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

ANNUAL FINANCIAL REPORT

2007

WASTEWATER UTILITY
CITY OF KOKOMO
HOWARD COUNTY, INDIANA



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Phillip Williams	01-01-07 to 10-26-07
	Thu Caven	10-27-07 to 12-31-07
	James J. Brannon	01-01-08 to 12-31-11
Mayor	Matthew McKillip	01-01-04 to 12-31-07
	Gregory Goodnight	01-01-08 to 12-31-11
President of the Board of Public Works	Phillip Williams	01-01-07 to 10-26-07
	Vacant	10-27-07 to 12-31-07
	James J. Brannon	01-01-08 to 12-31-11
President of the Common Council	Michael Karickhoff	01-01-07 to 12-31-07
	John M. Kennedy	01-01-08 to 12-31-08
Superintendent	Greg Taylor	01-01-07 to 12-31-07
	Christopher Cooper	01-01-08 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WASTEWATER UTILITY,
CITY OF KOKOMO, HOWARD COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Wastewater Utility, a department of the City of Kokomo, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note I, the financial statements of the Wastewater Utility, City of Kokomo, 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 Utility. They do not purport to, and do not, present fairly the financial position of the City of Kokomo 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 Wastewater Utility, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

August 20, 2008

City of Kokomo-Wasterwater Utilites, Indiana
Management's Discussion and Analysis
December 31, 2007

This discussion and analysis highlights the financial activities of the City of Kokomo-Wastewater Utilities for the year ended December 31, 2007. We hope you will find this discussion helpful in assessing the Utilities' financial condition and activities, which are funded primarily through user charges and fees for services. Please read it in conjunction with the Utilities' financial statements and accompanying notes, which follow this discussion and analysis.

Financial Highlights

- The total net assets of the Utilities at December 31, 2007 were \$47,383,450. Of this amount, \$8,185,538 is unrestricted and may be used to meet the Utilities' ongoing obligations to its customers and users.
- The Utilities' unrestricted net assets increased by \$2,405,849, restricted net assets decreased by \$3,768,099 and the total invested in capital assets, net of related debt, increased by \$4,878,245, for the total net assets increased of \$3,515,995.
- The Utilities long-term debt decreased by \$2,471,254. This decrease represents the amount of principal payments made during 2007 net of amortization of debt refunding and premiums/discount on bonds. No new debt was incurred during the year.

Basic Financial Statements

The Governmental Accounting Standards Board (GASB) requires the Utilities to present its financial statements in accordance with GASB Statement No. 34.

The basic financial statements for the Utilities consist of the following:

1. Statement of Net Assets;
2. Statement of Revenues, Expenses and Other Changes in Fund Net Assets;
3. Statement of Cash Flows; and
4. Notes to Financial Statements.

The Statement of Net Assets and the Statement of Revenues, Expenses and Other Changes in Fund Net Assets have been prepared using the accrual basis of accounting. This means that revenue is recorded when earned, and expenses are reflected in the statements when they are incurred, regardless of when the related cash is actually received or disbursed. In doing so, revenues and expenses are more closely matched to the accounting period to which they relate.

In addition to the basic financial statements, supplementary information is also included in the accompanying report.

Condensed Financial Data

The table below provides a summary of the revenues, expenses and changes in net assets for the year ended December 31, 2007, along with comparative figures from 2006:

City of Kokomo-Wastewater Utility, Indiana Statement of Revenues, Expenses, and Other Changes in Fund Net Assets

	<u>2007</u>	<u>2006</u>
Operating Revenues	\$ 16,291,265	\$ 15,476,091
Operating Expenses	<u>12,123,855</u>	<u>12,208,620</u>
Operating Income	4,167,410	3,267,471
Non-Operating Revenues (Expenses)	<u>(651,415)</u>	<u>(822,178)</u>
Change in Net Assets	3,515,995	2,445,293
Total Net Assets-Beginning	<u>43,867,455</u>	<u>41,422,162</u>
Total Net Assets-Ending	<u>\$ 47,383,450</u>	<u>\$ 43,867,455</u>

The following table outlines the composition of the Utilities' total net assets as of December 31, 2007, with comparative figures from 2006:

