

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

EXAMINATION REPORT  
OF  
CITY OF BLUFFTON MUNICIPAL UTILITIES  
WELLS COUNTY, INDIANA  
January 1, 2011 to December 31, 2011



**FILED**  
12/27/2012



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## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tamara D. Runyon	01-01-08 to 12-31-15
Mayor	Ted L. Ellis	01-01-08 to 12-31-15
President of the Board of Public Works and Safety	Ted L. Ellis	01-01-08 to 12-31-15
President of the Common Council	James E. Phillabaum	01-01-11 to 12-31-12
Superintendent of Water Utility	Mark K. Baller (Interim)	01-01-11 to 12-31-12
Superintendent of the Wastewater Utility	Robin L. Merchant Mark K. Baller (Interim)	01-01-11 to 06-25-12 06-26-12 to 12-31-12
Superintendent of the Electric Utility	Mark K. Baller (Interim)	01-01-11 to 12-31-12
Utility Operations Manager	Mark K. Baller	01-01-11 to 12-31-12
Utility Office Manager	Roy D. Esmond	01-01-11 to 12-31-12



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF BLUFFTON MUNICIPAL UTILITIES, WELLS COUNTY, INDIANA

We have examined the accompanying financial statements of the Water Utility, Wastewater Utility, and Electric Utility, major enterprise funds and departments of the City of Bluffton (Utilities), 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 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 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 Bluffton 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 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 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

September 12, 2012

CITY OF BLUFFTON MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2011

<u>Assets</u>	Water Utility	Wastewater Utility	Electric Utility
Current assets:			
Cash and cash equivalents	\$ 227,027	\$ 429,992	\$ 2,792,169
Investments	-	-	126,400
Accounts receivable (net of allowance)	76,417	228,912	611,316
Accounts receivable - other	14,330	3,964	15,728
Inventories	175,210	-	1,260,732
Prepaid items	3,154	3,918	4,109
	<u>496,138</u>	<u>666,786</u>	<u>4,810,454</u>
Total current assets			
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	6	-	2,486,220
North Oaks escrow cash and investments	30,879	-	-
Bond and interest cash and investments	-	38,007	-
Debt reserve cash and investments	-	637,532	-
Reserve cash and investments	-	-	58,902
Improvement cash and investments	-	310,028	-
Customer deposits cash and investments	-	-	336,751
Insurance reserve cash and investments	-	-	288,340
	<u>30,885</u>	<u>985,567</u>	<u>3,170,213</u>
Total restricted assets			
Deferred charges	-	45,185	-
Capital assets:			
Land, improvements to land and construction in progress	239,581	661,318	49,116
Other capital assets (net of accumulated depreciation)	3,900,320	7,917,743	7,245,620
	<u>4,139,901</u>	<u>8,579,061</u>	<u>7,294,736</u>
Total capital assets			
Total noncurrent assets			
	<u>4,170,786</u>	<u>9,609,813</u>	<u>10,464,949</u>
Total assets			
	<u>4,666,924</u>	<u>10,276,599</u>	<u>15,275,403</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	7,719	88,482	1,613,458
Wages payable	18,510	23,643	29,994
Taxes payable	5,317	-	38,443
Other payable	30,879	-	-
Deferred credit	-	-	400,000
Current liabilities payable from restricted assets:			
Customer deposits	-	-	336,869
Revenue bonds payable	-	255,000	-
	<u>62,425</u>	<u>367,125</u>	<u>2,418,764</u>
Total current liabilities			
Noncurrent liabilities:			
Revenue bonds payable	-	1,980,000	-
Compensated absences	18,997	16,126	34,825
	<u>18,997</u>	<u>1,996,126</u>	<u>34,825</u>
Total noncurrent liabilities			
Total liabilities			
	<u>81,422</u>	<u>2,363,251</u>	<u>2,453,589</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	4,139,901	6,344,061	7,294,736
Restricted for debt service	-	675,539	-
Restricted for other purposes	30,885	310,028	3,170,213
Unrestricted	414,716	583,720	2,356,865
	<u>\$ 4,585,502</u>	<u>\$ 7,913,348</u>	<u>\$ 12,821,814</u>
Total net assets			

