

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

EXAMINATION REPORT
OF
CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
WHITLEY COUNTY, INDIANA
January 1, 2008 to December 31, 2008



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rosie M. Coyle	01-01-08 to 12-31-11
Mayor	James R. Fleck	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	James R. Fleck	01-01-08 to 12-31-11
President of the Common Council	Walter C. Crowder	01-01-08 to 12-31-09
Superintendent of Water Utility	Michael D. Dear	01-01-08 to 12-31-09
Superintendent of Wastewater Utility	Howard E. Lowen Michel C. Cook	01-01-08 to 01-04-08 01-05-08 to 12-31-09
Superintendent of Electric Utility	Larry G. Whetstone	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF COLUMBIA CITY
MUNICIPAL UTILITIES, WHITLEY COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the City of Columbia City Municipal Utilities (Utilities), departments of the City of Columbia City, as of and for the year ended December 31, 2008. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utilities 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 Columbia City as of December 31, 2008, 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 Utilities, as of December 31, 2008, 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 examine the information and express no opinion on it.

The Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

July 9, 2009

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	Water Utility	Wastewater Utility	Electric Utility	Storm Water Utility
Current assets:				
Cash and cash equivalents	\$ 145,774	\$ 33,660	\$ 576,217	\$ 737,790
Accounts receivable (net of allowance)	127,191	318,220	852,902	39,781
Inventories	94,865	-	606,391	-
Prepaid items	<u>23,422</u>	<u>42,585</u>	<u>61,415</u>	<u>-</u>
Total current assets	<u>391,252</u>	<u>394,465</u>	<u>2,096,925</u>	<u>777,571</u>
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation	32,150	127,815	30,896	-
Bond and interest	59,457	-	-	-
Construction	236,153	-	-	-
Cash reserve	33,688	4,856	287,363	-
Customer deposits	35,165	-	215,955	-
Debt service reserve	271,703	-	-	-
Cash with fiscal agent - sinking	-	792,865	-	-
Cash with fiscal agent - debt service reserve	<u>-</u>	<u>945,151</u>	<u>-</u>	<u>-</u>
Total restricted assets	<u>668,316</u>	<u>1,870,687</u>	<u>534,214</u>	<u>-</u>
Deferred charges:				
Deferred loss on advanced refunding	43,777	-	-	-
Unamortized bond issuance costs	<u>126,306</u>	<u>145,884</u>	<u>-</u>	<u>-</u>
Total deferred charges	<u>170,083</u>	<u>145,884</u>	<u>-</u>	<u>-</u>
Capital assets:				
Land, improvements to land and construction in progress	16,739	5,660,424	223,573	33,375
Land held for resale	-	-	1,981	-
Other capital assets (net of accumulated depreciation)	<u>6,367,147</u>	<u>22,880,260</u>	<u>4,993,447</u>	<u>-</u>
Total capital assets	<u>6,383,886</u>	<u>28,540,684</u>	<u>5,219,001</u>	<u>33,375</u>
Total noncurrent assets	<u>7,222,285</u>	<u>30,557,255</u>	<u>5,753,215</u>	<u>33,375</u>
Total assets	<u>7,613,537</u>	<u>30,951,720</u>	<u>7,850,140</u>	<u>810,946</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	7,497	35,387	554,176	1,576
Taxes payable	12,619	-	65,568	-
Compensated absences	38,577	25,227	58,279	11,256
Current liabilities payable from restricted assets:				
Customer deposits	35,165	-	215,955	-
Revenue bonds payable	137,000	-	-	-
Loans payable	-	898,000	-	-
Accrued interest payable	<u>33,808</u>	<u>286,797</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>264,666</u>	<u>1,245,411</u>	<u>893,978</u>	<u>12,832</u>
Noncurrent liabilities:				
Loans payable	-	19,145,328	-	-
Revenue bonds payable	<u>2,811,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>2,811,000</u>	<u>19,145,328</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3,075,666</u>	<u>20,390,739</u>	<u>893,978</u>	<u>12,832</u>
<u>Net Assets</u>				
Invested in capital assets, net of related debt	3,435,886	8,497,356	5,219,001	33,375
Restricted for debt service	331,160	1,738,016	-	-
Restricted for construction	236,153	-	-	-
Restricted for other purposes	101,003	132,671	534,214	-
Unrestricted	<u>433,669</u>	<u>192,938</u>	<u>1,202,947</u>	<u>764,739</u>
Total net assets	<u>\$ 4,537,871</u>	<u>\$ 10,560,981</u>	<u>\$ 6,956,162</u>	<u>\$ 798,114</u>