City of Kokomo-Wastewater Utility, Indiana Statement of Net Assets

	<u>2007</u>	<u>2006</u>
Capital Assets	\$ 63,511,887	\$ 60,628,841
Other Assets and Deferred Debits	<u>19,840,659</u>	<u>21,891,021</u>
Total Assets	<u>\$ 83,352,546</u>	<u>\$ 82,519,862</u>
Liabilities		
Current Liabilities		
Accounts Payable	\$ 41,710	\$ 104,317
Payroll and Withholdings Payable	100,418	76,864
Retainage Payable	43,497	-
Accrued Interest Payable	584,316	633,878
Bonds, loans and leases payable	2,741,959	2,601,959
Other	50,036	214,394
Non-Current Liabilities		
Bonds, loans and leases payable (Net of Deferred amount on Refunding)	32,175,893	34,787,147
Compensated Absences	<u>231,267</u>	<u>233,848</u>
Total Liabilities	<u>\$ 35,969,096</u>	<u>\$ 38,652,407</u>
Assets:		
Invested in capital assets (net of related debt)	\$ 27,692,733	\$ 22,814,488
Restricted for Debt Service	11,505,179	15,273,278
Unrestricted	<u>8,185,538</u>	<u>5,779,689</u>
Total Net Assets	<u>\$ 47,383,450</u>	<u>\$ 43,867,455</u>

Total net assets increased in 2007, due to income recorded of \$3,515,995.

More detailed information is presented in the Statement of Net Assets; the Statement of Revenues, Expenses and Other Changes in Fund Net Assets; and the Statement of Cash Flows, which are included in the annual report.

Cash Balances Analysis

In total, the wastewater utility's cash, cash equivalents and investments decreased by \$2,159,531 during 2007.

- The operating and maintenance fund increased by \$1,608,568. Operating revenue increased, while both operating expenses and non-operating expenses declined.
- The Replacement/Depreciation cash increased by \$99,607 in 2007. The increase was due to interest earnings which were credited back to this fund.
- The bond and interest cash decreased by \$4,199,756. The decrease was largely due to the conversion of cash to construction-in-process.
- The sewer extension and betterment cash increased by \$332,050 during 2007. The increase was due to revenues generated from sewer tap connection fees.

Compared to the previous year, operating revenues in the wastewater utilities increased \$815,174 while operating expenses declined by \$84,765, for an increase in operating income of \$899,939. Wastewater net assets increased by \$3,515,995 (8%).

The average number of wastewater customers for 2007 was +20,000, remaining unchanged from the previous year's average.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity:

As of December 31, 2007, the Utilities had \$117,440,128, invested in capital assets, such as land, buildings, improvements, equipment, and infrastructures. Total accumulated depreciation at the end of 2007 was \$53,928,241, resulting in net capital assets of \$63,511,887. The total capital assets of the Utilities are summarized by category as follows:

	<u>2007</u>	<u>2006</u>
Capital Assets, not being depreciated		
Land	\$ 122,849	\$ 110,854
Construction-In-Progress	<u>7,170,109</u>	<u>3,698,857</u>
Total capital assets, not being depreciated	<u>7,292,958</u>	<u>3,809,711</u>
Capital Assets, being depreciated		
Improvements Other Than Buildings	754,025	754,025
Buildings	18,806,233	18,457,927
Infrastructure-Collection	42,334,385	41,448,293
Infrastructure-Stormwater	37,350,628	36,923,333
Machinery & Equipment	<u>10,901,899</u>	<u>10,510,082</u>
Totals	110,147,170	108,093,660
Less accumulated depreciation	<u>(53,928,241)</u>	<u>(51,274,530)</u>
Total capital assets, being depreciated net	<u>56,218,929</u>	<u>56,819,130</u>
Total Capital Assets Net	<u>\$ 63,511,887</u>	<u>\$ 60,628,841</u>

The Utilities recorded an increase of \$3,483,247 in Capital Assets not being depreciated. This increase included \$3,471,252 for Constructions-In-Process improvements for our collection infrastructure. This expenditure allowed the Utilities to be in compliance with the Clean Water Act mandate which required the reduction of the raw sewage flowing untreated into local streams.

