

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

ANNUAL FINANCIAL REPORT

2010

ELECTRIC, WATER, AND WASTEWATER UTILITIES

CITY OF GARRETT

DEKALB COUNTY, INDIANA



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jennie L. 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	01-01-10 to 12-31-11
Supervisor of Water Utility	Pat Kleeman	01-01-10 to 12-31-11
Supervisor of Wastewater Utility	Bruce Schlosser	01-01-10 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Electric, Water, and Wastewater Utilities, departments of the City of Garrett, as of and for the year ended December 31, 2010, which collectively comprise the Utilities' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Electric, Water, and Wastewater Utilities, departments of 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, 2010, 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, 2010, 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 accounting principles generally accepted in the United States of America. 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

The Utilities have not presented Management's Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

April 26, 2011

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
STATEMENT OF NET ASSETS
December 31, 2010

<u>Assets</u>	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:			
Cash and cash equivalents	\$ 732,899	\$ 102,669	\$ 348,844
Accounts receivable (net of allowance)	599,677	71,526	143,357
Interfund receivables	36,590	-	200,407
Accrued revenue	698,116	65,321	117,546
Inventories	555,662	63,907	-
Prepaid items	27,656	18,641	19,267
	<u>2,650,600</u>	<u>322,064</u>	<u>829,421</u>
Total current assets			
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	972,939	46,673	278,655
Bond and interest cash and investments	41,247	56,638	298,996
Debt service reserve cash and investments	309,288	66,430	440,233
Contractor retainage	18,355	-	-
Customer deposits	107,315	52,530	66,250
I&M true up	205,623	-	-
	<u>1,654,767</u>	<u>222,271</u>	<u>1,084,134</u>
Total restricted assets			
Deferred charges	117,646	40,315	111,034
	<u>117,646</u>	<u>40,315</u>	<u>111,034</u>
Capital assets:			
Land, improvements to land and construction in progress	1,945,076	79,223	267,016
Other capital assets (net of accumulated depreciation)	5,912,534	4,071,080	8,674,193
	<u>7,857,610</u>	<u>4,150,303</u>	<u>8,941,209</u>
Total capital assets			
Total noncurrent assets			
	<u>9,630,023</u>	<u>4,412,889</u>	<u>10,136,377</u>
Total assets	<u>12,280,623</u>	<u>4,734,953</u>	<u>10,965,798</u>
Liabilities			
Current liabilities:			
Accounts payable	720,072	34,668	81,510
Accrued wages payable	9,220	6,351	6,552
Interfund payables	-	180,000	-
Retainage payable	18,355	-	-
Taxes payable	31,183	4,239	-
Compensated absences	10,143	6,188	15,583
Current liabilities payable from restricted assets:			
Customer deposits	107,315	52,530	66,250
Revenue bonds payable	-	30,000	230,000
Accrued interest payable	-	15,970	-
	<u>896,288</u>	<u>329,946</u>	<u>399,895</u>
Total current liabilities			
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts)	3,250,000	660,000	3,796,367
	<u>3,250,000</u>	<u>660,000</u>	<u>3,796,367</u>
Total liabilities			
	<u>4,146,288</u>	<u>989,946</u>	<u>4,196,262</u>
Net Assets			
Invested in capital assets, net of related debt	4,607,610	3,280,303	4,914,842
Restricted for debt service	350,535	123,068	739,229
Restricted for other purposes	1,196,917	46,673	278,655
Unrestricted	1,979,273	294,963	836,810
	<u>8,134,335</u>	<u>3,745,007</u>	<u>6,769,536</u>
Total net assets	<u>\$ 8,134,335</u>	<u>\$ 3,745,007</u>	<u>\$ 6,769,536</u>