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>Storm Water Utility</u>
Operating revenues:				
Residential sales	\$ 540,815	\$ -	\$ 3,146,489	\$ -
Commercial sales	288,952	-	1,927,425	-
Industrial sales	126,197	-	3,071,607	-
Municipal sales	-	-	95,787	-
Other sales	49,447	-	-	-
Residential, commercial and industrial sales	-	3,409,186	-	378,546
Security lights	-	-	39,952	-
Public street and highway lighting	-	-	99,443	-
Franchises	-	-	30,893	-
Public fire protection	269,645	-	-	-
Private fire protection	64,796	-	-	-
Penalties	6,299	48,519	36,448	5,170
Other	168,038	-	83,574	57
	<u>1,514,189</u>	<u>3,457,705</u>	<u>8,531,618</u>	<u>383,773</u>
Total operating revenues				
Operating expenses:				
Sources of supply	44,736	-	-	-
Water treatment	139,374	-	-	-
Transmission and distribution	320,013	-	-	-
Purchased power	-	-	6,005,028	-
Distribution	-	-	678,921	-
Sewer maintenance	-	61,942	-	-
Plant maintenance	-	709,167	-	-
Lift station expense	-	302,600	-	-
Collection expense	-	34,321	-	-
Storm water maintenance	-	-	-	67,091
Customer accounts	61,471	-	71,873	-
Administration and general	442,639	776,131	1,224,476	202,731
Depreciation	149,453	331,714	501,834	-
	<u>1,157,686</u>	<u>2,215,875</u>	<u>8,482,132</u>	<u>269,822</u>
Total operating expenses				
Operating income	<u>356,503</u>	<u>1,241,830</u>	<u>49,486</u>	<u>113,951</u>
Nonoperating revenues (expenses):				
Interest income	19,448	39,071	22,464	13,270
Rental income	-	-	34,486	-
Tap fees	-	33,483	-	-
Miscellaneous revenue	3,423	9,141	4,085	-
Sale of assets	-	-	2,850	-
Contributions	106,788	-	-	-
Payment in lieu of taxes	(24,000)	(180,000)	(96,000)	-
Interest expense	(138,373)	(286,797)	-	-
Amortization expense	(11,255)	(8,140)	-	-
	<u>(43,969)</u>	<u>(393,242)</u>	<u>(32,115)</u>	<u>13,270</u>
Total nonoperating revenues (expenses)				
Change in net assets	312,534	848,588	17,371	127,221
Total net assets - beginning	<u>4,225,337</u>	<u>9,712,393</u>	<u>6,938,791</u>	<u>670,893</u>
Total net assets - ending	<u>\$ 4,537,871</u>	<u>\$ 10,560,981</u>	<u>\$ 6,956,162</u>	<u>\$ 798,114</u>