The utilities also recorded a \$600,201 reduction of Capital Assets being depreciated net of depreciation. The net additions for 2007 increased by \$2,053,510 and the net accumulated depreciation for 2007 increased by \$2,653,711.

Some of the major capital additions during 2007 include the following:

- \$145,290 for a C4500 TV truck.
- \$79,173 for a loader
- \$40,690 for three new utility vehicles.

Long-term Debt Activity:

As of December 31, 2007 and 2006 the Wasterwater Utilities' outstanding debt (principal only) consisted of the following:

<u>2007</u>	<u>2006</u>
\$ 34,915,893	\$ 37,387,147

During 2007, the Utilities made principal payments net of debt refunding and amortization of bond discounts/premiums of \$2,471,253 and interest payments of \$1,439,732.

Other Currently Known Facts

- The Utilities has awarded the Wet Weather Excess Flow project to Shook Construction of Indiana in 2008. The project will allow the wastewater plant to treat up to 80 millions gallons of sewage per day, double the existing current capacity.
- The Utilities has also issued a \$5.1M revenue bond in July 2008 to finance for this project.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show accountability for the money the Utilities receive. If you have questions about this report or need additional financial information, please contact the City's Controller Office at 100 S Union Street, Kokomo, Indiana.

WASTEWATER UTILITY
CITY OF KOKOMO
STATEMENT OF NET ASSETS
December 31, 2007

	2007
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 4,774,325
Accounts receivable (net of allowance)	2,911,883
Inventories	184,792
Prepaid items	7,016
Interfund receivable	62,417
Total current assets	7,940,433
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Depreciation cash and investments	2,124,291
Bond and interest cash and investments	6,890,128
Sewer extension, betterment and improvement cash and investments	2,490,562
Wastewater utility trust cash and investments	198
Total restricted assets:	11,505,179
Deferred charges	395,047
Capital assets:	
Land, improvements to land and construction in progress	7,292,958
Other capital assets (net of accumulated depreciation)	56,218,929
Total capital assets	63,511,887
Total noncurrent assets	75,412,113
Total assets	83,352,546
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	41,710
Wages payable	100,418
Retainage payable	43,497
Customer overpayments	50,036
Matured unpaid bonds and coupons	1,959
Compensated absences	220,977
Current liabilities payable from restricted assets:	
Notes payable	370,000
Revenue bonds payable	2,370,000
Accrued interest payable	584,316
Total current liabilities	3,782,913
Noncurrent liabilities:	
Notes payable	18,660,000
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	13,515,893
Compensated absences	10,290
Total noncurrent liabilities	32,186,183
Total liabilities	35,969,096
<u>Net Assets</u>	
Invested in capital assets, net of related debt	27,692,733
Restricted funds	11,505,179
Unrestricted	8,185,538
Total net assets	\$ 47,383,450

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

WASTEWATER UTILITY
CITY OF KOKOMO
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2007

	2007
Operating revenues:	
Penalties	\$ 300,408
Measured revenue:	
Residential and commercial	14,904,889
Storm water fees	599,426
Tap fees	332,050
Other	154,492
Total operating revenues	16,291,265
Operating expenses:	
Collection system - operations and maintenance	2,188,508
Treatment and disposal - operations and maintenance	3,444,759
Laboratory services - operations and maintenance	263,786
Customer accounts	743,010
Sanitary engineering - operations and maintenance	584,963
Administration and general	756,220
Pretreatment - operations and maintenance	353,571
Storm water - operations and maintenance	603,271
Insurance claims and premiums	96,286
Depreciation	2,732,368
Miscellaneous expenses	357,113
Total operating expenses	12,123,855
Operating income	4,167,410
Nonoperating revenues (expenses):	
Interest and investment revenue	811,571
Miscellaneous revenue	8,742
Interest expense	(1,269,358)
Miscellaneous expense	(202,370)
Total nonoperating revenues (expenses)	(651,415)
Change in net assets	3,515,995
Total net assets - beginning	43,867,455
Total net assets - ending	\$ 47,383,450

