

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

EXAMINATION REPORT
OF
WATER AND WASTEWATER UTILITIES
CITY OF COLUMBUS
BARTHOLOMEW COUNTY, INDIANA
January 1, 2011 to December 31, 2011



FILED
02/27/2013

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---------------------------------------|------------------------------------|--|
| Clerk-Treasurer | Brenda Sullivan Luann Welmer | 01-01-08 to 12-31-11 01-01-12 to 12-31-15 |
| Mayor | Fred L. Armstrong Kristen Brown | 01-01-08 to 12-31-11 01-01-12 to 12-31-15 |
| President of the Common Council | Jesse Brand James Lienhoop | 01-01-11 to 12-31-11 01-01-12 to 12-31-12 |
| Director | Keith Reeves | 01-01-11 to 12-31-12 |
| Manager of Finance and Business | Dale Langferman | 01-01-11 to 12-31-12 |
| Chair of the Utility Service Board | Cheryl McAvoy | 01-01-11 to 12-31-12 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,
CITY OF COLUMBUS, BARTHOLOMEW COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities, a department of the City of Columbus, 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 and Wastewater Utilities, City of Columbus, 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 Columbus 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 and Wastewater 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 Water and Wastewater Utilities has not presented Management's Discussion and Analysis and Schedule of Funding Progress 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 11, 2012

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

| <u>Assets</u> | 2011 | |
|--|----------------------|----------------------|
| | Water | Wastewater |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,997,548 | \$ 3,989,730 |
| Accounts receivable (net of allowance) | 262,211 | 949,870 |
| Notes receivable | 1,170 | 85,624 |
| Inventories | 278,954 | 36,217 |
| Prepaid items | 58,982 | 134,952 |
| Total current assets | 2,598,865 | 5,196,393 |
| Noncurrent assets: | | |
| Restricted cash, cash equivalents and investments: | | |
| Depreciation cash and cash equivalents | 1,474,223 | 7,939,200 |
| Bond and interest cash and cash equivalents | 621,125 | 3,996,294 |
| Bond reserve cash and cash equivalents | - | 216,980 |
| Bond reserve | - | 2,335,759 |
| Customer deposits cash and cash equivalents | 99,619 | 163,426 |
| SRF #1 construction cash and cash equivalents | - | 284,183 |
| SRF WWTP cash and cash equivalents | - | 3,288,901 |
| Interest receivable | - | 1,433 |
| Total restricted assets | 2,194,967 | 18,226,176 |
| Deferred charges | 19,604 | 404,690 |
| Capital assets: | | |
| Land, improvements to land and construction in progress | 237,523 | 1,887,983 |
| Other capital assets (net of accumulated depreciation) | 37,435,848 | 114,893,478 |
| Total capital assets | 37,673,371 | 116,781,461 |
| Total noncurrent assets | 39,887,942 | 135,412,327 |
| Total assets | 42,486,807 | 140,608,720 |
| <u>Liabilities</u> | | |
| Current liabilities: | | |
| Accounts payable | 66,238 | 157,965 |
| Accrued wages payable | 45,509 | 68,515 |
| Taxes payable | 7,199 | - |
| Compensated absences | 19,188 | 41,802 |
| Trash due city | - | 259,768 |
| Current liabilities payable from restricted assets: | | |
| Customer deposits | 99,619 | 163,280 |
| Revenue bonds payable | 685,000 | 55,000 |
| Loans payable | - | 3,546,000 |
| Accrued interest payable | 21,750 | 893,239 |
| Total current liabilities | 944,503 | 5,185,569 |
| Noncurrent liabilities: | | |
| Revenue bonds payable (net of unamortized premiums and deferred amount on refunding) | 700,286 | 905,930 |
| Loans payable | - | 77,676,000 |
| Total noncurrent liabilities | 700,286 | 78,581,930 |
| Total liabilities | 1,644,789 | 83,767,499 |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 36,288,085 | 38,171,615 |
| Restricted for debt service | 621,125 | 6,550,466 |
| Restricted for depreciation | 1,474,223 | 7,939,200 |
| Restricted for SRF construction | - | 3,573,084 |
| Unrestricted | 2,458,585 | 606,856 |
| Total net assets | \$ 40,842,018 | \$ 56,841,221 |

