

B37246

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

EXAMINATION REPORT
OF
WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
KNOX COUNTY, INDIANA

January 1, 2009 to December 31, 2009



FILED
07/21/2010

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|------------------|----------------------|
| Clerk-Treasurer | Beverly S. Marsh | 01-01-08 to 12-31-11 |
| Mayor | Alan Baldwin | 01-01-08 to 12-31-11 |
| President of the Board of Public Works | Alan Baldwin | 01-01-08 to 12-31-11 |
| President of the Common Council | Shirley S. Rose | 01-01-09 to 12-31-10 |
| Superintendent of Utilities | Kirk Bouchie | 01-01-09 to 12-31-10 |
| President of the Utility Service Board | William Hopper | 01-01-09 to 12-31-10 |



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AN EQUAL OPPORTUNITY EMPLOYER

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302 WEST WASHINGTON STREET
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Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,
CITY OF VINCENNES, KNOX COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities, a department of the City of Vincennes, as of and for the year ended December 31, 2009. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements 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 Water and Wastewater Utilities, City of Vincennes, 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 Vincennes as of December 31, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water and Wastewater Utilities, as of December 31, 2009, 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.

STATE BOARD OF ACCOUNTS

June 8, 2010

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
STATEMENT OF NET ASSETS
December 31, 2009

| <u>Assets</u> | <u>Water Utility</u> | <u>Wastewater Utility</u> |
|---|--------------------------|-------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 893,830 | \$ 286,126 |
| Accounts receivable (net of allowance) | 190,987 | 312,253 |
| Inventories | 96,229 | 18,000 |
| Prepaid items | <u>22,266</u> | <u>27,214</u> |
| Total current assets | <u>1,203,312</u> | <u>643,593</u> |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | | |
| Depreciation cash and cash equivalents | 1,199,470 | 2,061,428 |
| Bond and interest cash and cash equivalents | 25,646 | 90 |
| Reserve cash and cash equivalents | 311,051 | - |
| Customer deposits | <u>186,053</u> | <u>-</u> |
| Total restricted assets | <u>1,722,220</u> | <u>2,061,518</u> |
| Deferred charges | <u>-</u> | <u>17,591</u> |
| Capital assets: | | |
| Land and construction in progress | 259,093 | 1,526,333 |
| Other capital assets (net of accumulated depreciation) | <u>17,550,197</u> | <u>39,518,637</u> |
| Total capital assets | <u>17,809,290</u> | <u>41,044,970</u> |
| Total noncurrent assets | <u>19,531,510</u> | <u>43,124,079</u> |
| Total assets | <u>20,734,822</u> | <u>43,767,672</u> |
| <u>Liabilities</u> | | |
| Current liabilities: | | |
| Accounts payable | 54,390 | 67,217 |
| Customer advances for construction | - | 257,654 |
| Payroll withholdings payable | 2,196 | 454 |
| Contracts payable | 299,282 | - |
| Taxes payable | 9,482 | - |
| Compensated absences | 44,116 | 9,363 |
| Current liabilities payable from restricted assets: | | |
| Customer deposits | 186,053 | - |
| Revenue bonds payable | - | 150,000 |
| Loans payable | 196,239 | 642,296 |
| Accrued interest payable | <u>9,427</u> | <u>-</u> |
| Total current liabilities | <u>801,185</u> | <u>1,126,984</u> |
| Noncurrent liabilities: | | |
| Revenue bonds payable (net of unamortized discounts and deferred amount on refunding) | - | 1,337,986 |
| Loans payable | <u>3,231,754</u> | <u>21,258,928</u> |
| Total noncurrent liabilities | <u>3,231,754</u> | <u>22,596,914</u> |
| Total liabilities | <u>4,032,939</u> | <u>23,723,898</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 14,381,297 | 4,032,939 |
| Restricted for debt service | 25,646 | 16,010,835 |
| Unrestricted | <u>2,294,940</u> | <u>-</u> |
| Total net assets | <u>\$ 16,701,883</u> | <u>\$ 20,043,774</u> |