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

WASTEWATER UTILITY
CITY OF KOKOMO
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2007

	2007
Cash flows from operating activities:	
Receipts from customers and users	\$ 15,964,871
Payments to suppliers and contractors	(4,241,885)
Payments to employees	(5,153,496)
Other receipts	8,742
Net cash provided by operating activities	6,578,232
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(5,618,387)
Principal paid on capital debt	(2,615,000)
Interest paid on capital debt	(1,318,920)
Proceeds from sales of capital assets	2,973
Net cash used by capital and related financing activities	(9,549,334)
Cash flows from investing activities:	
Interest received	811,571
Net cash provided by investing activities	811,571
Net increase in cash and cash equivalents	(2,159,531)
Cash and cash equivalents, January 1	18,439,035
Cash and cash equivalents, December 31	\$ 16,279,504
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	\$ 4,167,410
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,732,368
Nonoperating miscellaneous revenue	8,742
(Increase) decrease in assets:	
Accounts receivable	(326,394)
Inventories	57,130
Prepaid items	(470)
Interfund receivable	(62,417)
Increase (decrease) in liabilities:	
Accounts payable	(62,607)
Retainage payable	43,497
Contracts payable	23,554
Compensated absence payable	(2,581)
Total adjustments	2,410,822
Net cash provided by operating activities	\$ 6,578,232

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

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Wastewater Utility (Utility) and are not intended to present fairly the position of the City of Kokomo (City), and the results of its operations and cash flows of its enterprise funds. The Utility, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and 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 Utility's 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 Utility 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.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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. 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 balance sheet because use is limited by bond covenants and trust statements.

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
Buildings	\$ 750	Straight-line	10 to 50 years
Equipment	750	Straight-line	5 to 20 years
Storm water drains	750	Straight-line	40 years
Wastewater distribution and collection systems	750	Straight-line	50 years

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Utility during the current year was \$1,439,733. Of the amount, \$170,375 was included as part of the cost of capital assets under construction in connection with Wastewater construction projects.

5. Compensated Absences

The Utility uses paid time-off to provide for absences of eligible employees. The paid time-off replaced vacation, sick, and personal time but will continue to be based on years of completed service. Paid time-off will be accumulated on actual hours worked per week and the years of completed service. The accumulations of paid time-off may be carried over from year to year with a maximum of 480 hours. Excess accumulations over the maximum of 480 hours will be reduced in December of each year through a payout if the employee uses at least 10 days of paid time-off hours during the calendar year or 50% of available time earned, whichever is less. Accumulated paid time-off is paid to employees through cash payments upon termination.

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

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

Capital assets, not being depreciated:				
Land	\$ 110,854	\$ 11,995	\$ -	\$ 122,849
Construction in progress	<u>3,698,857</u>	<u>4,940,779</u>	<u>1,469,527</u>	<u>7,170,109</u>
				-
Total capital assets, not being depreciated	<u>3,809,711</u>	<u>4,952,774</u>	<u>1,469,527</u>	<u>7,292,958</u>
Capital assets, being depreciated:				
Improvements other than buildings	754,025	-	-	754,025
Buildings	18,457,927	348,306	-	18,806,233
Collection system/infrastructure	41,448,293	886,092	-	42,334,385
Storm water system/infrastructure	36,923,333	427,295	-	37,350,628
Machinery and equipment	<u>10,510,082</u>	<u>473,447</u>	<u>81,630</u>	<u>10,901,899</u>
Totals	<u>108,093,660</u>	<u>2,135,140</u>	<u>81,630</u>	<u>110,147,170</u>
Less accumulated depreciation for:				
Improvements other than buildings	44,806	15,399	-	60,205
Buildings	5,137,440	456,060	-	5,593,500
Collection system/infrastructure	19,803,577	742,952	-	20,546,529
Storm water system/infrastructure	22,089,050	876,880	-	22,965,930
Machinery and equipment	<u>4,199,657</u>	<u>641,077</u>	<u>78,657</u>	<u>4,762,077</u>
Totals	<u>51,274,530</u>	<u>2,732,368</u>	<u>78,657</u>	<u>53,928,241</u>
Total capital assets, being depreciated, net	<u>56,819,130</u>	<u>(597,228)</u>	<u>2,973</u>	<u>56,218,929</u>
Total capital assets, net	<u>\$ 60,628,841</u>	<u>\$ 4,355,546</u>	<u>\$1,472,500</u>	<u>\$ 63,511,887</u>

