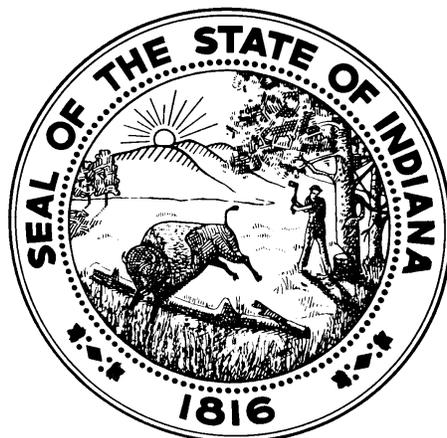


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF

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

January 1, 2008 to December 31, 2008



FILED
12/28/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jennie DePaolo	01-01-08 to 12-31-11
Mayor	David Wiant	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	David Wiant	01-01-08 to 12-31-11
President of the Common Council	David Wiant	01-01-08 to 12-31-11
Supervisor of Electric Utility	Michael Steward	01-01-08 to 12-31-09
Supervisor of Water Utility	Pat Kleeman	01-01-08 to 12-31-09
Supervisor of Wastewater Utility	Bruce Schlosser	01-01-08 to 12-31-09



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE ELECTRIC, WATER, AND WASTEWATER UTILITIES, CITY OF GARRETT, DEKALB COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Electric, Water, and Wastewater Utilities, (Utilities) departments of the City of Garrett, 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 statement 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 Electric, Water, and Wastewater Utilities, departments of the City of Garrett, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Garrett as of December 31, 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 Electric, Water, and Wastewater 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 audit the information and express no opinion on it.

The Electric, Water, and Wastewater 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

November 17, 2009

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:			
Cash and cash equivalents	\$ 835,272	\$ 470,774	\$ 1,058,416
Interest receivable	-	-	966
Accounts receivable (net of allowance)	671,275	65,550	138,293
Interfund receivables	-	-	58,380
Accrued revenue	762,564	61,753	132,827
Inventories	338,029	72,045	-
Prepaid items	17,887	8,542	9,583
	<u>2,625,027</u>	<u>678,664</u>	<u>1,398,465</u>
Total current assets			
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	1,317,628	83,817	803,458
Bond and interest cash and investments	39,666	8,520	135,865
Debt service reserve cash and investments	307,980	66,155	438,375
Customer deposits	129,055	46,115	72,761
I&M true up	390,000	-	-
	<u>2,184,329</u>	<u>204,607</u>	<u>1,450,459</u>
Total restricted assets			
Deferred charges	134,452	45,353	128,800
Capital assets:			
Land, improvements to land and construction in progress	563,914	192,492	161,200
Other capital assets (net of accumulated depreciation)	6,724,939	3,200,398	8,715,190
	<u>7,288,853</u>	<u>3,392,890</u>	<u>8,876,390</u>
Total capital assets			
Total noncurrent assets			
	<u>9,607,634</u>	<u>3,642,850</u>	<u>10,455,649</u>
Total assets			
	<u>12,232,661</u>	<u>4,321,514</u>	<u>11,854,114</u>
Liabilities			
Current liabilities:			
Accounts payable	427,324	36,316	40,933
Accrued wages payable	24,443	18,461	21,624
Taxes payable	37,501	4,173	-
Current liabilities payable from restricted assets:			
Customer deposits	129,055	46,115	72,761
Revenue bonds payable	-	-	210,000
	<u>618,323</u>	<u>105,065</u>	<u>345,318</u>
Total current liabilities			
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	3,545,000	720,000	4,241,785
	<u>4,163,323</u>	<u>825,065</u>	<u>4,587,103</u>
Total liabilities			
Net Assets			
Invested in capital assets, net of related debt	3,743,853	2,672,890	4,424,605
Restricted for debt service	347,646	74,675	574,240
Restricted for other purposes	1,707,628	83,817	803,458
Unrestricted	2,270,211	665,067	1,464,708
	<u>\$ 8,069,338</u>	<u>\$ 3,496,449</u>	<u>\$ 7,267,011</u>
Total net assets			