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

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

| | 2011 | |
|--|------------------|-------------------|
| | Water | Wastewater |
| Operating revenues: | | |
| Flat rate revenues | \$ 64,005 | \$ 158,189 |
| Metered revenue: | | |
| Residential | 2,263,969 | 5,934,592 |
| Commercial | 804,868 | 3,056,810 |
| Industrial | 595,323 | 1,610,003 |
| Fire protection revenue | 635,441 | - |
| Penalties | 20,779 | 138,405 |
| Farming | - | 92,395 |
| Other | 129,492 | 117,239 |
| | <u>4,513,877</u> | <u>11,107,633</u> |
| Total operating revenues | | |
| | <u>4,513,877</u> | <u>11,107,633</u> |
| Operating expenses: | | |
| Source of supply and expense/collection system expense - | | |
| Operations and maintenance: | | |
| Salaries and wages | 166,168 | 194,656 |
| Employee pensions and benefits | 13,832 | 15,847 |
| Purchased power | 177,790 | 508,058 |
| Materials and supplies | 9,490 | 5,066 |
| Rental of property | 3,135 | 364,826 |
| Transportation expense | 2,815 | - |
| Miscellaneous | 18,000 | 227,896 |
| Treatment and disposal expense - operations and maintenance: | | |
| Salaries and wages | 141,315 | 272,482 |
| Employee pensions and benefits | 12,946 | 21,790 |
| Purchase power | 285,878 | - |
| Chemicals | 115,586 | - |
| Materials and supplies | 35,853 | 56,352 |
| Contractual services | 130,519 | - |
| Transportation expense | 2,162 | 9,741 |
| Regulatory Commission Exp | 14,630 | - |
| Miscellaneous | 8,773 | 9,736 |
| Transmission and distribution/pumping expense - | | |
| Operations and maintenance: | | |
| Salaries and wages | 397,178 | 434,106 |
| Employee pensions and benefits | 33,996 | 37,264 |
| Chemicals | - | 16,148 |
| Materials and supplies | 138,810 | 79,726 |
| Transportation expense | 41,361 | 36,231 |
| Purchase power | - | 104,980 |
| Other | - | 6,838 |
| Customer accounts expense: | | |
| Salaries and wages | 142,586 | 281,887 |
| Employee pensions and benefits | 10,406 | 13,710 |
| Contractual services | 58,661 | 17,531 |
| Rental of equip | 1,016 | - |
| Transportation expense | 299 | - |
| Bad debt expense | 9,834 | 1,409 |

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

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

| | 2011 | |
|--|--------------------------|--------------------------|
| | <u>Water</u> | <u>Wastewater</u> |
| Operating expenses (continued): | | |
| Administrative and general expense: | | |
| Salaries and wages | 293,670 | 546,712 |
| Employee pensions and benefits | 430,417 | 531,539 |
| Purchase power | 1,527 | 28,942 |
| Chemicals | 7,578 | - |
| Materials and supplies | 74,810 | 96,756 |
| Contractual services | 47,367 | 23,655 |
| Rental buildings | 90,000 | - |
| Transportation expense | 6,058 | 5,882 |
| Insurance | 49,669 | 65,530 |
| Other | 182,422 | 73,133 |
| Depreciation and amortization | <u>966,807</u> | <u>1,773,729</u> |
| Total operating expenses | 4,123,364 | 5,862,158 |
| Operating income | 390,513 | 5,245,475 |
| Nonoperating revenues (expenses): | | |
| Interest and investment revenue | 28,844 | 192,186 |
| Rent | 85,200 | 90,000 |
| Gain/(loss) on disposal of capital assets | (154,955) | - |
| Interest expense | (78,172) | (2,388,672) |
| Amortization of bond issue costs | <u>(16,803)</u> | <u>(30,126)</u> |
| Total nonoperating revenues (expenses) | <u>(135,886)</u> | <u>(2,136,612)</u> |
| Income before contributions and special item | 254,627 | 3,108,863 |
| Capital contributions | <u>138,500</u> | <u>82,528</u> |
| Special item, Note III. D. | - | (5,771,042) |
| Change in net assets | 393,127 | (2,579,651) |
| Total net assets - beginning | <u>40,448,891</u> | <u>59,420,872</u> |
| Total net assets - ending | <u>\$ 40,842,018</u> | <u>\$ 56,841,221</u> |