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

Wastewater \$ 2,732,368

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007	Committed	Required Future Funding
Highland Park lift station	<u>\$ 7,694,949</u>	<u>\$ 7,170,109</u>	<u>\$ 323,502</u>	<u>\$ -</u>

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Leases

Operating Leases

The Utility has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for office equipment. Rental expenditures for these leases were \$2,345.60. The following is a schedule by years of future minimum rental payments as of December 31, 2007:

2008	\$	3,686
2009		3,686
2010		1,677
2011		672
2012		<u>336</u>
Total	<u>\$</u>	<u>10,057</u>

E. Long-Term Liabilities

1. Revenue Bonds

The Utility issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1999 Sewage works refunding bonds	4.25% to 5.00%	\$ 4,870,000
2005 Sewage works refunding wonds	4.00% to 4.50%	<u>11,270,000</u>
Total		<u>\$ 16,140,000</u>

Revenue bonds debt service requirements to maturity are as follows:

<u>Year Ended December 31</u>	<u>Wastewater Utility</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,370,000	\$ 699,583
2009	2,500,000	579,457
2010	455,000	480,832
2011	475,000	462,432
2012	495,000	443,232
2013-2017	2,815,000	1,890,304
2018-2022	3,540,000	1,226,068
2023-2027	<u>3,490,000</u>	<u>363,488</u>
Totals	<u>\$ 16,140,000</u>	<u>\$ 6,145,396</u>

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Notes and Loans Payable

The Utility has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$5,469,255, are as follows:

2008	\$ 1,032,814
2009	1,024,775
2010	1,928,688
2011	1,927,751
2012	1,930,296
2013-2017	9,637,864
2018-2022	<u>7,017,067</u>
 Total	 <u><u>\$ 24,499,255</u></u>

3. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable:					
Wastewater Utility:	\$ 18,385,000	\$ -	\$ 2,245,000	\$ 16,140,000	\$ 2,370,000
Bond discount	(14,805)	-	(1,136)	(13,669)	-
Bond premium	44,158	-	22,760	21,398	-
Less deferred amount on refunding	<u>(427,206)</u>	<u>-</u>	<u>(165,370)</u>	<u>(261,836)</u>	<u>-</u>
 Total revenue bonds payable	 17,987,147	 -	 2,101,254	 15,885,893	 2,370,000
Notes and loans payable	19,400,000	-	370,000	19,030,000	370,000
Compensated absences	<u>233,848</u>	<u>7,911</u>	<u>10,492</u>	<u>231,267</u>	<u>-</u>
 Total long-term liabilities	 <u><u>\$ 37,620,995</u></u>	 <u><u>\$ 7,911</u></u>	 <u><u>\$ 2,481,746</u></u>	 <u><u>\$ 35,147,160</u></u>	 <u><u>\$ 2,740,000</u></u>

F. Restricted Assets

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

Depreciation operations and maintenance account	\$ 2,124,291
Revenue bond operations and maintenance account	6,890,128
Sewer extension, betterment and improvement account	2,490,562
Utility trust	<u>198</u>
 Total restricted assets	 <u><u>\$ 11,505,179</u></u>

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Medical Benefits to Employees, Retirees, and Dependents

The Utility has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents and job related illnesses or injuries to employees. 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 \$50,000 per year for medical benefits and claims in excess of \$1,000,000 for job related illnesses or injuries to employees. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund based primarily upon the percentage of each fund's payroll as it relates to total payroll.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

However, claim liabilities cannot be reasonably estimated for the Wastewater Utility.

B. Subsequent Events

On July 15, 2008, the Utility issued bonds totaling \$5,105,000 for the Wet Weather Treatment Excess Flow project.

