747
Total current assets	295,344	265,891
Noncurrent assets:		
Restricted cash and cash equivalents:		
Depreciation cash and cash equivalents	823,934	495,780
Bond and interest cash and cash equivalents	179,094	5
Debt service reserve cash and cash equivalents	272,165	753,696
Construction cash and cash equivalents	1,824,321	-
Customer deposits	40,935	-
Interest receivable	9,228	1,133
Grant receivable	243,369	-
Total restricted assets	3,393,046	1,250,614
Deferred charges	139,070	172,512
Capital assets:		
Land, improvements to land and construction in progress	2,276,397	53,610
Other capital assets (net of accumulated depreciation)	6,201,566	17,038,239
Total capital assets	8,477,963	17,091,849
Total noncurrent assets	12,010,079	18,514,975
Total assets	12,305,423	18,780,866
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	43,725	15,253
Accrued wages payable	22,378	29,418
Taxes payable	5,653	-
Compensated absences	9,202	12,106
Current liabilities payable from restricted assets:		
Accounts payable	877,824	-
Customer deposits	40,935	-
Revenue bonds payable	215,000	-
Accrued interest payable	89,317	-
Total current liabilities	1,304,034	56,777
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts or premiums and deferred amount on refunding)	4,510,066	4,157,553
Loans payable	-	3,545,000
Compensated absences	4,011	2,179
Total noncurrent liabilities	4,514,077	7,704,732
Total liabilities	5,818,111	7,761,509
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,716,288	9,561,808
Restricted for debt service	451,259	753,701
Restricted for construction and improvements	823,934	-
Unrestricted	(504,169)	703,848
Total net assets	\$ 6,487,312	\$ 11,019,357

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

WATER AND WASTEWATER UTILITIES
CITY OF ANGOLA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility
Operating revenues:		
Metered water revenue	\$ 1,129,212	\$ -
Measured revenue:		
Wastewater	-	1,808,324
Storm water	-	146,222
Fire protection revenue	409,869	-
Penalties	7,799	30,643
Tap and connection fees	13,833	78,793
Other	18,704	61,903
	<u>1,579,417</u>	<u>2,125,885</u>
Operating expenses:		
Source of supply and expense - operations and maintenance	128,530	-
Water treatment expense - operations and maintenance	254,732	-
Transmission and distribution	274,678	-
Collection system - operations and maintenance	-	252,454
Pumping - operations and maintenance	-	189,895
Treatment and disposal - operations and maintenance	-	437,125
Customer accounts	62,536	63,721
Administration and general	260,983	256,816
Sludge removal	-	34,779
Depreciation	188,194	722,797
Miscellaneous expenses	20,988	30,050
	<u>1,190,641</u>	<u>1,987,637</u>
Operating income	<u>388,776</u>	<u>138,248</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	181,565	81,179
Interest expense	(198,315)	(326,017)
Amortization of bond issue costs	(4,045)	(11,866)
	<u>(20,795)</u>	<u>(256,704)</u>
Income (loss) before contributions	367,981	(118,456)
Capital contributions	<u>500,000</u>	<u>-</u>
Change in net assets before cumulative effect of change in accounting estimate	867,981	(118,456)
Cumulative effect of change in accounting estimate (See Note IIB)	<u>(95,197)</u>	<u>(117,881)</u>
Change in net assets after cumulative effect of change in accounting estimate	772,784	(236,337)
Total net assets - beginning	<u>5,714,528</u>	<u>11,255,694</u>
Total net assets - ending	<u>\$ 6,487,312</u>	<u>\$ 11,019,357</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF ANGOLA
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,580,093	\$ 2,128,120
Payments to suppliers and contractors	(326,136)	(147,221)
Payments to employees	(609,722)	(1,110,757)
	<u>644,235</u>	<u>870,142</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Proceeds from capital debt	2,635,000	-
Capital contributions	256,631	-
Acquisition and construction of capital assets	(1,324,418)	(128,998)
Principal paid on capital debt	(265,000)	(405,000)
Interest paid on capital debt	(162,033)	(320,861)
Bond issue costs	(88,197)	-
	<u>1,051,983</u>	<u>(854,859)</u>
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Interest received	172,924	81,868
	<u>172,924</u>	<u>81,868</u>
Net increase in cash and cash equivalents		
	1,869,142	97,151
Cash and cash equivalents, January 1		
	<u>1,459,537</u>	<u>1,379,455</u>
Cash and cash equivalents, December 31		
	<u>\$ 3,328,679</u>	<u>\$ 1,476,606</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 388,776	\$ 138,248
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	188,194	722,797
(Increase) decrease in assets:		
Accounts receivable	676	2,235
Inventories	18,577	(14,703)
Prepaid items	751	(521)
Increase (decrease) in liabilities:		
Accounts payable	34,349	9,520
Accrued wages payable	5,815	10,213
Taxes payable	452	-
Compensated absence payable	3,415	2,353
Customer deposits	3,230	-
	<u>255,459</u>	<u>731,894</u>
Total adjustments		
Net cash provided by operating activities	<u>\$ 644,235</u>	<u>\$ 870,142</u>
Noncash investing, capital and financing activities:		
Purchase of equipment on account	\$ 877,824	\$ -