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, 2010

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Operating revenues:			
Metered revenue	\$ 6,869,795	\$ -	\$ -
Fire protection revenue	-	43,360	-
Penalties	26,748	5,549	30,569
Measured revenue	-	645,824	1,382,202
Other	<u>10,786</u>	<u>7,660</u>	<u>6,906</u>
 Total operating revenues	 <u>6,907,329</u>	 <u>702,393</u>	 <u>1,419,677</u>
Operating expenses:			
Transmission and distribution	412,242	217,820	-
Collection system - operations and maintenance	-	-	76,547
Pumping - operations and maintenance	-	-	455,317
Treatment and disposal - operations and maintenance	-	224,683	10,111
Customer accounts	62,930	35,828	33,415
Administration and general	708,713	297,048	565,795
Purchased power	5,984,097	-	-
Bad debt expense	9,400	2,106	6,865
Depreciation	<u>518,706</u>	<u>100,493</u>	<u>414,262</u>
 Total operating expenses	 <u>7,696,088</u>	 <u>877,978</u>	 <u>1,562,312</u>
 Operating loss	 <u>(788,759)</u>	 <u>(175,585)</u>	 <u>(142,635)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	3,516	519	6,869
Miscellaneous revenue	26,563	-	3,348
Sale of assets	423,000	-	-
Interest expense	(142,598)	(34,790)	(176,540)
Amortization of bond issue costs	<u>(8,403)</u>	<u>(2,519)</u>	<u>(8,883)</u>
 Total nonoperating revenues (expenses)	 <u>302,078</u>	 <u>(36,790)</u>	 <u>(175,206)</u>
 Loss before contributions and transfers	 <u>(486,681)</u>	 <u>(212,375)</u>	 <u>(317,841)</u>
Capital contributions	1,938	508,503	140,831
Transfers out	<u>-</u>	<u>(5,266)</u>	<u>(75,000)</u>
 Change in net assets	 <u>(484,743)</u>	 <u>290,862</u>	 <u>(252,010)</u>
Total net assets - beginning	<u>8,619,078</u>	<u>3,454,145</u>	<u>7,021,546</u>
Total net assets - ending	<u>\$ 8,134,335</u>	<u>\$ 3,745,007</u>	<u>\$ 6,769,536</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, 2010

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 6,915,092	\$ 706,756	\$ 1,440,313
Payments to suppliers and contractors	(6,838,290)	(466,473)	(776,392)
Payments to employees	(467,349)	(300,748)	(339,755)
Other receipts	<u>26,563</u>	<u>-</u>	<u>3,348</u>
Net cash provided (used) by operating activities	<u>(363,984)</u>	<u>(60,465)</u>	<u>327,514</u>
Cash flows from noncapital financing activities:			
Transfer to other funds	-	(5,266)	(75,000)
Interfund loans	<u>-</u>	<u>-</u>	<u>19,445</u>
Net cash used by noncapital financing activities	<u>-</u>	<u>(5,266)</u>	<u>(55,555)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(1,318,974)	(200,086)	(292,466)
Principal paid on capital debt	(150,000)	-	(220,000)
Interest paid on capital debt	(142,598)	(18,820)	(174,249)
Proceeds from sales of capital assets	<u>423,000</u>	<u>-</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(1,188,572)</u>	<u>(218,906)</u>	<u>(686,715)</u>
Cash flows from investing activities:			
Interest received	<u>3,516</u>	<u>519</u>	<u>6,869</u>
Net decrease in cash and cash equivalents	(1,549,040)	(284,118)	(407,887)
Cash and cash equivalents, January 1	<u>3,936,706</u>	<u>609,058</u>	<u>1,840,865</u>
Cash and cash equivalents, December 31	<u>\$ 2,387,666</u>	<u>\$ 324,940</u>	<u>\$ 1,432,978</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating loss	<u>\$ (788,759)</u>	<u>\$ (175,585)</u>	<u>\$ (142,635)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	518,706	100,493	414,262
Nonoperating revenues	26,563	-	3,348
(Increase) decrease in assets:			
Accounts receivable	57,924	5,752	14,134
Interfund receivable	(34,652)	-	-
Accrued revenue	(50,161)	(1,389)	6,502
Inventories	(58,924)	-	-
Prepaid items	(10,561)	(7,922)	(7,475)
Increase (decrease) in liabilities:			
Accounts payable	1,935	23,284	49,190
Wages payable	(15,305)	(8,779)	(11,800)
Taxes payable	(6,298)	71	-
Compensated absence payable	2,108	-	(1)
Customer deposits	<u>(6,560)</u>	<u>3,610</u>	<u>1,989</u>
Total adjustments	<u>424,775</u>	<u>115,120</u>	<u>470,149</u>
Net cash provided (used) by operating activities	<u>\$ (363,984)</u>	<u>\$ (60,465)</u>	<u>\$ 327,514</u>
Noncash investing, capital and financing activities:			
Contributions of capital assets from government	\$ -	\$ 508,503	\$ 140,831
Purchase of equipment on account	124,248	-	-

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 activities 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utilities' policies are to use restricted resources first, then unrestricted resources as they are needed.

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.

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

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.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets balance sheet because they are maintained in separate accounts and their use is limited by applicable bond covenants.

The financial statements report \$1,547,452, \$169,741, and \$1,017,884 in restricted net assets in the Electric, Water, and Wastewater, respectively, of which \$205,623 in the Electric is restricted by enabling legislation.

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%
Improvements 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
Improvements 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

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

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

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

5. Compensated Absences

Utilities' employees earn paid time off (PTO) at rates from 14 days to 29 days per year based upon the number of years of service. Up to 20 days of unused PTO at year end can be banked in Paid Leave Bank (PLB). Any unused days over 20 at year end are lost. Employees who terminate/retire are paid up to 20 days of unused PTO/PLB at their normal rate of compensation.