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

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Operating revenues:			
Metered revenue	\$ 7,350,457	\$ -	\$ -
Fire protection revenue	-	90,846	-
Penalties	27,145	4,875	28,940
Measured revenue	-	625,901	1,461,137
Other	<u>15,535</u>	<u>3,400</u>	<u>9,415</u>
 Total operating revenues	 <u>7,393,137</u>	 <u>725,022</u>	 <u>1,499,492</u>
Operating expenses:			
Water treatment expense - operations and maintenance	-	146,491	-
Water - operations and maintenance	-	200,091	-
Pumping - operations and maintenance	-	-	186,247
Treatment and disposal - operations and maintenance	-	-	78,164
Operations and maintenance	456,380	-	-
Customer accounts	57,820	32,554	34,186
Administration and general	226,112	87,755	205,225
Employee pensions and benefits	150,973	99,575	81,220
Purchased power	5,050,176	80,888	56,111
Sludge removal	-	-	152,810
Contractual services	197,470	28,895	98,280
Rents	20,851	6,667	6,667
Insurance expense	38,541	17,594	8,284
Depreciation	514,349	96,086	408,762
Miscellaneous expenses	<u>71,671</u>	<u>29,096</u>	<u>59,397</u>
 Total operating expenses	 <u>6,784,344</u>	 <u>825,692</u>	 <u>1,375,353</u>
 Operating income (loss)	 <u>608,793</u>	 <u>(100,670)</u>	 <u>124,139</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	14,267	1,833	17,426
Miscellaneous revenue	23,060	90,962	5,355
Interest expense	(153,998)	(34,490)	(206,962)
Amortization of bond issue costs	<u>(8,403)</u>	<u>(2,519)</u>	<u>(14,461)</u>
 Total nonoperating revenues (expenses)	 <u>(125,074)</u>	 <u>55,786</u>	 <u>(198,642)</u>
 Change in net assets	 483,719	 (44,884)	 (74,503)
Total net assets - beginning	<u>7,585,619</u>	<u>3,541,333</u>	<u>7,341,514</u>
Total net assets - ending	<u>\$ 8,069,338</u>	<u>\$ 3,496,449</u>	<u>\$ 7,267,011</u>

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

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2008

	Electric Utility	Water Utility	Wastewater Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 7,301,632	\$ 733,565	\$ 1,509,160
Payments to suppliers and contractors	(5,826,050)	(426,221)	(698,692)
Payments to employees	(408,593)	(282,484)	(265,348)
Other receipts	<u>23,060</u>	<u>90,962</u>	<u>5,355</u>
Net cash provided by operating activities	<u>1,090,049</u>	<u>115,822</u>	<u>550,475</u>
Cash flows from noncapital financing activities:			
Interfund loan receivable	<u>-</u>	<u>-</u>	<u>17,654</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(90,131)	(189,604)	(258,158)
Principal paid on capital debt	(140,000)	(30,000)	(495,000)
Interest paid on capital debt	<u>(153,998)</u>	<u>(34,490)</u>	<u>(211,933)</u>
Net cash used by capital and related financing activities	<u>(384,129)</u>	<u>(254,094)</u>	<u>(965,091)</u>
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	400,000	-	400,000
Purchase of investments	(400,000)	-	(400,000)
Interest received	<u>14,267</u>	<u>1,833</u>	<u>17,718</u>
Net cash provided by investing activities	<u>14,267</u>	<u>1,833</u>	<u>17,718</u>
Net increase (decrease) in cash and cash equivalents	720,187	(136,439)	(379,244)
Cash and cash equivalents, January 1	<u>2,299,414</u>	<u>811,820</u>	<u>2,888,119</u>
Cash and cash equivalents, December 31	<u>\$ 3,019,601</u>	<u>\$ 675,381</u>	<u>\$ 2,508,875</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ 608,793</u>	<u>\$ (100,670)</u>	<u>\$ 124,139</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	514,349	96,086	408,762
Nonoperating revenues	23,060	90,962	5,355
(Increase) decrease in assets:			
Accounts receivable	18,028	4,957	16,553
Accrued revenue	(109,533)	3,586	(6,885)
Inventories	2,373	(8,546)	-
Prepaid items	(3,733)	(3,687)	(2,779)
Increase (decrease) in liabilities:			
Accounts payable	26,450	21,778	(8,320)
Wages payable	5,656	5,744	9,668
Taxes payable	4,837	902	-
Customer deposits	<u>(231)</u>	<u>4,710</u>	<u>3,982</u>
Total adjustments	<u>481,256</u>	<u>216,492</u>	<u>426,336</u>
Net cash provided by operating activities	<u>\$ 1,090,049</u>	<u>\$ 115,822</u>	<u>\$ 550,475</u>