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

CITY OF BLUFFTON MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2011

	Water Utility	Wastewater Utility	Electric Utility
Operating revenues:			
Metered water revenue:			
Residential and commercial	\$ 1,120,188	\$ -	\$ -
Residential sales	-	-	4,006,553
Commercial and industrial sales	-	-	15,410,561
Public street and highway lighting	-	-	215,212
Fire protection revenue	222,579	-	-
Penalties	9,428	63,111	49,566
Flat rate revenues	-	123,310	-
Measured revenue:			
Residential and commercial	-	1,790,986	-
Other	33,196	395,409	83,554
	<u>1,385,391</u>	<u>2,372,816</u>	<u>19,765,446</u>
Total operating revenues	<u>1,385,391</u>	<u>2,372,816</u>	<u>19,765,446</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	88,876	-	-
Water treatment expense - operations and maintenance	385,472	-	-
Transmission and distribution	435,362	-	941,642
Collection system - operations and maintenance	-	369,237	-
Treatment and disposal - operations and maintenance	-	697,378	-
Customer accounts	22,798	18,780	36,423
Administration and general	205,592	442,864	932,152
Purchased power	-	-	18,638,477
Bad debt expense	8,400	7,200	96,000
Depreciation	148,643	269,189	539,713
	<u>1,295,143</u>	<u>1,804,648</u>	<u>21,184,407</u>
Total operating expenses	<u>1,295,143</u>	<u>1,804,648</u>	<u>21,184,407</u>
Operating income (loss)	<u>90,248</u>	<u>568,168</u>	<u>(1,418,961)</u>
Nonoperating revenues (expenses):			
Trash/Recycling revenue	-	645,580	-
Trash/Recycling expense	-	(609,927)	-
Interest and investment revenue	928	5,565	39,984
Miscellaneous revenue	17,405	1,300	73,509
Interest expense	-	(133,250)	(9,225)
Amortization of bond issue costs	-	(11,296)	-
Miscellaneous expense	-	(707)	-
	<u>18,333</u>	<u>(102,735)</u>	<u>104,268</u>
Total nonoperating revenues (expenses)	<u>18,333</u>	<u>(102,735)</u>	<u>104,268</u>
Income (loss) before transfers	108,581	465,433	(1,314,693)
Transfers out	-	-	(90,000)
Change in net assets	108,581	465,433	(1,404,693)
Total net assets - beginning	<u>4,476,921</u>	<u>7,447,915</u>	<u>14,226,507</u>
Total net assets - ending	<u>\$ 4,585,502</u>	<u>\$ 7,913,348</u>	<u>\$ 12,821,814</u>