Unused PTO up to 20 days is accrued when incurred.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2010, the Electric, Water, and Wastewater Utilities had deposit balances in the amount of \$2,387,666, \$324,940, and \$1,432,978, respectively.

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, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 203,091	\$ -	\$ -	\$ 203,091
Construction in progress	405,045	1,428,411	91,471	1,741,985
Total capital assets, not being depreciated	608,136	1,428,411	91,471	1,945,076
Capital assets, being depreciated:				
Buildings	54,044	91,471	-	145,515
Improvements other than buildings	12,072,431	4,932	423,000	11,654,363
Machinery and equipment	400,466	28,234	-	428,700
Transportation equipment	440,721	-	-	440,721
Less accumulated depreciation	(6,661,059)	(518,706)	(423,000)	(6,756,765)
Total capital assets, being depreciated, net	6,306,603	(394,069)	-	5,912,534
Total Electric Utility capital assets, net	<u>\$ 6,914,739</u>	<u>\$ 1,034,342</u>	<u>\$ 91,471</u>	<u>\$ 7,857,610</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 37,983	\$ -	\$ -	\$ 37,983
Construction in progress	215,365	41,240	215,365	41,240
Total capital assets, not being depreciated	253,348	41,240	215,365	79,223
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	4,413,228	805,253	-	5,218,481
Machinery and equipment	221,582	77,461	-	299,043
Transportation equipment	99,673	-	-	99,673
Less accumulated depreciation	(1,735,781)	(100,493)	-	(1,836,274)
Total capital assets, being depreciated, net	3,288,859	782,221	-	4,071,080
Total Water Utility capital assets, net	<u>\$ 3,542,207</u>	<u>\$ 823,461</u>	<u>\$ 215,365</u>	<u>\$ 4,150,303</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:				
Capital assets, not being depreciated:				
Land	\$ 43,792	\$ -	\$ -	\$ 43,792
Construction in progress	<u>329,174</u>	<u>222,570</u>	<u>328,520</u>	<u>223,224</u>
 Total capital assets, not being depreciated	 <u>372,966</u>	 <u>222,570</u>	 <u>328,520</u>	 <u>267,016</u>
Capital assets, being depreciated:				
Buildings	1,286,532	-	-	1,286,532
Improvements other than buildings	7,553,544	532,447	-	8,085,991
Machinery and equipment	5,229,518	6,800	-	5,236,318
Transportation equipment	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
 Totals	 <u>14,079,594</u>	 <u>539,247</u>	 <u>-</u>	 <u>14,618,841</u>
Less accumulated depreciation for:				
Buildings	(538,263)	(25,731)	-	(563,994)
Improvements other than buildings	(2,866,716)	(167,609)	-	(3,034,325)
Machinery and equipment	(2,118,739)	(1,666)	-	(2,120,405)
Distribution and collection systems	<u>(6,668)</u>	<u>(219,256)</u>	<u>-</u>	<u>(225,924)</u>
 Totals	 <u>(5,530,386)</u>	 <u>(414,262)</u>	 <u>-</u>	 <u>(5,944,648)</u>
 Total capital assets, being depreciated, net	 <u>8,549,208</u>	 <u>124,985</u>	 <u>-</u>	 <u>8,674,193</u>
 Total Wastewater Utility capital assets, net	 <u>\$ 8,922,174</u>	 <u>\$ 347,555</u>	 <u>\$ 328,520</u>	 <u>\$ 8,941,209</u>

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

	<u>2010</u>
Electric	\$ 518,706
Water	100,493
Wastewater	<u>414,262</u>
 Total depreciation expense	 <u>\$ 1,033,461</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31, 2010</u>	<u>Committed</u>
Electric Utility:		
West substation	\$ 1,678,902	\$ 1,678,902
Electric improvement project	<u>63,083</u>	<u>63,083</u>
 Total for Electric Utility	 <u>\$ 1,741,985</u>	 <u>\$ 1,741,985</u>

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

<u>Project</u>	<u>Expended to December 31, 2010</u>	<u>Committed</u>
Water Utility:		
Water Utility improvement/expansion project	\$ <u>41,240</u>	\$ <u>41,240</u>
Wastewater Utility:		
Wastewater Utility improvement/expansion project	\$ <u>223,224</u>	\$ <u>223,224</u>

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2010, is as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>2010</u>
Wastewater Utility	City - General Fund	\$ 20,407
	Water Utility	180,000
Electric Utility	City - Drainage Grant Fund	<u>36,590</u>
Totals		<u>\$ 236,997</u>

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

2. Interfund Transfers

Interfund transfers at December 31, 2010, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2010</u>
Water Utility	Governmental Fund	\$ 5,266
Wastewater Utility	Governmental Fund	<u>75,000</u>
Totals		<u>\$ 80,266</u>

The Utilities typically use transfers to fund ongoing operating subsidies.