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

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Garrett (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, 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 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. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
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 balance sheet because of applicable bond indentures or governing body action.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Electric and Water:			
Buildings	\$ 5,000	Composite	2% to 4%
Improvement other than buildings	5,000	Composite	2% to 4%
Machinery and equipment	5,000	Composite	2% to 4%
Transportation equipment	5,000	Composite	2% to 4%
Wastewater:			
Buildings	5,000	Straight-line	50 years
Improvement other than buildings	5,000	Straight-line	50 to 100 years
Machinery and equipment	5,000	Straight-line	5 to 30 years
Transportation equipment	5,000	Straight-line	10 years

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No amount of interest was included as part of the cost of capital assets in the Utilities.

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

5. Compensated Absences

- a. Sick Leave – Utilities employees earn sick leave at the rate of 5 days per year. Unused sick leave may be accumulated to a maximum of 65 days. Accumulated sick leave is paid to employees through cash payments at a rate of \$20 per day upon retirement.
- b. Vacation Leave – Utilities employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utilities employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick and personal leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-15-18-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

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

B. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 183,832	\$ -	\$ -	\$ 183,832
Construction in progress	302,366	77,716	-	380,082
				-
Total capital assets, not being depreciated	486,198	77,716	-	563,914
Capital assets, being depreciated:				
Buildings	54,044	-	-	54,044
Improvements other than buildings	11,997,723	-	-	11,997,723
Machinery and equipment	378,664	-	-	378,664
Transportation equipment	428,306	12,415	-	440,721
Less accumulated depreciation	(5,631,864)	(514,349)	-	(6,146,213)
Total capital assets depreciated, net	7,226,873	(501,934)	-	6,724,939
Total Electric Utility capital assets, net	<u>\$ 7,713,071</u>	<u>\$ (424,218)</u>	<u>\$ -</u>	<u>\$ 7,288,853</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 37,983	\$ -	\$ -	\$ 37,983
Construction in progress	-	154,509	-	154,509
				-
Total capital assets, not being depreciated	37,983	154,509	-	192,492
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	4,258,719	-	-	4,258,719
Machinery and equipment	172,262	18,580	-	190,842
Transportation equipment	83,158	16,515	-	99,673
Less accumulated depreciation	(1,542,907)	(96,086)	-	(1,638,993)
Total capital assets depreciated, net	3,261,389	(60,991)	-	3,200,398
Total Water Utility capital assets, net	<u>\$ 3,299,372</u>	<u>\$ 93,518</u>	<u>\$ -</u>	<u>\$ 3,392,890</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 43,792	\$ -	\$ -	\$ 43,792
Construction in progress	<u>-</u>	<u>117,408</u>	<u>-</u>	<u>117,408</u>
 Total capital assets, not being depreciated	 <u>43,792</u>	 <u>117,408</u>	 <u>-</u>	 <u>161,200</u>
Capital assets, being depreciated:				
Buildings	1,157,697	121,871	-	1,279,568
Improvements other than buildings	7,425,612	11,178	-	7,436,790
Machinery and equipment	5,099,710	7,701	-	5,107,411
Transportation equipment	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
 Totals	 <u>13,693,019</u>	 <u>140,750</u>	 <u>-</u>	 <u>13,833,769</u>
Less accumulated depreciation for:				
Buildings	(489,518)	(23,154)	-	(512,672)
Improvements other than buildings	(2,536,391)	(165,051)	-	(2,701,442)
Machinery and equipment	(1,680,574)	(218,890)	-	(1,899,464)
Transportation equipment	<u>(3,334)</u>	<u>(1,667)</u>	<u>-</u>	<u>(5,001)</u>
 Totals	 <u>(4,709,817)</u>	 <u>(408,762)</u>	 <u>-</u>	 <u>(5,118,579)</u>
 Total capital assets depreciated, net	 <u>8,983,202</u>	 <u>(268,012)</u>	 <u>-</u>	 <u>8,715,190</u>
 Total Water Utility capital assets, net	 <u>\$ 9,026,994</u>	 <u>\$ (150,604)</u>	 <u>\$ -</u>	 <u>\$ 8,876,390</u>

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

Electric	\$ 514,349
Water	96,086
Wastewater	<u>408,762</u>
 Total depreciation expense	 <u>\$ 1,019,197</u>

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

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008
Electric Utility:		
West substation	\$ 302,366	\$ 302,366
Electric improvement project	77,716	77,716
Total for Electric Utility	\$ 380,082	\$ 380,082
Water Utility:		
Water Utility improvement project	\$ 154,509	\$ 154,509
Wastewater Utility:		
Wastewater Utility improvement project	\$ 117,408	\$ 117,408

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2008, is as follows:

Due To	Due From City - General Fund
Wastewater Utility	\$ 58,380

Interfund balances resulted from the time lag between the dates that interfund loans are repaid.

