

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

EXAMINATION REPORT  
OF

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

January 1, 2011 to December 31, 2011



**FILED**  
04/23/2012



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jennie L. DePaolo Marcie L. Conkle	01-01-08 to 12-31-11 01-01-12 to 12-31-15
Mayor	David Wiant Tonya Hoeffel	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Board of Public Works and Safety	David Wiant Tonya Hoeffel	01-01-11 to 12-31-11 01-01-12 to 12-31-12
President of the Common Council	David Wiant Tonya Hoeffel	01-01-11 to 12-31-11 01-01-12 to 12-31-12
Supervisor of Water Utility	Pat Kleeman	01-01-11 to 12-31-12
Supervisor of Wastewater Utility	Bruce Schlosser	01-01-11 to 12-31-12
Supervisor of Electric Utility	Michael Steward	01-01-11 to 12-31-12



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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Water, Wastewater, and Electric Utilities, departments of the City of Garrett, as of and for the year ended December 31, 2011. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

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

As discussed in Note I, the financial statements of the Water, Wastewater, and Electric Utilities, 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, 2011, 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, Wastewater, and Electric Utilities, as of December 31, 2011, 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 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.

The Water, Wastewater, and Electric 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

March 27, 2012

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF GARRETT  
STATEMENT OF NET ASSETS  
December 31, 2011

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 113,575	\$ 184,106	\$ 600,391
Accounts receivable (net of allowance)	84,614	140,780	630,189
Interfund receivables	-	180,000	-
Accrued revenue	71,643	120,771	636,029
Inventories	63,907	-	531,456
Prepaid items	5,955	7,425	6,009
	<u>339,694</u>	<u>633,082</u>	<u>2,404,074</u>
<b>Total current assets</b>			
<b>Noncurrent assets:</b>			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	10,682	226,229	600,691
Bond and interest cash and investments	56,132	436,628	271,715
Debt service reserve cash and investments	66,155	438,375	307,980
Construction cash and investments	-	-	20,500
Customer deposits	56,290	65,900	109,195
I&M true up	-	-	167,410
	<u>189,259</u>	<u>1,167,132</u>	<u>1,477,491</u>
<b>Total restricted assets</b>	<u>189,259</u>	<u>1,167,132</u>	<u>1,477,491</u>
Deferred charges	<u>37,796</u>	<u>102,151</u>	<u>109,243</u>
<b>Capital assets:</b>			
Land, improvements to land and construction in progress	37,983	43,792	203,091
Other capital assets (net of accumulated depreciation)	<u>3,994,173</u>	<u>9,228,067</u>	<u>7,495,940</u>
<b>Total capital assets</b>	<u>4,032,156</u>	<u>9,271,859</u>	<u>7,699,031</u>
<b>Total noncurrent assets</b>	<u>4,259,211</u>	<u>10,541,142</u>	<u>9,285,765</u>
<b>Total assets</b>	<u>4,598,905</u>	<u>11,174,224</u>	<u>11,689,839</u>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	31,687	40,770	548,152
Accrued wages payable	5,720	6,167	9,064
Interfund payables	180,000	-	-
Taxes payable	5,180	-	37,516
Compensated absences	6,188	15,583	10,143
Current liabilities payable from restricted assets:			
Customer deposits	56,290	65,900	109,195
Revenue bonds payable	30,000	240,000	160,000
Accrued interest payable	<u>15,333</u>	<u>80,599</u>	<u>68,124</u>
<b>Total current liabilities</b>	<u>330,398</u>	<u>449,019</u>	<u>942,194</u>
<b>Noncurrent liabilities:</b>			
Revenue bonds payable (net of unamortized discounts)	<u>630,000</u>	<u>3,558,658</u>	<u>3,090,000</u>
<b>Total liabilities</b>	<u>960,398</u>	<u>4,007,677</u>	<u>4,032,194</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	3,192,156	5,473,201	4,449,031
Restricted for debt service	106,954	794,404	511,571
Restricted for other purposes	10,682	226,229	788,601
Unrestricted	<u>328,715</u>	<u>672,713</u>	<u>1,908,442</u>
<b>Total net assets</b>	<u>\$ 3,638,507</u>	<u>\$ 7,166,547</u>	<u>\$ 7,657,645</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF GARRETT  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2011