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

CITY OF BLUFFTON MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2011

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,383,520	\$ 2,381,846	\$ 19,849,414
Payments to suppliers and contractors	(530,008)	(728,130)	(20,281,447)
Payments to employees	(641,059)	(807,087)	(544,419)
Net cash provided (used) by operating activities	<u>212,453</u>	<u>846,629</u>	<u>(976,452)</u>
Cash flows from noncapital financing activities:			
Other receipts	17,405	1,300	73,509
Other expenses	-	(707)	(9,225)
Trash/Recycling receipts	-	645,580	-
Trash/Recycling payments	-	(609,927)	-
Transfers to other funds	-	-	(90,000)
Net cash provided (used) by noncapital financing activities	<u>17,405</u>	<u>36,246</u>	<u>(25,716)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(59,670)	(127,071)	(119,587)
Principal paid on capital debt	-	(485,000)	-
Interest paid on capital debt	-	(133,250)	-
Net cash used by capital and related financing activities	<u>(59,670)</u>	<u>(745,321)</u>	<u>(119,587)</u>
Cash flows from investing activities:			
Interest received	928	5,565	39,984
Net increase (decrease) in cash and cash equivalents	171,116	143,119	(1,081,771)
Cash and cash equivalents, January 1	<u>86,796</u>	<u>634,908</u>	<u>7,044,153</u>
Cash and cash equivalents, December 31	<u>\$ 257,912</u>	<u>\$ 778,027</u>	<u>\$ 5,962,382</u>
Unrestricted cash and cash equivalents	\$ 227,027	\$ 429,992	\$ 2,792,169
Restricted cash and cash equivalents	<u>30,885</u>	<u>348,035</u>	<u>3,170,213</u>
Cash and cash equivalents, December 31	<u>\$ 257,912</u>	<u>\$ 778,027</u>	<u>\$ 5,962,382</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ 90,248</u>	<u>\$ 568,168</u>	<u>\$ (1,418,961)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	148,643	269,189	539,713
Bad debt expense	8,400	7,200	96,000
(Increase) decrease in assets:			
Accounts receivable - customers	1,952	1,830	3,696
Accounts receivable - other	(12,223)	-	(15,728)
Inventories	(15,254)	-	(143,649)
Prepaid items	96	425	288
Increase (decrease) in liabilities:			
Accounts payable	(5,510)	1,167	(33,090)
Wages payable	(4,325)	(2,104)	(707)
Taxes payable	(751)	-	(19,583)
Compensated absences payable	1,177	754	(830)
Customer deposits	-	-	16,399
Total adjustments	<u>122,205</u>	<u>278,461</u>	<u>442,509</u>
Net cash provided (used) by operating activities	<u>\$ 212,453</u>	<u>\$ 846,629</u>	<u>\$ (976,452)</u>
Noncash investing, capital and financing activities:			
Additions to capital assets from inventory	\$ 9,608	\$ -	\$ 174,004
Additions to capital assets from accounts payable	-	18,240	-

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

CITY OF BLUFFTON 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 Bluffton Municipal Utilities (Utilities) and are not intended to present fairly the position of the City of Bluffton (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 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.

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.

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

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

2. Inventories and Prepaid Items

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

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 their use is limited by applicable bond covenants.

The financial statements report restricted net assets of \$30,885; \$985,567; and \$3,170,213 for water, wastewater, and electric, respectively, of which \$675,539 is restricted for wastewater 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Water collection systems	\$ 5,000	Composite rate and straight-line	2% 3 to 5 years
Wastewater distribution and collection systems	5,000	Composite rate and straight-line	2% 3 to 5 years
Electric distribution systems	5,000	Composite rate and straight-line	3% 3 to 5 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 BLUFFTON MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

5. Compensated Absences

- a. Sick Leave – Employees earn sick leave at the rate of 1/2 day per month. Unused sick leave may be accumulated indefinitely. Accumulated sick leave of up to 42 days is paid to employees upon termination at 1/2 of the employee's hourly wage.
- b. Vacation Leave – Employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Employees earn personal leave at the rate of 4 days per year. Personal leave does not accumulate from year to year.

Sick leave is accrued when incurred. No liability is reported for vacation and personal leave.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits and Investments

1. 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 Utilities had deposit balances in the amount of \$7,762,253 (Water Utility \$257,912, Wastewater Utility \$1,415,559, and Electric Utility \$6,088,782).

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.

2. Investments

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Utilities to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

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

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50 percent of the funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Utilities may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Utilities purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utilities do not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Utilities do not have a formal investment policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Utilities do not have a formal investment policy for credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Utilities do not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The Utilities do not have a formal policy in regards to foreign currency risk.