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:

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

Purpose	Interest Rates	Balance at December 31	Less: Unamortized Discount	Amount
2005 Electric Utility improvements and extension	4.0% to 4.4%	\$ 3,250,000	\$ -	\$ 3,250,000
2004 Waterworks improvement	4.25% to 4.85%	690,000	-	690,000
2002A Sewage works wastewater expansion	3.5% to 4.375%	4,055,000	28,633	4,026,367
Totals		<u>\$ 7,995,000</u>	<u>\$ 28,633</u>	<u>\$ 7,966,367</u>

Revenue bonds debt service requirements to maturity are as follows:

	Electric Utility		Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ -	\$ 68,124	\$ 30,000	\$ 31,303	\$ 230,000	\$ 84,912
2012	160,000	133,048	30,000	30,028	240,000	161,199
2013	165,000	126,548	30,000	28,753	250,000	152,079
2014	170,000	119,848	35,000	27,372	260,000	142,329
2015	180,000	112,848	35,000	25,884	275,000	131,929
2016-2020	1,010,000	447,575	205,000	103,859	1,610,000	476,259
2021-2025	1,270,000	208,431	265,000	48,380	1,190,000	106,094
2026-2030	295,000	6,490	60,000	1,455	-	-
Totals	<u>\$ 3,250,000</u>	<u>\$ 1,222,912</u>	<u>\$ 690,000</u>	<u>\$ 297,034</u>	<u>\$ 4,055,000</u>	<u>\$ 1,254,801</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Electric Utility	\$ 3,400,000	\$ -	\$ 150,000	\$ 3,250,000	\$ -
Water Utility	690,000	-	-	690,000	30,000
Wastewater Utility	4,275,000	-	220,000	4,055,000	230,000
Total long-term liabilities	<u>\$ 8,365,000</u>	<u>\$ -</u>	<u>\$ 370,000</u>	<u>\$ 7,995,000</u>	<u>\$ 260,000</u>

F. Restricted Assets

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

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

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Depreciation	\$ 972,939	\$ 46,673	\$ 278,655
Bond and interest	41,247	56,638	298,996
Debt service reserve	309,288	66,430	440,233
Contractor retainage	18,355	-	-
Customer deposits	107,315	52,530	66,250
I&M true up	<u>205,623</u>	<u>-</u>	<u>-</u>
 Total restricted assets	 <u>\$ 1,654,767</u>	 <u>\$ 222,271</u>	 <u>\$ 1,084,134</u>

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; 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.

Workers' Compensation

During 1993, the Utilities joined together with other governmental entities in 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 claims coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Rate Structure

1. 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 17, 2006. The Utility has 3,178 customers.

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

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 2,133 customers.

3. Wastewater Utility

The current rate structure was approved by the City Council on November 19, 2002. The Utility has 2,194 customers.

C. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utility authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3 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

PERF members are required to contribute three percent of their annual covered salary. The Utility is required to contribute at an actuarially determined rate; the current rate is 7.75 percent of annual covered payroll. The contribution requirements of plan members and the Utility are established and may be amended by the PERF Board of Trustees.

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).

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

Annual Pension Cost

For 2010, the City's annual pension cost of \$106,884 for PERF was equal to the City's required and actual contributions.

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	109,960
Interest on net pension obligation		1,116
Adjustment to annual required contribution		(1,272)
Annual pension cost		109,804
Contributions made		98,790
Increase (decrease) in net pension obligation		11,014
Net pension obligation, beginning of year		15,391
Net pension obligation, end of year	\$	26,405
Contribution rates:		
Government		7.75%
Plan members		3%
Actuarial valuation date		07-01-09
Actuarial cost method		Entry age normal cost
Amortization method		Level dollar, closed amortization period
Amortization period		30 years
Amortization period (from date)		07-01-07
Asset valuation method		75% of expected actuarial value plus 25% of market value
Actuarial Assumptions		PERF
Investment rate of return		7.25%
Projected future salary increases:		
Total		4.00%
Cost-of-living adjustments		1.50%

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

	Three Year Trend Information			
	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-07	\$ 88,954	69%	\$ (3,569)
	06-30-08	95,592	80%	15,391
	06-30-09	109,804	90%	26,405

Funded Status and Funding Progress for the Above Plan

The funded status of each plan as of July 1, 2009, the most recent actuarial valuation date is as follows:

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
Retirement Plan						
PERF	\$ 1,549,134	\$ 2,094,903	\$ 545,769	74%	\$ 1,496,083	36%

The Schedule of Funding Progress, presented as RSI for the above plans following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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)
07-01-07	\$ 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%)
07-01-09	1,549,134	2,094,903	(545,769)	74%	1,496,083	(36%)

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

The contents of this report were discussed on April 26, 2011, with Jennie L. DePaolo, Clerk-Treasurer. Our audit disclosed no material items that warrant comment at this time.