	Water Utility	Wastewater Utility	Electric Utility
Operating revenues:			
Metered revenue	\$ -	\$ -	\$ 7,022,767
Fire protection revenue	47,301	-	-
Penalties	6,533	30,847	28,270
Measured revenue	817,615	1,392,389	-
Other	8,209	5,003	15,975
	<u>879,658</u>	<u>1,428,239</u>	<u>7,067,012</u>
Total operating revenues			
Operating expenses:			
Transmission and distribution	220,626	-	393,221
Pumping - operations and maintenance	-	351,947	-
Treatment and disposal - operations and maintenance	251,184	7,279	-
Customer accounts	38,051	38,051	64,844
Administration and general	320,649	647,738	716,938
Purchased power	-	-	5,827,102
Bad debt expense	2,588	2,427	20,170
Depreciation	118,147	424,814	506,772
	<u>951,245</u>	<u>1,472,256</u>	<u>7,529,047</u>
Total operating expenses			
Operating loss	<u>(71,587)</u>	<u>(44,017)</u>	<u>(462,035)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	560	6,211	3,035
Miscellaneous revenue	-	11,802	127,310
Interest expense	(32,954)	(168,102)	(136,597)
Amortization of bond issue costs	(2,519)	(8,883)	(8,403)
	<u>(34,913)</u>	<u>(158,972)</u>	<u>(14,655)</u>
Total nonoperating revenues (expenses)			
Loss before contributions and transfers	(106,500)	(202,989)	(476,690)
Capital contributions	-	600,000	-
Change in net assets	(106,500)	397,011	(476,690)
Total net assets - beginning	<u>3,745,007</u>	<u>6,769,536</u>	<u>8,134,335</u>
Total net assets - ending	<u>\$ 3,638,507</u>	<u>\$ 7,166,547</u>	<u>\$ 7,657,645</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF GARRETT  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2011

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 860,248	\$ 1,427,591	\$ 7,098,587
Payments to suppliers and contractors	(525,325)	(768,781)	(6,552,332)
Payments to employees	(293,998)	(308,294)	(463,705)
Other receipts	<u>-</u>	<u>11,802</u>	<u>127,310</u>
Net cash provided by operating activities	<u>40,925</u>	<u>362,318</u>	<u>209,860</u>
Cash flows from noncapital financing activities:			
Interfund loans	<u>-</u>	<u>20,407</u>	<u>36,590</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	-	(155,464)	(490,796)
Principal paid on capital debt	(30,000)	(230,000)	-
Interest paid on capital debt	<u>(33,591)</u>	<u>(85,212)</u>	<u>(68,473)</u>
Net cash used by capital and related financing activities	<u>(63,591)</u>	<u>(470,676)</u>	<u>(559,269)</u>
Cash flows from investing activities:			
Interest received	<u>560</u>	<u>6,211</u>	<u>3,035</u>
Net decrease in cash and cash equivalents	(22,106)	(81,740)	(309,784)
Cash and cash equivalents, January 1	<u>324,940</u>	<u>1,432,978</u>	<u>2,387,666</u>
Cash and cash equivalents, December 31	<u>\$ 302,834</u>	<u>\$ 1,351,238</u>	<u>\$ 2,077,882</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating loss	<u>\$ (71,587)</u>	<u>\$ (44,017)</u>	<u>\$ (462,035)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	118,147	424,814	506,772
Nonoperating revenues	-	11,802	127,310
(Increase) decrease in assets:			
Accounts receivable	(13,088)	2,577	(30,512)
Accrued revenue	(6,322)	(3,225)	62,087
Inventories	-	-	24,206
Prepaid items	12,686	11,842	21,647
Increase (decrease) in liabilities:			
Accounts payable	(2,981)	(40,740)	(47,672)
Wages payable	(631)	(385)	(156)
Taxes payable	941	-	6,333
Customer deposits	<u>3,760</u>	<u>(350)</u>	<u>1,880</u>
Total adjustments	<u>112,512</u>	<u>406,335</u>	<u>671,895</u>
Net cash provided by operating activities	<u>\$ 40,925</u>	<u>\$ 362,318</u>	<u>\$ 209,860</u>
Noncash investing, capital and financing activities:			
Contributions of capital assets from government	\$ -	\$ 600,000	\$ -

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

WATER, WASTEWATER, AND ELECTRIC 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 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 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.