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

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2009

| | Water Utility | Wastewater Utility |
|---|------------------|-----------------------|
| Operating revenues: | | |
| Unmetered water revenue | \$ 244,446 | \$ - |
| Residential sales | 1,897,178 | - |
| Measured revenue: | - | 3,929,109 |
| Other | 566,091 | - |
| Total operating revenues | 2,707,715 | 3,929,109 |
| Operating expenses: | | |
| Source of supply and expense - operations and maintenance | 269,195 | - |
| Water treatment expense - operations and maintenance | 228,364 | - |
| Water - operations and maintenance | 777,501 | - |
| Collection system - operations and maintenance | - | 761,051 |
| Pumping - operations and maintenance | 483,664 | - |
| Treatment and disposal - operations and maintenance | - | 617,569 |
| Customer accounts | 250,473 | 596 |
| Administration and general | 252,800 | 744,353 |
| Storm water expense | - | 188,691 |
| Depreciation and amortization | 765,732 | 1,371,840 |
| Other | - | 84,097 |
| Total operating expenses | 3,027,729 | 3,768,197 |
| Operating income (loss) | (320,014) | 160,912 |
| Nonoperating revenues (expenses): | | |
| Interest and investment revenue | 35,232 | 61,964 |
| Gain on sale of fixed assets | 813 | 6,569 |
| Miscellaneous revenue | 69,315 | 172,035 |
| Interest expense | (117,315) | (830,277) |
| Loss on sale of fixed assets | - | (10,262) |
| Total nonoperating expenses | (11,955) | (599,971) |
| Loss before contributions | (331,969) | (439,059) |
| Capital contributions | 5,646 | - |
| Change in net assets | (326,323) | (439,059) |
| Total net assets - beginning | 17,028,206 | 20,482,833 |
| Total net assets - ending | \$ 16,701,883 | \$ 20,043,774 |

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

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2009

| | Water Utility | Wastewater Utility |
|--|---------------------|-----------------------|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 2,139,640 | \$ 4,198,345 |
| Payments to suppliers and contractors | (583,301) | (1,405,151) |
| Payments to employees | (1,610,569) | (959,774) |
| Other receipts | 642,048 | - |
| Net cash provided by operating activities | <u>587,818</u> | <u>1,833,420</u> |
| Cash flows from capital and related financing activities: | | |
| Capital contributions | 5,646 | - |
| Acquisition and construction of capital assets | (333,666) | (1,517,934) |
| Principal paid on capital debt | (189,920) | (1,537,321) |
| Interest paid on capital debt | (117,837) | (822,428) |
| Proceeds from sales of capital assets | - | 16,831 |
| Net cash used by capital and related financing activities | <u>(635,777)</u> | <u>(3,860,852)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 534,000 | 1,909,000 |
| Purchase of investments | - | 82,830 |
| Interest received | 35,232 | - |
| Net cash provided by investing activities | <u>569,232</u> | <u>1,991,830</u> |
| Net increase (decrease) in cash and cash equivalents | 521,273 | (35,602) |
| Cash and cash equivalents, January 1 | <u>2,094,777</u> | <u>2,383,246</u> |
| Cash and cash equivalents, December 31 | <u>\$ 2,616,050</u> | <u>\$ 2,347,644</u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | |
| Operating income | <u>\$ (320,014)</u> | <u>\$ 160,912</u> |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation expense | 765,732 | 1,371,840 |
| Proceeds on sale of capital assets | 16,710 | (3,693) |
| Nonoperating income | 69,315 | 172,035 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 1,722 | 37,437 |
| Interest receivable | 6,642 | - |
| Inventories | (1,214) | 3,585 |
| Prepaid items | (434) | (531) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 129 | 27,230 |
| Payroll withholdings payable | 215 | (178) |
| Contracts payable | 299,282 | - |
| Taxes payable | 83 | - |
| Compensated absence payable | 10,089 | 5,019 |
| Advances for construction | (256,630) | 59,764 |
| Customer deposits | (3,809) | - |
| Total adjustments | <u>907,832</u> | <u>1,672,508</u> |
| Net cash provided by operating activities | <u>\$ 587,818</u> | <u>\$ 1,833,420</u> |

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

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
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 Vincennes (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represent a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The 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 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.

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
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 they are maintained in separate fund accounts and their use is limited by applicable bond and loan 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 |
|---|-----------------------------|------------------------|--------------------------|
| Buildings and improvements | \$ 400 | Straight-line | 20-50 years |
| Equipment | 400 | Straight-line | 5-25 years |
| Water collection systems | 400 | Straight-line | 25-50 years |
| Wastewater distribution and collection systems | 400 | Straight-line | 25-50 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.

5. Compensated Absences

- a. Sick Leave – Utilities employees earn sick leave at the rate of 10 days per year. Sick leave does not accumulate from year to year. Unused sick leave may be accumulated to a maximum of 90 days. Accumulated sick leave is not paid to employees.
- b. Vacation Leave – Utilities 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. Accumulated vacation leave is paid to employees through cash payments upon termination or retirement.

Vacation leave is accrued when incurred.

No liability is reported for sick leave.