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2008

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>Storm Water Utility</u>
Cash flows from operating activities:				
Receipts from customers	\$ 1,505,923	\$ 3,440,682	\$ 8,464,954	\$ 377,016
Payments to suppliers and contractors	(356,434)	(940,236)	(7,119,225)	(58,236)
Payments to employees	<u>(654,280)</u>	<u>(948,057)</u>	<u>(915,474)</u>	<u>(201,750)</u>
Net cash provided by operating activities	<u>495,209</u>	<u>1,552,389</u>	<u>430,255</u>	<u>117,030</u>
Cash flows from noncapital financing activities:				
Payment in lieu of taxes	<u>(24,000)</u>	<u>(180,000)</u>	<u>(96,000)</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(399,645)	(525,522)	(263,591)	(2,193)
Principal paid on capital debt	(131,000)	(871,000)	-	-
Interest paid on capital debt	(139,919)	(474,929)	-	-
Other non-operating revenue/expense	<u>3,423</u>	<u>42,624</u>	<u>41,421</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(667,141)</u>	<u>(1,828,827)</u>	<u>(222,170)</u>	<u>(2,193)</u>
Cash flows from investing activities:				
Interest received	<u>19,448</u>	<u>39,071</u>	<u>22,464</u>	<u>13,270</u>
Net increase (decrease) in cash and cash equivalents	(176,484)	(417,367)	134,549	128,107
Cash and cash equivalents, January 1	<u>990,574</u>	<u>2,321,714</u>	<u>975,882</u>	<u>609,683</u>
Cash and cash equivalents, December 31	<u>\$ 814,090</u>	<u>\$ 1,904,347</u>	<u>\$ 1,110,431</u>	<u>\$ 737,790</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	<u>\$ 356,503</u>	<u>\$ 1,241,830</u>	<u>\$ 49,486</u>	<u>\$ 113,951</u>
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	149,453	331,714	501,834	-
(Increase) decrease in assets:				
Accounts receivable	(8,266)	(17,023)	(66,664)	(6,757)
Inventories	(7,267)	-	(124,959)	-
Prepaid items	3,462	4,020	5,791	-
Increase (decrease) in liabilities:				
Accounts payable	5,193	7,713	77,824	1,576
Accrued wages payable	(13,084)	(16,895)	(25,309)	(2,996)
Taxes payable	3,406	-	9,822	-
Compensated absence payable	4,114	1,030	1,248	11,256
Customer deposits	<u>1,695</u>	<u>-</u>	<u>1,182</u>	<u>-</u>
Total adjustments	<u>138,706</u>	<u>310,559</u>	<u>380,769</u>	<u>3,079</u>
Net cash provided by operating activities	<u>\$ 495,209</u>	<u>\$ 1,552,389</u>	<u>\$ 430,255</u>	<u>\$ 117,030</u>
Noncash investing, capital and financing activities:				
Capital assets acquired through loan payable	\$ -	\$ 5,646,257	\$ -	\$ -

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the City of Columbia City Municipal Utilities (Utilities) and are not intended to present fairly the financial position of the City of Columbia City (City). The Utilities, whose operations are controlled by the City, represent all 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 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.

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.

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

2. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

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 their use is limited by applicable bond covenants.

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
Water collection systems	\$ 1,000	Composite rate and straight-line	1.5% - 5.0% 10 years
Wastewater distribution and collection systems	1,000	Composite rate and straight-line	2.5% - 7.5% 10 years
Electric distribution systems	1,000	Composite rate and straight-line	3.5% - 6.67% 10 years
Storm water system	1,000	N/A	N/A

N/A = Not applicable

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Utilities during the current year was \$673,170. Of the amount, \$248,000 was included as part of the cost of capital assets under construction in connection with Water Pollution Control Facility upgrade and Blue River Interceptor Sewer project.

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Compensated Absences

a. Sick Leave

Utility employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees through cash payments upon retirement at the rate of \$10 for every sick day accumulated. Accumulated sick leave is not paid to employees who resign their position.

b. Vacation Leave

Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 2 years' vacation earnings. Accumulated vacation leave is paid to employees through cash payments upon termination.

c. Personal Leave

Utility employees earn personal leave at the rate of 4 days per year. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred. No liability is reported for 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

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.