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.

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

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

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

The financial statements report \$117,636, \$1,020,633, and \$1,300,172 of restricted net assets in the Water, Wastewater, and Electric Utilities, respectively, of which \$167,410 in the Electric Utility 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
Water and Electric:			
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

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.

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

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, 2011, the Water, Wastewater, and Electric Utilities had deposit balances in the amount of \$302,834, \$1,351,238, and \$2,077,882, 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.

B. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 37,983	\$ -	\$ -	\$ 37,983
Construction in progress	41,240	-	41,240	-
	<u>79,223</u>	<u>-</u>	<u>41,240</u>	<u>37,983</u>
Total capital assets, not being depreciated				

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility (continued):				
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	5,218,481	41,240	229,439	5,030,282
Machinery and equipment	299,043	-	-	299,043
Transportation equipment	99,673	-	39,169	60,504
Less accumulated depreciation	<u>(1,836,274)</u>	<u>(118,147)</u>	<u>(268,608)</u>	<u>(1,685,813)</u>
Total capital assets, being depreciated, net	<u>4,071,080</u>	<u>(76,907)</u>	<u>-</u>	<u>3,994,173</u>
Total Water Utility capital assets, net	<u>\$ 4,150,303</u>	<u>\$ (76,907)</u>	<u>\$ 41,240</u>	<u>\$ 4,032,156</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 43,792	\$ -	\$ -	\$ 43,792
Construction in progress	<u>223,224</u>	<u>710,549</u>	<u>933,773</u>	<u>-</u>
Total capital assets, not being depreciated	<u>267,016</u>	<u>710,549</u>	<u>933,773</u>	<u>43,792</u>
Capital assets, being depreciated:				
Buildings	1,286,532	-	-	1,286,532
Improvements other than buildings	8,085,991	969,573	-	9,055,564
Machinery and equipment	5,236,318	9,115	-	5,245,433
Distribution and collection systems	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Totals	<u>14,618,841</u>	<u>978,688</u>	<u>-</u>	<u>15,597,529</u>
Less accumulated depreciation for:				
Buildings	(563,994)	(25,731)	-	(589,725)
Improvements other than buildings	(3,034,325)	(178,258)	-	(3,212,583)
Machinery and equipment	(2,120,405)	(219,158)	-	(2,339,563)
Transportation equipment	<u>(225,924)</u>	<u>(1,667)</u>	<u>-</u>	<u>(227,591)</u>
Totals	<u>(5,944,648)</u>	<u>(424,814)</u>	<u>-</u>	<u>(6,369,462)</u>
Total capital assets, being depreciated, net	<u>8,674,193</u>	<u>553,874</u>	<u>-</u>	<u>9,228,067</u>
Total Wastewater Utility capital assets, net	<u>\$ 8,941,209</u>	<u>\$ 1,264,423</u>	<u>\$ 933,773</u>	<u>\$ 9,271,859</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 203,091	\$ -	\$ -	\$ 203,091
Construction in progress	<u>1,741,985</u>	<u>311,838</u>	<u>2,053,823</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,945,076</u>	<u>311,838</u>	<u>2,053,823</u>	<u>203,091</u>
Capital assets, being depreciated:				
Buildings	145,515	-	-	145,515
Improvements other than buildings	11,654,363	2,090,178	-	13,744,541
Machinery and equipment	428,700	-	-	428,700
Transportation equipment	440,721	-	-	440,721
Less accumulated depreciation	<u>(6,756,765)</u>	<u>(506,772)</u>	<u>-</u>	<u>(7,263,537)</u>
Total capital assets, being depreciated, net	<u>5,912,534</u>	<u>1,583,406</u>	<u>-</u>	<u>7,495,940</u>
Total Electric Utility capital assets, net	<u>\$ 7,857,610</u>	<u>\$ 1,895,244</u>	<u>\$ 2,053,823</u>	<u>\$ 7,699,031</u>

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

	<u>2011</u>
Water	\$ 118,147
Wastewater	424,814
Electric	<u>506,772</u>
Total depreciation expense	<u>\$ 1,049,733</u>

C. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2011, is as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>2011</u>
Wastewater Utility	Water Utility	<u>\$ 180,000</u>