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

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 IC 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.

| <u>Business-type activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|---------------------------|
| Water Utility: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 259,093 | \$ - | \$ - | \$ 259,093 |
| Capital assets, being depreciated: | | | | |
| Improvements other than buildings | 18,592,900 | 272,658 | 17,780 | 18,847,778 |
| Buildings | 5,574,133 | 18,197 | - | 5,592,330 |
| Machinery and equipment | 2,103,634 | 18,072 | 1,816 | 2,119,890 |
| Transportation equipment | 211,313 | 24,739 | 23,994 | 212,058 |
| Total capital assets, being depreciated | <u>26,481,980</u> | <u>333,666</u> | <u>43,590</u> | <u>26,772,056</u> |
| Less accumulated depreciation for: | | | | |
| Improvements other than buildings | 6,748,033 | 558,649 | 2,073 | 7,304,609 |
| Buildings | 590,763 | 41,363 | - | 632,126 |
| Machinery and equipment | 987,461 | 129,945 | 1,626 | 1,115,780 |
| Transportation equipment | 157,563 | 35,775 | 23,994 | 169,344 |
| Total accumulated depreciation | <u>8,483,820</u> | <u>765,732</u> | <u>27,693</u> | <u>9,221,859</u> |
| Total capital assets, being depreciated, net | <u>17,998,160</u> | <u>(432,066)</u> | <u>15,897</u> | <u>17,550,197</u> |
| Total Water Utility capital assets, net | <u>\$ 18,257,253</u> | <u>\$ (432,066)</u> | <u>\$ 15,897</u> | <u>\$ 17,809,290</u> |

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

| <u>Business-type activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|---------------------------|
| Wastewater Utility: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 120,554 | \$ - | \$ - | \$ 120,554 |
| Construction in progress | 130,069 | 1,275,710 | - | 1,405,779 |
| | | | | - |
| Total capital assets, not being depreciated | <u>250,623</u> | <u>1,275,710</u> | <u>-</u> | <u>1,526,333</u> |
| Capital assets, being depreciated: | | | | |
| Improvements other than buildings | 21,564,087 | 161,912 | 13,138 | 21,712,861 |
| Buildings | 21,610,693 | 7,240 | - | 21,617,933 |
| Machinery and equipment | 6,408,193 | 73,072 | 53,925 | 6,427,340 |
| Transportation equipment | 605,569 | - | - | 605,569 |
| Total capital assets, being depreciated | <u>50,188,542</u> | <u>242,224</u> | <u>67,063</u> | <u>50,363,703</u> |
| Less accumulated depreciation for: | | | | |
| Improvements other than buildings | 5,936,861 | 524,741 | 235 | 6,461,367 |
| Buildings | 2,310,402 | 414,692 | - | 2,725,094 |
| Machinery and equipment | 1,049,676 | 350,548 | 49,997 | 1,350,227 |
| Transportation equipment | 226,519 | 81,859 | - | 308,378 |
| Total accumulated depreciation | <u>9,523,458</u> | <u>1,371,840</u> | <u>50,232</u> | <u>10,845,066</u> |
| Total capital assets, being depreciated, net | <u>40,665,084</u> | <u>(1,129,616)</u> | <u>16,831</u> | <u>39,518,637</u> |
| Total Wastewater Utility capital assets, net | <u>\$ 40,915,707</u> | <u>\$ 146,094</u> | <u>\$ 16,831</u> | <u>\$ 41,044,970</u> |
| Total business-type activities capital assets, net | <u>\$ 59,172,960</u> | <u>\$ (285,972)</u> | <u>\$ 32,728</u> | <u>\$ 58,854,260</u> |

B. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

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

| | |
|----------------------------|---------------------|
| Water | \$ 765,732 |
| Wastewater | <u>1,371,840</u> |
| Total depreciation expense | <u>\$ 2,137,572</u> |

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
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, 2009 | Committed | Required Future Funding |
|----------------------------|--------------------------------|-------------------------------------|-------------|-------------------------------|
| McKinley Ditch Storm water | \$ 489,932 | \$ 489,932 | \$ - | \$ - |
| Old Terre Haute Road Sewer | <u>1,092,903</u> | <u>915,847</u> | <u>-</u> | <u>177,056</u> |
| Totals | <u>\$ 1,582,835</u> | <u>\$ 1,405,779</u> | <u>\$ -</u> | <u>\$ 177,056</u> |

D. 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:

| Purpose | Interest Rates | Amount |
|---|-------------------|---------------------|
| 2003 Sewage works revenue refunding bonds | 4.2% to 4.4% | <u>\$ 1,525,000</u> |

Revenue bonds debt service requirements to maturity are as follows:

| Year Ended December 31 | Wastewater Utility | |
|---------------------------|---------------------|-------------------|
| | Principal | Interest |
| 2010 | \$ 155,000 | \$ 23,393 |
| 2011 | 320,000 | 56,640 |
| 2012 | 335,000 | 52,570 |
| 2013 | 350,000 | 27,610 |
| 2014 | <u>365,000</u> | <u>12,100</u> |
| Totals | <u>\$ 1,525,000</u> | <u>\$ 172,313</u> |