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 7,654	\$ -	\$ -	\$ 7,654
Construction in progress	-	9,085	-	9,085
	<u>7,654</u>	<u>9,085</u>	<u>-</u>	<u>16,739</u>
Total capital assets, not being depreciated				
	<u>7,654</u>	<u>9,085</u>	<u>-</u>	<u>16,739</u>
Capital assets, being depreciated:				
Improvements other than buildings	6,104,566	174,060	-	6,278,626
Buildings	1,587,879	-	-	1,587,879
Machinery and equipment	474,862	216,500	121,716	569,646
	<u>8,167,307</u>	<u>390,560</u>	<u>121,716</u>	<u>8,436,151</u>
Totals				
	<u>8,167,307</u>	<u>390,560</u>	<u>121,716</u>	<u>8,436,151</u>
Less accumulated depreciation for:				
Improvements other than buildings	1,317,825	91,993	-	1,409,818
Buildings	442,964	23,818	-	466,782
Machinery and equipment	280,478	33,642	121,716	192,404
	<u>2,041,267</u>	<u>149,453</u>	<u>121,716</u>	<u>2,069,004</u>
Totals				
	<u>2,041,267</u>	<u>149,453</u>	<u>121,716</u>	<u>2,069,004</u>
Total capital assets, being depreciated, net				
	<u>6,126,040</u>	<u>241,107</u>	<u>-</u>	<u>6,367,147</u>
Total capital assets, net	<u>\$ 6,133,694</u>	<u>\$ 250,192</u>	<u>\$ -</u>	<u>\$ 6,383,886</u>
<u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 23,396	\$ -	\$ -	\$ 23,396
Construction in progress	16,677,761	5,470,662	16,511,395	5,637,028
	<u>16,701,157</u>	<u>5,470,662</u>	<u>16,511,395</u>	<u>5,660,424</u>
Total capital assets, not being depreciated				
	<u>16,701,157</u>	<u>5,470,662</u>	<u>16,511,395</u>	<u>5,660,424</u>
Capital assets, being depreciated:				
Improvements other than buildings	9,265,095	2,778,925	6,615	12,037,405
Buildings	1,304,341	6,504,301	84,290	7,724,352
Machinery and equipment	848,431	7,508,257	189,740	8,166,948
	<u>11,417,867</u>	<u>16,791,483</u>	<u>280,645</u>	<u>27,928,705</u>
Totals				
	<u>11,417,867</u>	<u>16,791,483</u>	<u>280,645</u>	<u>27,928,705</u>

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Wastewater Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated (continued):				
Less accumulated depreciation for:				
Improvements other than buildings	3,836,719	231,628	6,615	4,061,732
Buildings	779,469	32,609	84,290	727,788
Machinery and equipment	381,188	67,477	189,740	258,925
	<u>4,997,376</u>	<u>331,714</u>	<u>280,645</u>	<u>5,048,445</u>
Totals				
Total capital assets, being depreciated, net	<u>6,420,491</u>	<u>16,459,769</u>	<u>-</u>	<u>22,880,260</u>
Total capital assets, net	<u>\$ 23,121,648</u>	<u>\$ 21,930,431</u>	<u>\$ 16,511,395</u>	<u>\$ 28,540,684</u>
 <u>Electric Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 223,573	\$ -	\$ -	\$ 223,573
Land held for resale	1,981	-	-	1,981
	<u>225,554</u>	<u>-</u>	<u>-</u>	<u>225,554</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Improvements other than buildings	9,383,122	23,750	-	9,406,872
Buildings	1,545,264	21,050	-	1,566,314
Machinery and equipment	1,662,734	218,791	89,619	1,791,906
	<u>12,591,120</u>	<u>263,591</u>	<u>89,619</u>	<u>12,765,092</u>
Totals				
Less accumulated depreciation for:				
Improvements other than buildings	5,332,344	327,826	-	5,660,170
Buildings	927,601	54,084	-	981,685
Machinery and equipment	1,099,485	119,924	89,619	1,129,790
	<u>7,359,430</u>	<u>501,834</u>	<u>89,619</u>	<u>7,771,645</u>
Totals				
Total capital assets, being depreciated, net	<u>5,231,690</u>	<u>(238,243)</u>	<u>-</u>	<u>4,993,447</u>
Total capital assets, net	<u>\$ 5,457,244</u>	<u>\$ (238,243)</u>	<u>\$ -</u>	<u>\$ 5,219,001</u>
 <u>Storm Water Utility</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 31,182	\$ 2,193	\$ -	\$ 33,375
	<u>31,182</u>	<u>2,193</u>	<u>-</u>	<u>33,375</u>