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
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	Less Unamortized Discount	Revenue Bonds
2005 Electric Utility improvements and extension	4.0% to 4.4%	\$ 3,545,000	\$ -	\$ 3,545,000
2004 Waterworks improvement	4.25% to 4.85%	720,000	-	720,000
2002A Sewage works wastewater expansion	3.5% to 4.375%	4,485,000	33,215	4,451,785
Totals		<u>\$ 8,750,000</u>	<u>\$ 33,215</u>	<u>\$ 8,716,785</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Electric Utility		Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ -	\$ 74,024	\$ -	\$ 16,608	\$ 210,000	\$ 92,712
2010	145,000	145,147	30,000	32,578	220,000	178,073
2011	150,000	139,248	30,000	31,303	230,000	169,824
2012	160,000	133,048	30,000	30,028	240,000	161,199
2013	165,000	126,547	30,000	28,753	250,000	152,078
2014-2018	930,000	526,238	185,000	121,326	1,450,000	600,453
2019-2023	1,155,000	312,194	240,000	72,650	1,885,000	256,161
2024-2028	840,000	56,760	175,000	12,974	-	-
Totals	<u>\$ 3,545,000</u>	<u>\$ 1,513,206</u>	<u>\$ 720,000</u>	<u>\$ 346,220</u>	<u>\$ 4,485,000</u>	<u>\$ 1,610,500</u>

2. 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
Revenue bonds payable:					
Electric Utility	\$ 3,685,000	\$ -	\$ 140,000	\$ 3,545,000	\$ -
Water Utility	750,000	-	30,000	720,000	-
Wastewater Utility	4,980,000	-	495,000	4,485,000	210,000
Total long-term liabilities	<u>\$ 9,415,000</u>	<u>\$ -</u>	<u>\$ 665,000</u>	<u>\$ 8,750,000</u>	<u>\$ 210,000</u>

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

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.

Group Health Insurance

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$20,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

Workers' Compensation

During 1993, the Utilities joined together with other governmental entities to form the Indiana Public Employers' Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The 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. Subsequent Events

On January 6, 2009, the City awarded a contract to Pyramid Excavating, Inc., in the amount of \$130,427.65 for the Forest Park Drive Sanitary Sewer and Water Main Extensions project.

On June 2, 2009, the City awarded a contract to API Construction Corp., in the amount of \$574,910 for the Garrett Water Improvement Project

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

C. Rate Structure

1. Electric Utility

On July 6, 2004, the City Council adopted Ordinance No. 2004-12 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the City Council on January 2006. The Utility has 3,158 customers.

2. Water Utility

On April 15, 1997, the City Council adopted Ordinance No. 97-8 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the City Council on June 17, 2008. The Utility has 2,130 customers.

3. Wastewater Utility

The current rate structure was approved by the City Council on November 19, 2002. The Utilities has 2,192 customers.

D. 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 Utilities 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

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
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 and the Utilities' annual pension cost and related information, as provided by the actuary, are 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	\$ 95,556
Interest on net pension obligation	(259)
Adjustment to annual required contribution	295
Annual pension cost	95,592
Contributions made	76,632
Increase (decrease) in net pension obligation	18,960
Net pension obligation, beginning of year	(3,569)
Net pension obligation, end of year	\$ 15,391
Contribution rates:	
Utilities	5.5%
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

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

Actuarial Assumptions	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	\$ 67,291	86%	\$ (31,360)
	06-30-07	88,954	69%	(3,569)
	06-30-08	95,592	80%	15,391

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 1,354,958	\$ 1,591,995	\$ (237,037)	85%	\$ 1,250,617	(19%)
07-01-07	1,555,382	1,829,520	(274,138)	85%	1,278,272	(21%)
07-01-08	1,428,234	1,820,346	(392,112)	78%	1,293,651	(30%)

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
EXIT CONFERENCE

The contents of this report were discussed on November 17, 2009, with Jennie DePaolo, Clerk-Treasurer. Our examination disclosed no material items that warrant comment at this time.