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

WATER AND WASTEWATER UTILITIES
CITY OF ANGOLA
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 Angola (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 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. The activity has been classified Class A, requiring full accrual accounting records, by the National Association of Regulatory Utility Commissioners.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

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

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

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 since their use is limited by applicable bond indentures or governing body action.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the Statement of Net Assets.

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
Buildings	\$ 5,000	Straight-line	10 to 100 yrs.
Infrastructure	5,000	Straight-line	10 to 100 yrs.
Improvement other than buildings	5,000	Straight-line	10 to 100 yrs.
Machinery and equipment	5,000	Straight-line	5 to 50 yrs.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water Utility during the current year was \$207,443. Of this amount, \$9,128 was included as part of the cost of capital assets under construction in connection with the waterworks plant expansion.

5. Compensated Absences

- a. Sick Leave – The employees of the Utilities earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 90 days. Accumulated sick leave is paid to employees through cash payments upon termination.
- b. Vacation Leave – The employees of the Utilities earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate beyond the employee's anniversary date. Accumulated vacation leave is paid to employees through cash payments upon termination.

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

- c. Personal Leave – The employees of the Utilities earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

Vacation and sick leave are accrued when incurred.

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 5-13-18-1 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 Utilities do not have a deposit policy for custodial risk. At December 31, 2007, the Utilities had deposit balances in the amount of \$4,805,285. 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:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 56,533	\$ -	\$ 6,533	\$ 50,000
Construction in progress	117,241	2,113,956	4,800	2,226,397
	<u>173,774</u>	<u>2,113,956</u>	<u>11,333</u>	<u>2,276,397</u>
Total capital assets, not being depreciated				
	<u>173,774</u>	<u>2,113,956</u>	<u>11,333</u>	<u>2,276,397</u>
Capital assets, being depreciated:				
Buildings	2,131,108	-	34,892	2,096,216
Infrastructure	5,402,763	27,337	31,645	5,398,455
Improvements other than buildings	19,310	-	11,920	7,390
Machinery and equipment	1,281,288	55,617	228,653	1,108,252
	<u>8,834,469</u>	<u>82,954</u>	<u>307,110</u>	<u>8,610,313</u>
Totals	<u>8,834,469</u>	<u>82,954</u>	<u>307,110</u>	<u>8,610,313</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	523,992	45,665	24,536	545,121
Infrastructure	1,276,743	95,720	17,275	1,355,188
Improvements other than buildings	7,916	370	5,699	2,587
Machinery and equipment	631,608	46,439	172,196	505,851
Totals	<u>2,440,259</u>	<u>188,194</u>	<u>219,706</u>	<u>2,408,747</u>
Total capital assets, being depreciated, net	<u>6,394,210</u>	<u>(105,240)</u>	<u>87,404</u>	<u>6,201,566</u>
Total Water Utility capital assets, net	<u>\$ 6,567,984</u>	<u>\$ 2,008,716</u>	<u>\$ 98,737</u>	<u>\$ 8,477,963</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 26,625	\$ -	\$ -	\$ 26,625
Construction in progress	9,138	26,985	9,138	26,985
Total capital assets, not being depreciated	<u>35,763</u>	<u>26,985</u>	<u>9,138</u>	<u>53,610</u>
Capital assets, being depreciated:				
Buildings	6,992,590	-	28,248	6,964,342
Infrastructure	16,931,271	81,436	153,329	16,859,378
Improvements other than buildings	40,030	-	8,060	31,970
Machinery and equipment	2,164,179	39,229	220,479	1,982,929
Totals	<u>26,128,070</u>	<u>120,665</u>	<u>410,116</u>	<u>25,838,619</u>
Less accumulated depreciation for:				
Buildings	1,569,095	139,136	19,978	1,688,253
Infrastructure	5,775,480	479,843	80,101	6,175,222
Improvements other than buildings	17,056	1,599	5,824	12,831
Machinery and equipment	998,673	102,219	176,818	924,074
Totals	<u>8,360,304</u>	<u>722,797</u>	<u>282,721</u>	<u>8,800,380</u>
Total capital assets, being depreciated, net	<u>17,767,766</u>	<u>(602,132)</u>	<u>127,395</u>	<u>17,038,239</u>
Total Wastewater Utility capital assets, net	<u>\$ 17,803,529</u>	<u>\$ (575,147)</u>	<u>\$ 136,533</u>	<u>\$ 17,091,849</u>