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Water	\$ 149,453
Wastewater	331,714
Electric	<u>501,834</u>
 Total depreciation expense	 <u>\$ 983,001</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed
Water Utility:			
Aeration tank repairs	\$ 10,085	\$ 9,085	\$ 1,000
Wastewater Utility:			
Blue river interceptor sewer	\$ 6,928,000	\$ 5,409,515	\$ 1,518,485
LTCP phase IIA	<u>614,900</u>	<u>227,513</u>	<u>387,387</u>
Total Wastewater Utility	<u>\$ 7,542,900</u>	<u>\$ 5,637,028</u>	<u>\$ 1,905,872</u>
Storm Water Utility:			
Storm water separation and construction	<u>\$ 6,500,000</u>	<u>\$ 33,375</u>	<u>\$ 6,466,625</u>

D. Interfund Transfers

Interfund transfers during the year ended December 31, 2008, were as follows:

Transfer From	Transfer To General Fund
Water Utility	\$ 24,000
Wastewater Utility	180,000
Electric Utility	<u>96,000</u>
Total	<u>\$ 300,000</u>

These transfers represent payments made in lieu of taxes.

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Amount
2004 Waterworks refunding	4.7%	\$ 1,357,000
'2006 Waterworks north pressure booster station	4.5%	<u>1,591,000</u>
Total		<u>\$ 2,948,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2009	\$ 137,000	\$ 133,782
2010	142,000	127,438
2011	150,000	120,794
2012	156,000	113,804
2013	164,000	106,514
2014-2018	945,000	410,063
2019-2023	894,000	178,220
2024-2028	<u>360,000</u>	<u>28,845</u>
Totals	<u>\$ 2,948,000</u>	<u>\$ 1,219,460</u>

2. State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank. The proceeds are set aside to finance the construction of the Wastewater WPCF upgrade and the Blue River Interceptor Sewer project. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The State Revolving Loan Fund loan established a maximum draw of \$16,672,000 for the Wastewater WPCF upgrade and \$6,928,000 for the Blue River Interceptor Sewer project. As of December 31, 2008, the loan principal balance was \$15,750,000 for the Wastewater WPCF upgrade and \$4,293,328 for the Blue River Interceptor Sewer project. Annual debt service requirements for the State Revolving Loan Fund loan for the Blue River Interceptor Sewer project will not be determined until the construction project is completed. Annual debt service requirements for the State Revolving Loan Fund loan for the Wastewater WPCF upgrade is as follows:

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2009	\$ 639,000	\$ 491,132
2010	659,000	470,846
2011	680,000	449,930
2012	702,000	428,337
2013	724,000	406,051
2014-2018	3,978,000	1,670,603
2019-2023	4,652,000	997,731
2024-2028	3,716,000	237,809
Totals	\$ 15,750,000	\$ 5,152,439

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 3,079,000	\$ -	\$ 131,000	\$ 2,948,000	\$ 137,000
Wastewater Utility:					
Loans payable	\$ 15,268,071	\$ 5,646,257	\$ 871,000	\$ 20,043,328	\$ 898,000

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; job related illnesses or injuries to employees; 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

The City has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Group Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

commercial insurance covers individual claims in excess of \$55,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

B. Subsequent Events

The Wastewater Utility has the Blue River Interceptor Sewer project under construction. A total of \$5,409,515 has been expended through December 31, 2008. The Wastewater Utility anticipates borrowing an additional \$1,518,485 to complete the project.

