

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

EXAMINATION REPORT
OF
CITY OF DECATUR MUNICIPAL UTILITIES
ADAMS COUNTY, INDIANA
January 1, 2010 to December 31, 2010



FILED
11/22/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Phyllis J. Whitright	01-01-08 to 12-31-11
Mayor	John L. Schultz	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	John L. Schultz	01-01-08 to 12-31-11
President of the Common Council	John L. Schultz	01-01-08 to 12-31-11
Superintendent of Water Utility	James E. Inskeep, Jr.	01-01-10 to 12-31-11
Superintendent of Wastewater Utility	Anne L. Butcher	01-01-10 to 12-31-11
Manager of Storm Water Utility	Joan A. Eichhorn	01-01-10 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF DECATUR MUNICIPAL
UTILITIES, ADAMS COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the City of Decatur Municipal Utilities (Utilities), departments of the City of Decatur, as of and for the year ended December 31, 2010. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

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

As discussed in Note I, the financial statements of the Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Decatur 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 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 examine the information and express no opinion on it.

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

STATE BOARD OF ACCOUNTS

October 6, 2011

CITY OF DECATUR MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2010

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Current assets:			
Cash and cash equivalents	\$ 461,933	\$ 449,975	\$ 276,178
Interest receivable	321	470	148
Accounts receivable (net of allowance)	120,912	182,292	18,794
Accounts receivable - other	2,176	9,778	-
Inventories	69,603	-	-
Total current assets	<u>654,945</u>	<u>642,515</u>	<u>295,120</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	-	64,424	-
Bond and interest cash and investments	3,802	564,198	-
Construction cash and investments	-	126,521	-
Debt service reserve cash and investments	56,214	754,230	-
Total restricted assets	<u>60,016</u>	<u>1,509,373</u>	<u>-</u>
Deferred charges	<u>70,964</u>	<u>134,180</u>	<u>-</u>
Capital assets:			
Land and improvements to land	179,724	15,800	-
Other capital assets (net of accumulated depreciation)	<u>4,978,942</u>	<u>24,835,359</u>	<u>149,454</u>
Total capital assets	<u>5,158,666</u>	<u>24,851,159</u>	<u>149,454</u>
Total noncurrent assets	<u>5,289,646</u>	<u>26,494,712</u>	<u>149,454</u>
Total assets	<u>5,944,591</u>	<u>27,137,227</u>	<u>444,574</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	30,728	13,899	3,184
Taxes payable	11,655	-	-
Wages payable	11,696	13,031	2,247
Current liabilities payable from restricted assets:			
Revenue bonds payable	35,000	-	-
Loans payable	-	596,000	-
Accrued interest payable	-	262,851	-
Total current liabilities	<u>89,079</u>	<u>885,781</u>	<u>5,431</u>
Noncurrent liabilities:			
Revenue bonds payable	1,690,000	-	-
Loans payable	-	12,980,000	-
Compensated absences	<u>16,717</u>	<u>22,369</u>	<u>1,073</u>
Total noncurrent liabilities	<u>1,706,717</u>	<u>13,002,369</u>	<u>1,073</u>
Total liabilities	<u>1,795,796</u>	<u>13,888,150</u>	<u>6,504</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	3,433,666	11,275,159	149,454
Restricted for debt service	60,016	1,318,428	-
Restricted for construction	-	126,521	-
Restricted for other purposes	-	64,424	-
Unrestricted	<u>655,113</u>	<u>464,545</u>	<u>288,616</u>
Total net assets	<u>\$ 4,148,795</u>	<u>\$ 13,249,077</u>	<u>\$ 438,070</u>