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

D. 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:

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

Purpose	Interest Rates	Balance at December 31	Less: Unamortized Discount	Amount
2004 Waterworks improvement	4.25% to 4.85%	\$ 660,000	\$ -	\$ 660,000
2002A Sewage works wastewater expansion	3.8% to 4.375%	3,825,000	26,342	3,798,658
2005 Electric Utility improvements and extension	4.0% to 4.4%	<u>3,250,000</u>	<u>-</u>	<u>3,250,000</u>
Totals		<u>\$ 7,735,000</u>	<u>\$ 26,342</u>	<u>\$ 7,708,658</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility		Electric Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 30,000	\$ 30,028	\$ 240,000	\$ 161,199	\$ 160,000	\$ 133,048
2013	30,000	28,753	250,000	152,079	165,000	126,548
2014	35,000	27,372	260,000	142,329	170,000	119,848
2015	35,000	25,884	275,000	131,929	180,000	112,848
2016	35,000	24,388	290,000	120,929	185,000	105,548
2017-2021	215,000	94,142	1,695,000	407,393	1,055,000	404,912
2022-2026	<u>280,000</u>	<u>35,164</u>	<u>815,000</u>	<u>54,031</u>	<u>1,335,000</u>	<u>152,036</u>
Totals	<u>\$ 660,000</u>	<u>\$ 265,731</u>	<u>\$ 3,825,000</u>	<u>\$ 1,169,889</u>	<u>\$ 3,250,000</u>	<u>\$ 1,154,788</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

2011	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 690,000	\$ -	\$ 30,000	\$ 660,000	\$ 30,000
Wastewater Utility	4,055,000	-	230,000	3,825,000	240,000
Electric Utility	<u>3,250,000</u>	<u>-</u>	<u>-</u>	<u>3,250,000</u>	<u>160,000</u>
Total long-term liabilities	<u>\$ 7,995,000</u>	<u>\$ -</u>	<u>\$ 260,000</u>	<u>\$ 7,735,000</u>	<u>\$ 430,000</u>

E. Restricted Assets

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

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

	Water Utility	Wastewater Utility	Electric Utility
Depreciation	\$ 10,682	\$ 226,229	\$ 600,691
Bond and interest	56,132	436,628	271,715
Debt service reserve	66,155	438,375	307,980
Construction	-	-	20,500
Customer deposits	56,290	65,900	109,195
I&M true up	-	-	167,410
 Total restricted assets	 \$ 189,259	 \$ 1,167,132	 \$ 1,477,491

F. Revenues Pledged

*Water Utility Revenues Pledged*

The Utility has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2004. Proceeds from the bonds provided financing for improvements and extensions to the Waterworks Utility. The bonds are payable solely from water net revenues and are payable through 2026. Annual principal and interest on the bonds are expected to require less than 8 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$925,731. Principal and interest paid for the current year and total net revenues were \$62,954 and \$879,658, respectively.

*Wastewater Utility Revenues Pledged*

The Utility has pledged future wastewater revenues, net of specified operating expenditures, to repay revenue bonds issued in 2002. Proceeds from the bonds provided financing for wastewater expansion. The bonds are payable solely from wastewater net revenues and are payable through 2023. Annual principal and interest on the bonds are expected to require less than 28 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,994,889. Principal and interest paid for the current year and total net revenues were \$398,102 and \$1,428,239, respectively.

*Electric Utility Revenues Pledged*

The Utility has pledged future electric revenues, net of specified operating expenditures, to repay revenue bonds issued in 2005. Proceeds from the bonds provided financing for electric improvements and extensions. The bonds are payable solely from electric net revenues and are payable through 2026. Annual principal and interest on the bonds are expected to require less than 5 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,404,788. Principal and interest paid for the current year and total net revenues were \$136,597 and \$7,067,012, respectively.

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

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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 3 years. There were no significant reductions in insurance by major category of risk.

*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. 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 December 7, 2010. The Utility has 2,144 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on November 19, 2002. The Utility has 2,204 customers.

3. 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 3,191 customers.

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

C. Pension Plan

*Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans*

*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 Indiana Public Retirement System (INPRS) 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 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.