C. Postemployment Benefits

In addition to the pension benefits described below, the Utilities provide postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the City on or after attaining age 55 with at least 20 years of service. Currently, 4 retirees meet these eligibility requirements. The City provides $\frac{1}{2}$ of the cost of single coverage of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2008, the City contributed \$12,305 towards the cost of the postemployment medical coverage. The amount of disbursements made for these postemployment medical benefits could not be determined.

D. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on August 22, 2007. The Utility has 3,482 customers.

2. Wastewater Utility

The current rate structure was approved by the City Council on October 24, 2006. The Utility has 3,515 customers.

3. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 1, 2000. The Utility has 4,665 customers.

4. Storm Water Utility

The current rate structure was approved by the City Council on July 25, 2006. The Utility has 3,650 customers.

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. 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 three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds.

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 191,435
Interest on net pension obligation	(19,740)
Adjustment to annual required contribution	22,495
Annual pension cost	194,190
Contributions made	167,648
Increase in net pension obligation	26,542
Net pension obligation, beginning of year	(272,278)
Net pension obligation, end of year	\$ (245,736)

	PERF
Contribution rates:	
Utilities	7.25%
Plan members	3%
Actuarial valuation date	07-01-08
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

<u>Actuarial Assumptions</u>	PERF
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	06-30-06	\$ 146,276	110%	\$ (282,749)
	06-30-07	167,495	94%	(272,278)
	06-30-08	194,190	86%	(245,736)

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
 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)
07-01-06	\$ 2,375,253	\$ 2,935,928	\$ (560,675)	81%	\$ 2,240,878	(25%)
07-01-07	2,767,109	3,526,824	(759,715)	78%	2,347,475	(32%)
07-01-08	2,494,502	3,295,124	(800,622)	76%	2,291,239	(35%)

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
EXAMINATION RESULT AND COMMENT

UTILITY FUNDS USED FOR CITY EXPENSES

City officials used municipal utility operating funds to pay for salaries and wages of City employees. The information systems director, the communications department, the city hall maintenance and the city hall custodial employees were paid a substantial portion of their salaries from utility operating funds. The total gross wages of these employees was \$393,851, of which, the utilities paid \$319,721, or 81% of the total. In addition, there were other City employees whose salaries and wages were partially paid from utility operating funds in a larger proportion than job duties would indicate. A similar comment appeared in prior Report B32036.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for City and Town operating costs should not be paid from utility funds. The cost of shared employees and equipment between a City or Town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the City or Town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on July 9, 2009, with Rosie M. Coyle, Clerk-Treasurer; and James R. Fleck, Mayor. The official response has been made a part of this report and may be found on page 21.



**CITY CLERK-TREASURER
112 S. CHAUNCEY STREET
COLUMBIA CITY, IN 46725
260-248-5100**

July 9, 2009

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, IN 46204-2765

RE: **OFFICIAL RESPONSE**
 2008 Utility Annual Audit

This letter is in regards to the Audit comments for 2008. The first is in regards to the Utility Funds used for City Expenses. The Information Systems Director is paid more from utility funds due to the nature of his position. Even though he is still over the Communications Department, he does all the computer work for all the utilities which takes up about 90% of his work time. That is why he is paid mainly from the utilities.

The Communications department is the dispatch center for all the utilities 24/7. They dispatch all of the utilities during power outages and also monitor all the alarms for all the lift stations and water department 24/7. This is why we can justify their wages being paid out of the utilities also.

The city hall maintenance employee does all the maintenance for the Electric, Water and Wastewater facilities including the utility office in City Hall. He also is paid from the street department since he also picks up trash 2 days a week in the uptown area.

I hope this helps justify the payment from the utility funds for these employees.

Sincerely


Rosie Coyle IAMC
City Clerk Treasurer