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

CITY OF DECATUR MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2010

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Operating revenues:			
Measured revenue:			
Residential, commercial and industrial	\$ 1,405,528	\$ 1,972,587	\$ -
Fire protection revenue	172,282	-	-
Penalties	9,228	37,258	1,757
Flat rate revenues	-	-	205,648
Other	<u>37,572</u>	<u>50,506</u>	<u>1,258</u>
Total operating revenues	<u>1,624,610</u>	<u>2,060,351</u>	<u>208,663</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	27,522	-	-
Transmission and distribution	340,684	-	-
Water - operations and maintenance	474,499	-	-
Collection system - operations and maintenance	-	86,562	-
Treatment and disposal - operations and maintenance	-	623,570	-
Operations and maintenance	-	-	98,904
Customer accounts	119,106	95,772	31,892
Administration and general	161,676	166,029	36,694
Depreciation	<u>219,866</u>	<u>954,350</u>	<u>19,403</u>
Total operating expenses	<u>1,343,353</u>	<u>1,926,283</u>	<u>186,893</u>
Operating income	<u>281,257</u>	<u>134,068</u>	<u>21,770</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	2,459	6,091	1,719
Miscellaneous revenue	10,145	-	-
Interest expense	(77,294)	(531,199)	-
Miscellaneous expense	<u>(4,367)</u>	<u>(9,195)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(69,057)</u>	<u>(534,303)</u>	<u>1,719</u>
Change in net assets	212,200	(400,235)	23,489
Total net assets - beginning	<u>3,936,595</u>	<u>13,649,312</u>	<u>414,581</u>
Total net assets - ending	<u>\$ 4,148,795</u>	<u>\$ 13,249,077</u>	<u>\$ 438,070</u>

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

CITY OF DECATUR MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2010

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,594,471	\$ 2,070,540	\$ 211,068
Payments to suppliers and contractors	(579,056)	(439,911)	(61,868)
Payments to employees	(573,805)	(541,685)	(107,459)
Net cash provided by operating activities	<u>441,610</u>	<u>1,088,944</u>	<u>41,741</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(29,067)	(54,832)	(31,849)
Principal paid on capital debt	(70,000)	(288,000)	-
Interest paid on capital debt	(77,294)	(268,348)	-
Net cash used by capital and related financing activities	<u>(176,361)</u>	<u>(611,180)</u>	<u>(31,849)</u>
Cash flows from investing activities:			
Interest received	<u>2,321</u>	<u>5,984</u>	<u>1,697</u>
Net increase in cash and cash equivalents	267,570	483,748	11,589
Cash and cash equivalents, January 1	<u>254,379</u>	<u>1,475,600</u>	<u>264,589</u>
Cash and cash equivalents, December 31	<u>\$ 521,949</u>	<u>\$ 1,959,348</u>	<u>\$ 276,178</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 281,257</u>	<u>\$ 134,068</u>	<u>\$ 21,770</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	219,866	954,350	19,403
(Increase) decrease in assets:			
Accounts receivable	(32,541)	16,413	2,405
Accounts receivable - other	2,402	(6,224)	-
Inventories	(16,247)	-	-
Increase (decrease) in liabilities:			
Accounts payable	(9,801)	(8,508)	(1,501)
Taxes payable	2,951	-	-
Wages payable	(1,069)	200	(40)
Compensated absence payable	(5,208)	(1,355)	(296)
Total adjustments	<u>160,353</u>	<u>954,876</u>	<u>19,971</u>
Net cash provided by operating activities	<u>\$ 441,610</u>	<u>\$ 1,088,944</u>	<u>\$ 41,741</u>

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

CITY OF DECATUR MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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' policy is 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.

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.

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

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

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

2. Inventories

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

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

The financial statements report \$1,569,389 of restricted net assets, all of which 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
Buildings	\$ 500	Straight-line	50 years
Improvements other than buildings	500	Straight-line	10 to 100 years
Machinery and equipment	500	Straight-line	5 to 20 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.

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

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of one day per month. Unused sick leave may be accumulated to a maximum of 200 days. A percentage of accumulated sick leave, based upon the number of years of service, is paid to employees through cash payments upon termination.
- b. Vacation Leave – Utility employees earn vacation leave at rates from five days to twenty days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

Sick leave is accrued when incurred.

No liability is reported for vacation leave.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

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 Utilities had deposit balances in the amount of \$2,757,475.

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.