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

In 2007, the Utilities, through ordinance 1258-2007, amended their capitalization policy. The capitalization threshold of \$1,000 was increased to \$5,000. This change required a write-off of capital assets under \$5,000 and the accumulated depreciation of each capital asset. The write-off of these capital assets resulted in a loss reported in the financial statements for the Water and Wastewater Utilities in the amount of \$95,197 and \$117,881, respectively.

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

Water	\$ 188,194
Wastewater	<u>722,797</u>
 Total depreciation expense	 <u>\$ 910,991</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007
Water Utility:		
W. Mill Street project	\$ 2,338,900	\$ 2,038,188
Calvary Ln. tank painting	170,209	170,209
Storage tank	<u>18,000</u>	<u>18,000</u>
 Totals for Water Utility	 <u>\$ 2,527,109</u>	 <u>\$ 2,226,397</u>
 Wastewater Utility:		
Martha/Gale Elisabeth Sts. Separation	<u>\$ 26,985</u>	<u>\$ 26,985</u>

D. 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:

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

Purpose	Interest Rates	Balance at 12-31-07	Premium (Discount) (Deferral of Loss on Refunding)	Revenue Bonds
1998 Waterworks revenue bonds	4.5% to 5%	\$ 1,390,000	\$ (20,213)	\$ 1,369,787
2002 Waterworks revenue bonds	4% to 5.2%	875,000	(14,721)	860,279
2007 Waterworks revenue bonds	4% to 4.5%	2,495,000	-	2,495,000
1997 Sewage works revenue bonds	5.3% to 5.375%	1,465,000	(19,350)	1,445,650
2004 Sewage works revenue and refund bonds	3% to 4.5%	<u>2,760,000</u>	<u>(48,097)</u>	<u>2,711,903</u>
Totals		<u>\$ 8,985,000</u>	<u>\$ (102,381)</u>	<u>\$ 8,882,619</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2008	\$ 215,000	\$ 214,828	\$ -	\$ 91,148
2009	235,000	104,063	320,000	176,577
2010	235,000	97,923	330,000	164,622
2011	245,000	91,592	340,000	151,652
2012	260,000	84,980	355,000	137,859
2013-2017	1,490,000	305,259	2,150,000	438,932
2018-2022	1,380,000	68,075	500,000	109,593
2023-2026	<u>700,000</u>	<u>-</u>	<u>230,000</u>	<u>10,350</u>
Totals	<u>\$ 4,760,000</u>	<u>\$ 966,720</u>	<u>\$ 4,225,000</u>	<u>\$ 1,280,733</u>