C. Postemployment Benefits

In addition to the pension benefits described below, the Utility provides postemployment medical, dental, and vision benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utility on or after attaining age 55 with at least 30 years of service. Currently, three retirees meet these eligibility requirements. The Utility and retirees provide 85.3% and 14.7%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2007, expenditures of \$26,348 were recognized for postemployment benefits. Postemployment benefits are provided by the Utility until the retiree reaches 65.

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Rate Structure

Wastewater Utility

The current rate structure was approved by the Utility on September 26, 2005.

E. 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.

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 888,017
Interest on net pension obligation	(12,328)
Adjustment to annual required contribution	14,049
Annual pension cost	889,738
Contributions made	729,679
Increase (decrease) in net pension obligation	160,059
Net pension obligation, beginning of year	(170,047)
Net pension obligation, end of year	\$ (9,988)
Contribution rates:	
Utility	6.50%
Plan members	3%
Actuarial valuation date	07-01-07
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

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	06-30-05	\$ 609,979	104%	\$ (391,725)
	06-30-06	874,895	75%	(170,047)
	06-30-07	889,738	82%	(9,988)

WASTEWATER UTILITY
CITY OF KOKOMO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (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	\$ 13,208,002	\$ 17,188,130	\$ (3,980,128)	77%	\$ 11,917,028	(33%)
07-01-06	13,785,278	16,982,065	(3,196,787)	81%	11,929,877	(27%)
07-01-07	15,272,899	18,452,387	(3,179,488)	83%	12,523,968	(25%)

WASTEWATER UTILITY
CITY OF KOKOMO
AUDIT RESULTS AND COMMENTS

OPERATING FUNDS USED FOR CITY EXPENSES

In 2007, disbursements in the amount of \$36,617.27 were made from the Wastewater Utility to pay promotional and developmental expenses of the City. In addition, \$15,000 of disbursements were paid to Barnes and Thornburg for lobbying retainer fees and \$10,800 were paid to PPR, Inc., for public relations expenses of the City from 2006. The Utility paid all of the salary and benefits of an informational technology employee but the duties of the employee included both City and Utility items.

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

Payments or transfers which are not authorized by statute, ordinance or resolution must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Expenses paid from utility funds should be directly related to the operations of the municipally owned utility. Expenditures for city operating costs should not be paid from utility funds. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

PRESCRIBED FORMS

As reported in the prior two Reports, B28822 and B30483, the City of Kokomo was using forms which had been conditionally approved for use in lieu of prescribed forms.

On December 9, 2004, the City submitted 18 forms for approval to the State Board of Accounts. The State Board of Accounts gave conditional approval for these forms on December 13, 2004. Most of the forms did not correlate with a prescribed form. In all instances it took more than one print out to obtain the required information contained on the prescribed form. Many of the forms needed to replace prescribed forms had not been included in the request for approval. None of the forms contained the wording that the form was "Approved by the State Board of Accounts for the City of Kokomo, 2004," which was a condition of approval.

Based on the foregoing, these forms do not provide the required information of a prescribed form. If more than one form or printout is required to provide the information of a prescribed form, the City of Kokomo should request the multiple forms for use of the prescribed, with adequate explanation of what forms are replacing the prescribed form.

WASTEWATER UTILITY
CITY OF KOKOMO
AUDIT RESULTS AND COMMENTS
(Continued)

Officials need have the forms the system produces approved by the State Board of Accounts and designate which prescribed form the system-produced form replaces. If it requires more than one system generated form to produce the same information contained on the prescribed form, the unit will need to disclose all system generated forms needed to replace the prescribed form.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period:

1. Claims were not adequately itemized.
2. All claims did not have Board approval.
3. Claims or invoices did not have evidence to support receipt of goods or services.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

WASTEWATER UTILITY
CITY OF KOKOMO
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2008, with James J. Brannon, Controller; Randall Morris, Director of Operations; Thu Caven, Deputy City Controller; and Gregory Goodnight, Mayor. The official response has been made a part of this report and may be found on pages 25 through 27.



September 11, 2008

Indiana State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, Indiana 46204-2738

Subject: Official Response to 2007 Indiana State Board of Accounts Audit Results

Please accept this correspondence as a response, pursuant to Indiana Code section 5-11-5-1(b), to Audit Results and Comments produced on August 28, 2008 during the City of Kokomo Wastewater Utility's exit conference with the Examiner.