CITY OF DECATUR MUNICIPAL UTILITIES
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
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 179,724	\$ -	\$ -	\$ 179,724
Capital assets, being depreciated:				
Buildings	425,587	-	-	425,587
Improvements other than buildings	5,920,660	-	-	5,920,660
Machinery and equipment	1,585,859	101,292	76,800	1,610,351
Totals	<u>7,932,106</u>	<u>101,292</u>	<u>76,800</u>	<u>7,956,598</u>
Less accumulated depreciation for:				
Buildings	298,927	9,117	-	308,044
Improvements other than buildings	1,649,757	129,304	-	1,779,061
Machinery and equipment	823,826	81,445	14,720	890,551
Totals	<u>2,772,510</u>	<u>219,866</u>	<u>14,720</u>	<u>2,977,656</u>
Total capital assets, being depreciated, net	<u>5,159,596</u>	<u>(118,574)</u>	<u>62,080</u>	<u>4,978,942</u>
Total capital assets, net	<u>\$ 5,339,320</u>	<u>\$ (118,574)</u>	<u>\$ 62,080</u>	<u>\$ 5,158,666</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 15,800	\$ -	\$ -	\$ 15,800
Capital assets, being depreciated:				
Buildings	10,744,714	5,943	-	10,750,657
Improvements other than buildings	15,390,665	-	-	15,390,665
Machinery and equipment	7,901,456	48,890	22,400	7,927,946
Totals	<u>34,036,835</u>	<u>54,833</u>	<u>22,400</u>	<u>34,069,268</u>
Less accumulated depreciation for:				
Buildings	2,561,868	330,326	-	2,892,194
Improvements other than buildings	2,405,615	157,178	-	2,562,793
Machinery and equipment	3,334,130	466,846	22,054	3,778,922
Totals	<u>8,301,613</u>	<u>954,350</u>	<u>22,054</u>	<u>9,233,909</u>
Total capital assets, being depreciated, net	<u>25,735,222</u>	<u>(899,517)</u>	<u>346</u>	<u>24,835,359</u>
Total capital assets, net	<u>\$ 25,751,022</u>	<u>\$ (899,517)</u>	<u>\$ 346</u>	<u>\$ 24,851,159</u>

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

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

Water	\$ 219,866
Wastewater	954,350
Storm Water	<u>19,403</u>
 Total depreciation expense	 <u><u>\$ 1,193,619</u></u>

C. 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
2007 Water tower construction and renovation	4.25% to 4.50%	<u><u>\$ 1,725,000</u></u>

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility	
	Principal	Interest
2011	\$ 35,000	\$ 37,531
2012	70,000	72,831
2013	75,000	69,856
2014	80,000	66,563
2015	80,000	63,163
2016-2020	465,000	260,350
2021-2025	580,000	150,096
2026-2028	<u>340,000</u>	<u>23,287</u>
Totals	<u><u>\$ 1,725,000</u></u>	<u><u>\$ 743,677</u></u>

2. Loans Payable

The Wastewater Utility has entered into two State Revolving Fund Loans. Under the terms of the 2004 State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank. The proceeds were used to finance the separation of sewer lines for the Wastewater Utility. Funds were loaned to the Utility as construction costs were accrued to the maximum amount. The 2004 loan established a maximum draw of \$5,910,000, of which \$4,758,000 is still outstanding.

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

Under the terms of the 2008 State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank. The proceeds were used to finance treatment plant improvements, separation of sewer lines, and sanitary sewer system rehabilitation projects. The principal of \$9,276,000 was loaned to the Utility at the inception of the agreement, of which \$8,818,000 is still outstanding.

Annual debt service requirements to maturity for the loans, including interest of \$1,283,574 and \$3,887,538, respectively, are as follows:

	Principal	Interest
2011	\$ 596,000	\$ 520,030
2012	619,000	497,081
2013	643,000	473,209
2014	668,000	448,416
2015	694,000	422,647
2016-2020	3,889,000	1,690,791
2021-2025	4,018,000	891,726
2026-2029	2,449,000	227,212
 Totals	 \$ 13,576,000	 \$ 5,171,112

3. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 1,795,000	\$ -	\$ 70,000	\$ 1,725,000	\$ 35,000
State revolving fund loans:					
Wastewater Utility	13,864,000	-	288,000	13,576,000	596,000
Compensated absences:					
Water Utility	21,925	-	5,208	16,717	-
Wastewater Utility	23,724	-	1,355	22,369	-
Storm Water Utility	1,369	-	296	1,073	-
Total compensated absences	47,018	-	6,859	40,159	-
Total long-term liabilities	\$ 15,706,018	\$ -	\$ 364,859	\$ 15,341,159	\$ 631,000

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

D. Restricted Assets

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

Depreciation	\$	64,424
Revenue bond and interest		568,000
Revenue bond debt service reserve		810,444
Revenue bond construction		<u>126,521</u>
 Total restricted assets	 \$	 <u>1,569,389</u>

E. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future operating revenues, net of specified operating expenditures, to repay revenue bonds issued in 2007. Proceeds from the bonds provided financing for water tower construction and renovation. The bonds are payable solely from net operating revenues and are payable through 2028. Annual principal and interest payments are expected to require less than 9 percent of net operating revenues.