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

B. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 218,616	\$ -	\$ -	\$ 218,616
Construction in progress	<u>20,965</u>	<u>-</u>	<u>-</u>	<u>20,965</u>
Total capital assets, not being depreciated	<u>239,581</u>	<u>-</u>	<u>-</u>	<u>239,581</u>
Capital assets, being depreciated:				
Buildings	365,692	4,919	-	370,611
Improvements other than buildings	6,733,449	34,672	-	6,768,121
Machinery and equipment	333,034	1,510	687	333,857
Transportation equipment	<u>115,447</u>	<u>26,977</u>	<u>4,358</u>	<u>138,066</u>
Totals	<u>7,547,622</u>	<u>68,078</u>	<u>5,045</u>	<u>7,610,655</u>
Less accumulated depreciation for:				
Buildings	(131,732)	(7,314)	-	(139,046)
Improvements other than buildings	(3,219,897)	(134,669)	-	(3,354,566)
Machinery and equipment	(99,660)	(6,660)	(687)	(105,633)
Transportation equipment	<u>(115,448)</u>	<u>-</u>	<u>(4,358)</u>	<u>(111,090)</u>
Totals	<u>(3,566,737)</u>	<u>(148,643)</u>	<u>(5,045)</u>	<u>(3,710,335)</u>
Total capital assets, being depreciated, net	<u>3,980,885</u>	<u>(80,565)</u>	<u>-</u>	<u>3,900,320</u>
Total Water Utility capital assets, net	<u>\$ 4,220,466</u>	<u>\$ (80,565)</u>	<u>\$ -</u>	<u>\$ 4,139,901</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 573,560	\$ -	\$ -	\$ 573,560
Construction in progress	<u>25,622</u>	<u>62,136</u>	<u>-</u>	<u>87,758</u>
Total capital assets, not being depreciated	<u>599,182</u>	<u>62,136</u>	<u>-</u>	<u>661,318</u>
Capital assets, being depreciated:				
Buildings	413,239	4,919	-	418,158
Improvements other than buildings	9,669,594	-	-	9,669,594
Machinery and equipment	3,376,614	78,257	522	3,454,349
Transportation equipment	<u>400,136</u>	<u>-</u>	<u>-</u>	<u>400,136</u>
Totals	<u>13,859,583</u>	<u>83,176</u>	<u>522</u>	<u>13,942,237</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility (continued):				
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	(145,512)	(8,265)	-	(153,777)
Improvements other than buildings	(4,383,933)	(193,392)	-	(4,577,325)
Machinery and equipment	(826,246)	(67,532)	(522)	(893,256)
Transportation equipment	(400,136)	-	-	(400,136)
Totals	(5,755,827)	(269,189)	(522)	(6,024,494)
Total capital assets, being depreciated, net	8,103,756	(186,013)	-	7,917,743
Total Wastewater Utility capital assets, net	\$ 8,702,938	\$ (123,877)	\$ -	\$ 8,579,061
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 49,116	\$ -	\$ -	\$ 49,116
Capital assets, being depreciated:				
Buildings	1,485,510	14,397	3,291	1,496,616
Improvements other than buildings	11,234,433	187,713	98,694	11,323,452
Machinery and equipment	4,023,838	91,480	1,044	4,114,274
Transportation equipment	611,898	475	-	612,373
Totals	17,355,679	294,065	103,029	17,546,715
Less accumulated depreciation for:				
Buildings	(1,024,361)	(44,565)	-	(1,068,926)
Improvements other than buildings	(6,553,065)	(340,645)	(24,258)	(6,869,452)
Machinery and equipment	(1,699,993)	(120,715)	(1,044)	(1,819,664)
Transportation equipment	(509,265)	(33,788)	-	(543,053)
Totals	(9,786,684)	(539,713)	(25,302)	(10,301,095)
Total capital assets, being depreciated, net	7,568,995	(245,648)	77,727	7,245,620
Total Electric Utility capital assets, net	\$ 7,618,111	\$ (245,648)	\$ 77,727	\$ 7,294,736

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

Water Utility	\$ 148,643
Wastewater Utility	269,189
Electric Utility	539,713
Total depreciation expense	\$ 957,545

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

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31,	Committed
Water Utility:		
North Oaks addition	\$ 20,965	\$ 30,879
Wastewater Utility:		
Overflow basin	87,758	1,600,000
Totals	\$ 108,723	\$ 1,630,879