2. Loans Payable

The Utilities have entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$880,284 and \$4,821,805, are as follows:

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

| | Water Utility | Wastewater Utility |
|-----------|------------------|-----------------------|
| 2010 | \$ 307,757 | 1,003,667 |
| 2011 | 307,757 | 2,007,478 |
| 2012 | 307,757 | 2,006,548 |
| 2013 | 307,757 | 2,006,508 |
| 2014 | 307,757 | 2,007,018 |
| 2015-2019 | 1,538,744 | 11,731,515 |
| 2020-2024 | 1,230,748 | 5,960,295 |
| Totals | \$ 4,308,277 | \$ 26,723,029 |

3. Advance Refunding

In prior years, the Wastewater Utility defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2009, \$1,655,000 of outstanding bonds were considered defeased:

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-----------------------------------|----------------------|-----------|--------------|-------------------|---------------------------|
| Revenue bonds payable: | | | | | |
| Wastewater Utility | \$ 1,820,000 | \$ - | \$ 295,000 | \$ 1,525,000 | \$ 150,000 |
| Less unamortized discount | 2,606 | - | 804 | 1,802 | - |
| Less deferred amount on refunding | 50,922 | - | 15,710 | 35,212 | - |
| Total revenue bonds payable | 1,766,472 | - | 278,486 | 1,487,986 | 150,000 |
| Loans payable: | | | | | |
| Water Utility | 3,617,913 | - | 189,920 | 3,427,993 | 196,239 |
| Wastewater Utility | 23,160,059 | - | 1,258,835 | 21,901,224 | 642,296 |
| Total loans payable | 26,777,972 | - | 1,448,755 | 25,329,217 | 838,535 |
| Total long-term liabilities | \$ 28,544,444 | \$ - | \$ 1,727,241 | \$ 26,817,203 | \$ 1,827,070 |

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

E. Restricted Assets

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

| | Water Utility | Wastewater Utility |
|---|------------------|-----------------------|
| Depreciation cash and cash equivalents | \$ 1,199,470 | \$ 2,061,428 |
| Bond and interest cash and cash equivalents | 25,646 | 90 |
| Reserve cash and cash equivalents | 311,051 | - |
| Customer deposits | 186,053 | - |
| Total restricted assets | \$ 1,722,220 | \$ 2,061,518 |

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; 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.

Job Related Injuries

During 1994, the Utilities joined together with other governmental entities to form the Indiana Public Employer's Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The Utilities pay an annual premium to the risk pool for its job related injuries 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.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on March 25, 2002. The Utility has 8,214 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on March 25, 2002. The Utility has 7,895 customers.

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

C. Pension Plan

1. Agent Multiple-Employer Defined Benefit Pension Plan

a. 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

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.

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

Actuarial Information for the Above Plan

| | PERF |
|---|-------------|
| Annual required contribution | \$ 115,420 |
| Interest on net pension obligation | (4,446) |
| Adjustment to annual required contribution | 5,067 |
| Annual pension cost | 116,041 |
| Contributions made | 115,444 |
| Increase (decrease) in net pension obligation | 597 |
| Net pension obligation, beginning of year | (61,324) |
| Net pension obligation, end of year | \$ (60,727) |

| | PERF |
|---------------------------------|---|
| Contribution rates: | |
| Utilities | 8% |
| Plan members | 3% |
| Actuarial valuation date | 07-01-08 |
| 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 |

| <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 | \$ 50,326 | 181% | \$ (24,784) |
| | 06-30-07 | 78,768 | 146% | (61,324) |
| | 06-30-08 | 116,041 | 99% | (60,727) |

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

Public Employees' Retirement Fund Plan - City of Vincennes Utilities

| 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 | \$ 1,201,505 | \$ 1,659,380 | \$ (457,875) | 72% | \$ 853,947 | (54%) |
| 07-01-07 | 1,428,906 | 1,921,591 | (492,685) | 74% | 1,370,267 | (36%) |
| 07-01-08 | 1,662,816 | 2,116,871 | (454,055) | 79% | 1,490,527 | (30%) |

WATER AND WASTEWATER UTILITIES
CITY OF VINCENNES
EXIT CONFERENCE

The contents of this report were discussed on June 8, 2010, with Kirk Bouchie, Superintendent of Utilities; Rebecca J. Willis, Accounting Supervisor; and Garry L. Hall, Vice President of the Utility Service Board. Our audit disclosed no material items that warrant comment at this time.