Wastewater Utility Revenues Pledged

The Utility has pledged future operating revenues, net of specified operating expenditures, to repay State Revolving Fund loans issued in 2004 and 2008. Proceeds from the loans provided financing for sewer line separation. The loans are payable solely from net operating revenues and are payable through 2029. Annual principal and interest payments are expected to require less than 54 percent of net operating revenues.

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. There were no significant reductions in insurance by major category of risk.

Job Related Illnesses or Injuries to Employees

During 2001, the Utilities joined the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 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 job related illnesses or injuries to

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

employees. The Utilities pay an annual premium to the risk pool for its job related illnesses or injuries to employees 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. Water Utility

The current rate structure was approved by the Common Council on December 15, 2009. The Utility has 4,311 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on June 3, 2008. The Utility has 4,406 customers.

3. Storm Water Utility

The current rate structure was approved by the Common Council on July 20, 2004. The Utility has 4,064 customers.

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

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

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

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

Funding Policy

PERF members are required to contribute three percent of their annual covered salary. The Utilities are required to contribute at an actuarially determined rate; the current rate is 9.25 percent of annual covered payroll. The contribution requirements of plan members and the Utilities 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.

Annual Pension Cost

For 2010, the Utilities' annual pension cost of \$71,429 for PERF was equal to the Utilities' required and actual contributions.

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	152,747
Interest on net pension obligation		(1,848)
Adjustment to annual required contribution		2,106
Annual pension cost		153,005
Contributions made		153,256
Decrease in net pension obligation		(251)
Net pension obligation, beginning of year		(25,491)
Net pension obligation, end of year	\$	(25,742)
Contribution rates:		
Utilities		9.25%
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

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

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	4.00%
Cost-of-living adjustments	1.50%

Three Year Trend Information				
	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-07	\$ 124,757	86%	\$ (54,358)
	06-30-08	141,967	80%	(25,491)
	06-30-09	153,005	100%	(25,742)

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of June 30, 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)
PERF	\$ 2,493,305	\$ 3,418,421	\$ (925,116)	73%	\$ 2,004,181	(46%)

The Schedule of Funding Progress, presented as RSI for the above plan 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.

CITY OF DECATUR MUNICIPAL UTILITIES
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-07	\$ 2,040,201	\$ 2,706,821	\$ (666,620)	75%	\$ 1,596,762	(42%)
07-01-08	2,312,613	3,030,644	(718,031)	76%	1,651,314	(43%)
07-01-09	2,493,305	3,418,421	(925,116)	73%	2,004,181	(46%)

CITY OF DECATUR MUNICIPAL UTILITIES
EXAMINATION RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property. A similar comment appeared in prior Report B37018.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May."

ACCOUNTS RECEIVABLE

Accounts receivable, as reported in the general ledger at December 31, 2010, did not agree with the aged trial balance report on the same date.

Utility	General Ledger	Aged Trial Balance
Water	\$ 145,911	\$ 137,257
Wastewater	202,292	207,714
Storm Water	18,794	17,690

CITY OF DECATUR MUNICIPAL UTILITIES
EXAMINATION RESULTS AND COMMENTS
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

LOST WATER

During 2010, the Water Utility reported a total of 729,629,900 gallons of water pumped from the wells to the plants. Of this amount, 375,841,224 gallons, representing 52 percent of the total gallons pumped, was either being used at the plants or was unaccounted for (not billed to users). This unaccounted for water results in a loss of revenue to the utility and should be investigated to determine any leaks, faulty meters or unauthorized use of water. A similar comment appeared in prior Report B37018.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF DECATUR MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on October 6, 2011, with Phyllis J. Whitright, Clerk-Treasurer; John L. Schultz, Mayor; and Daniel L. Rickord, Utilities Auditor. The officials concurred with our examination findings.