INPRS 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:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy*

PERF members are required to contribute three percent of their annual covered salary. The City and Utilities are required to contribute at an actuarially determined rate; the current rate is 8.75 percent of annual covered payroll. The contribution requirements of plan members and the City and Utilities are established and may be amended by the Board of Trustees of INPRS.

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 is not presented as an asset/liability of the Utility funds.

*Annual Pension Cost*

For 2011, the City's and Utilities' annual pension cost of \$159,993 for PERF was equal to the City's and Utilities' required and actual contributions.

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

*Actuarial Information for the Above Plan*

	PERF
Annual required contribution	\$ 160,428
Interest on net pension obligation	2,877
Adjustment to annual required contribution	(3,312)
Annual pension cost	159,993
Contributions made	122,221
Increase (decrease) in net pension obligation	37,772
Net pension obligation, beginning of year	41,095
Net pension obligation, end of year	\$ 78,867
Contribution rates:	
Government	8.75%
Plan members	3%
Actuarial valuation date	07-01-11
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	4 - year smoothing of gains/losses on market value with 20% corridor
<u>Actuarial Assumptions</u>	PERF
Investment rate of return	7.0%
Projected future salary increases:	
Total	3.25% - 4.5%
Cost-of-living adjustments	1.0%

WATER, WASTEWATER, AND ELECTRIC 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	06-30-09	\$ 109,804	90%		\$ 26,405
	06-30-10	126,669	88%		41,095
	06-30-11	159,993	76%		78,867

*Funded Status and Funding Progress for the Above Plan*

The funded status of each plan as of July 1, 2011, 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	\$ 1,202,266	\$ 2,022,646	\$ (820,380)	59%	\$ 1,496,148	55%

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.

WATER, WASTEWATER, AND ELECTRIC 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)
07-01-09	\$ 1,549,134	\$ 2,094,903	\$ (545,769)	74%	\$ 1,496,083	(37%)
07-01-10	1,531,095	2,352,576	(821,481)	65%	1,509,129	(54%)
07-01-11	1,202,266	2,022,646	(820,380)	59%	1,496,148	(55%)

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF GARRETT  
EXAMINATION RESULTS AND COMMENTS

***PUBLIC WORKS - CHANGE ORDERS***

During the Elias Schopf Drain Project (a project costing \$841,108.27), additional work was completed and a change order of \$14,607.15 was not prepared for this additional work. The change order was discussed at a Board meeting, but not officially approved.

Indiana Code 36-1-12-18 states in part:

"(a) If, in the course of the construction, reconstruction, or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor.

(b) If a licensed architect or engineer is assigned to the public work project, the change order must be prepared by that person . . ."

***INTERFUND RECEIVABLE/PAYABLE***

A Resolution on April 21, 2009, was approved allowing a temporary loan of \$200,000 from the Wastewater Utility to the Water Utility. Per the resolution, the temporary loan is to be repaid according to the amortization schedule attached to the resolution. The principal payment of \$45,000 and interest payment of \$2,250 due January 1, 2011, has not been paid.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

The contents of this report were discussed on March 27, 2012, with Jennie L. DePaolo, former Clerk-Treasurer; Marcie L. Conkle, Clerk-Treasurer; and Tonya Hoeffel, Mayor. The Official Response has been made a part of this report and may be found on page 21.

JENNIE L. DEPAOLO  
GARRETT, INDIANA

April, 2012

TO: INDIANA STATE BOARD OF ACCOUNTS  
INDIANAPOLIS, INDIANA

RE: 2011 Audit Results and Comments

PUBLIC WORKS – CHANGE ORDERS

In a regular public Board meeting, 6/7/2011, consulting project engineer, Mike Kline, Elias Schopf Drain Project, did in fact advise Board members of \$14,607.14 increased cost difference due to required material quantities vs. estimated amount @ bid time. A prepared breakdown of final totals was presented for review (although not an official change order document) and approved by Board motion.

Board had always been advised in advance for engineer preparation of such document; however, as Clerk-Treasurer was attending State meeting and not present, such document was unfortunately not prepared.

INTERFUND RECEIVABLE/PAYABLE

Due to apparent miscommunication between the Clerk-Treasurer and Accounts Payable Clerk, payment was overlooked upon due date, but has since been corrected, and payment authorized by current Clerk-Treasurer, January, 2012.

Jennie L. DePaolo  
Clerk-Treasurer, 1984 thru 12/2011