2. Loan Payable

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of improvements to the Wastewater Utility. Funds are loaned to the City as construction costs are accrued to the maximum allowed. Loan payable debt service requirements to maturity are as follows:

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

	Principal	Interest
2008	\$ -	\$ 62,038
2009	105,000	122,238
2010	105,000	118,563
2011	110,000	114,800
2012	115,000	110,862
2013-2017	1,090,000	489,388
2018-2021	2,020,000	176,312
Totals	<u>\$ 3,545,000</u>	<u>\$ 1,194,201</u>

3. 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:					
Water Utility	\$ 2,390,000	\$ 2,635,000	\$ 265,000	\$ 4,760,000	\$ 215,000
Wastewater Utility	4,530,000	-	305,000	4,225,000	-
Total revenue bonds payable	<u>6,920,000</u>	<u>2,635,000</u>	<u>570,000</u>	<u>8,985,000</u>	<u>215,000</u>
Loan payable:					
Wastewater Utility	3,645,000	-	100,000	3,545,000	-
Compensated absences:					
Water Utility	9,798	9,718	6,303	13,213	9,202
Wastewater Utility	11,932	12,403	10,050	14,285	12,106
Total compensated absences	<u>21,730</u>	<u>22,121</u>	<u>16,353</u>	<u>27,498</u>	<u>21,308</u>
Total long-term liabilities	<u>\$ 10,586,730</u>	<u>\$ 2,657,121</u>	<u>\$ 686,353</u>	<u>\$ 12,557,498</u>	<u>\$ 236,308</u>

E. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

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

	Water Utility	Wastewater Utility
Depreciation	\$ 823,934	\$ 495,780
Bond and interest	179,094	5
Debt service reserve	272,165	753,696
Construction	1,824,321	-
Customer deposits	40,935	-
Interest receivable	9,228	1,133
Grant receivable	243,369	-
 Total restricted assets	 \$ 3,393,046	 \$ 1,250,614

III. Other Information

A. Risk Management

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

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

Medical Benefits

The Utilities have chosen to establish a risk financing fund for risks associated with employee health insurance. The risk financing fund is accounted for in the Self-Insurance Fund, in 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. A premium is charged to each fund that accounts for payroll. The total charge allocated to each of the funds is calculated using a ratio of that fund to the total payroll. Provisions are also made for unexpected and unusual claims.

Workers' Compensation

During 2003, the City, including the Utilities, joined together with other governmental entities in the Indiana Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was

WATER AND WASTEWATER UTILITIES
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formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The Utilities pay an annual premium to the risk pool for its workers' compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Rate Structure

1. Water Utility

On August 3, 1992, the City Council adopted Ordinance 883 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on January 2, 2007. The Utility has 2,851 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on July 5, 2006. The Utility has 2,900 customers.

C. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

WATER AND WASTEWATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole and is not presented as an asset/liability of the proprietary funds.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 153,271
Interest on net pension obligation	(8,454)
Adjustment to annual required contribution	9,634
Annual pension cost	154,451
Contributions made	161,306
Decrease in net pension obligation	(6,855)
Net pension obligation, beginning of year	(116,611)
Net pension obligation, end of year	\$ (123,466)
Contribution rates:	
Utilities	6.75%
Plan members	3%
Actuarial valuation date	07-01-07
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 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%

WATER AND WASTEWATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-05	\$ 135,290	119%	\$ (127,003)
	06-30-06	161,510	94%	(116,611)
	06-30-07	154,451	104%	(123,466)

WATER AND WASTEWATER UTILITIES
CITY OF ANGOLA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-05	\$ 1,665,345	\$ 2,304,302	\$ (638,957)	72%	\$ 2,299,252	(28%)
07-01-06	1,942,471	2,270,261	(327,790)	86%	2,370,311	(14%)
07-01-07	2,248,502	2,616,243	(367,741)	86%	2,576,734	(14%)

WATER AND WASTEWATER UTILITIES
CITY OF ANGOLA
EXIT CONFERENCE

The contents of this report were discussed on September 2, 2008, with Debra A. Twitchell, Clerk-Treasurer; and Richard M. Hickman, Mayor. Our audit disclosed no material items that warrant comment at this time.