OPERATING FUNDS USED FOR CITY EXPENSES

The State Board of Accounts comments that in 2007, \$62,417.27 was paid out of the Wastewater Utility fund for expenditures of the City operating fund. The city has reviewed this issue and has updated the policies and procedures to ensure that expenditures are paid from the appropriate fund.

PRESCRIBED FORMS

The State Board of Accounts comments that the 16 conditionally approved forms in December 13, 2004 were used in lieu of the prescribed forms. None of the forms contained the wording that the form was "Approved by the State Board of Accounts for the City of Kokomo, 2004". None of the system-produced forms cross reference which prescribed form these system-produced forms replace. After reviewing the requirements set forth by the State Board of accounts with our software vendor, the City has determined that it is too costly to customize the current system to resolve this issue in 2008; therefore the City will not take any additional action on this comment. Listed below is manual cross reference between the prescribed-form and the system-generated

forms. With the exception of the Warrant and Payroll Warrant, all other System-Produced forms will not contain the wording of "Approved by the State Board of Accounts for the City of Kokomo, 2004".

<u>Prescribed Forms</u>		<u>System-Produced Forms</u>	
1. Payroll Schedule and Voucher.-	Form 99	Hours Proof Listing-	Report PR604L
2. Employee Service Record.	Form 99A	Accrual Register Hour History Detail	Report PR612L Report PR704L
3. Employee Earnings Record	Form 99B	Check History Listing	Report PR713L
4. Certified Report of Names Of Public Employees	Form 100R	Certified Report of Names of Public Employees	Cognos-Query
5. Mileage Claim	Form 101	Travel Voucher	State form 980
6. Register of Investment	Form 350	Investment Register	Excel report
7. Ledger of Receipt, Disbursements And Balances	Form 208	Statement of Cash Receipt and Disbursements-Mtly Basis Annual Recap of MtlyStatement	Report GM264L Excel Report
8. Ledger of Appropriations	Form 209	Statement of Expenditures And Encumbrances	Report GM260L
9. General Fixed Assets Account Groups	Form 211	Asset Balance	Report CPBJ101R
10. Accounts Payable Voucher	Form 201	Field Purchase Order Purchase Order Blanket Purchase Order	
11. Clerk Treasurer Receipt	Form 217	Cash Post Listing	Report CR400L
12. Warrant	Form 205	Accounts Payable Checks	
13. Payroll Warrant	Form 205-PR	Payroll Direct deposit Payroll Checks	
14. Municipal Sewage Utility Accounts Payable Voucher	Form 301S	Field Purchase Order Purchase Order Blanket Purchase Order	

15. Register of Daily Cash
Receipt

Form 313A

Utility Billing-GMBA Interface
Generated Journal Entries Report UT600L
Cash Update Listing Report UT430L

16. Wastewater Utility Journal Form 319

Statement of Cash Receipt
And Disbursement Mtly basis Report GM264L
Annual Recap of Mtly Statement Excel Report
Detail Budget Report Report GM267L

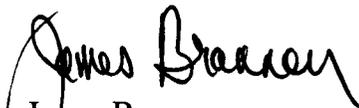
ERRORS ON CLAIMS

The State Board of Accounts comments that the claims were not adequately itemized. It was often difficult to determine without further research and inquiry what services were provided or why items were purchased. The city has reviewed this issue and has updated policies and procedures accordingly to provide the necessary information on the accounts payable voucher claims form.

The State Board of Accounts comments that in two meetings in 2007 there was only one board member who signed the claims docket. The city has reviewed this issue and has updated procedures to ensure that all board members sign the claims docket. It should be noted the board minutes from the two meetings in question were presented to the examiner to provide supporting evidence that all board members were present at the meeting. The minutes reflected that in both meetings the members verbally approved the claims docket.

In closing, we would like to thank the Indiana State Board of Accounts for their efforts and for the information presented to us throughout the audit and during the exit conference.

Sincerely,


James Brannon
City Controller