D. Interfund Balances and Activity

Interfund Transfers

Interfund transfers at December 31, 2011, were as follows:

Transfer From	Transfer To	Amount
Electric Utility	General Fund	\$ 90,000

The Utilities typically use Reserve Fund 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:

Purpose	Interest Rates	Amount
1995 Sewage works revenue bonds	5.125%	\$ 1,650,000
1996 Sewage works revenue bonds	5.125%	585,000
Total		\$ 2,235,000

Revenue bonds debt service requirements to maturity are as follows:

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

	Wastewater Utility	
	Principal	Interest
2012	\$ 255,000	\$ 57,272
2013	535,000	94,813
2014	565,000	67,009
2015	605,000	37,541
2016	275,000	7,046
Totals	\$ 2,235,000	\$ 263,681

2. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Compensated absences	\$ 17,820	\$ 1,177	\$ -	\$ 18,997	\$ -
Wastewater Utility:					
Revenue bonds payable	2,720,000	-	485,000	2,235,000	255,000
Compensated absences	15,372	754	-	16,126	-
Total Wastewater Utility long-term liabilities	2,735,372	754	485,000	2,251,126	255,000
Electric Utility:					
Compensated absences	35,655	-	830	34,825	-
Total long-term liabilities	\$ 2,788,847	\$ 1,931	\$ 485,830	\$ 2,304,948	\$ 255,000

F. Restricted Assets

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

	Water Utility	Wastewater Utility	Electric Utility
Depreciation cash and investments	\$ 6	\$ -	\$ 2,486,220
North Oaks escrow cash and investments	30,879	-	-
Bond and interest cash and investments	-	38,007	-
Debt reserve cash and investments	-	637,532	-
Reserve cash and investments	-	-	58,902
Improvement cash and investments	-	310,028	-
Customer deposits cash and investments	-	-	336,751
Insurance reserve cash and investments	-	-	288,340
Total restricted assets	\$ 30,885	\$ 985,567	\$ 3,170,213

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

G. Revenues Pledged

Wastewater Utility Revenues Pledged

The Wastewater Utility has pledged future operating revenues, net of specified operating expenditures, to repay revenue bonds issued in 1995 and 1996. Proceeds from the bonds provided refunding of prior bond issues and financing for improvements. The bonds are payable solely from net operating revenues and are payable through 2016. Annual principal and interest payments are expected to require less than 26 percent of 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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The Utilities have chosen to establish a risk-financing fund for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk-financing fund is accounted for in the Self-Insurance Fund on the City's records, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$30,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions.

Job Related Illnesses or Injuries to Employees

During 2009, the Utilities joined the Indiana Public Employers' Plan Inc., 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 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. Vera Cruz Sewage Works Lease

On February 20, 2007, the Common Council passed Ordinance 1264 authorizing a lease agreement with the Town of Vera Cruz. The lease, signed February 13, 2007, was for the lease of the Town's sewage works. The sewage works consist of transmission lines, a lift station and other equipment.

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

The lease became effective January 1, 2007, and has a 99-year term. The City is responsible for all operating expenses, maintenance and repair of the Vera Cruz sanitary sewer system and shall directly bill and collect fees from its customers. The City is to semiannually pay Vera Cruz 25 percent of the gross revenue collected from the Vera Cruz customers.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Common Council on December 13, 2011. On November 3, 1987, the Common Council adopted Ordinance 789 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The Utility has 3,681 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on December 5, 1995. The Utility has 3,965 customers.

3. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on November 20, 1987. On May 26, 1998, the Common Council adopted Ordinance 1052 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The ordinance became effective July 25, 1998. The Utility has 5,723 customers.

D. 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 this 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 City 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 members' 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.

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

CITY OF BLUFFTON MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
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Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established 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 and is not presented as an asset/liability of the proprietary funds.

CITY OF BLUFFTON MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on September 12, 2012, with Tamara D. Runyon, Clerk-Treasurer, and Ted L. Ellis, Mayor. Our examination disclosed no material items that warrant comment at this time.