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

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

| | 2011 | |
|---|---------------------|----------------------|
| | Water | Wastewater |
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 4,701,763 | \$ 13,383,354 |
| Payments to suppliers and contractors | (2,043,006) | (5,202,212) |
| Payments to employees | (1,140,818) | (1,697,284) |
| Receipts for city trash fees | - | 259,768 |
| | <u>1,517,939</u> | <u>6,743,626</u> |
| Net cash provided by operating activities | | |
| Cash flows from non-capital financing activities: | | |
| Other Income | 85,200 | 90,000 |
| | <u>85,200</u> | <u>90,000</u> |
| Cash provided by non-capital financing activities | | |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (1,028,074) | (10,457,509) |
| Principal paid on capital debt | (655,000) | (3,498,000) |
| Interest paid on capital debt | (71,100) | (2,422,022) |
| | <u>(1,754,174)</u> | <u>(16,377,531)</u> |
| Net cash used by capital and related financing activities | | |
| Cash flows from investing activities: | | |
| Interest received | 28,844 | 197,994 |
| | <u>28,844</u> | <u>197,994</u> |
| Net cash provided by investing activities | | |
| Net decrease in cash and cash equivalents | (122,191) | (9,345,911) |
| Cash and cash equivalents, January 1 | 4,314,706 | 29,224,625 |
| Cash and cash equivalents, December 31 | <u>\$ 4,192,515</u> | <u>\$ 19,878,714</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | <u>\$ 390,513</u> | <u>\$ 5,245,475</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation expense | 966,807 | 1,773,729 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 191,429 | (184,510) |
| Notes receivable | (1,170) | 7,264 |
| Inventories | (7,110) | 1,456 |
| Prepaid items | (11,419) | (20,609) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (5,591) | 57,376 |
| Wages payable | (2,709) | 530 |
| Taxes payable | (9,081) | - |
| Due to City | - | (147,079) |
| Compensated absence payable | (721) | (4,752) |
| Customer deposits | 6,991 | 14,746 |
| | <u>1,127,426</u> | <u>1,498,151</u> |
| Total adjustments | | |
| Net cash provided by operating activities | <u>\$ 1,517,939</u> | <u>\$ 6,743,626</u> |
| Noncash investing, capital and financing activities: | | |
| Contributions of capital assets from developers | <u>\$ 138,500</u> | <u>\$ 81,900</u> |

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

WATER AND WASTEWATER UTILITIES
CITY OF COLUMBUS
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 Columbus (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 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 City has elected not to follow subsequent private-sector guidance.

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The 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.

WATER AND WASTEWATER UTILITIES
CITY OF COLUMBUS
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. Inventories are recorded as expenditures when consumed rather than when purchased.

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

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by bond covenants. The funds are accumulated for six months, then used to make the principle and interest payments on the debt.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|-----------------------------------|-----------------------------|------------------------|--------------------------|
| Buildings and structures | \$ 500 | Straight-line | 67 to 80 years |
| Improvements other than buildings | 500 | Straight-line | 20 to 80 years |
| Machinery and equipment | 500 | Straight-line | 5 to 20 years |
| Trucks and Autos | 500 | Straight-line | 5 to 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. The total interest expense incurred by the Utilities during the current year was \$78,172 and \$2,388,672, respectively, for the Water Utility and Wastewater Utility. Of these amounts, none was included as part of the cost of capital assets under construction. Major project for 2011 was a new wastewater treatment plant.

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

5. Compensated Absences

- a. Sick Leave – Employees of the Utilities earn sick leave at the rate of six days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is not paid to employees.
- b. Vacation Leave – Employees of the Utilities earn vacation leave at rates from five days to twenty-five days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of ten days. Accumulated vacation leave is paid to employees through cash payments.
- c. Personal Leave – Employees of the Utilities earn personal leave at the rate of two days per year. Personal leave does not accumulate from year to year.
- d. Compensated Absences – Salaried employees earn comp time when they work more than forty hours per week. These hours can be accumulated up to a max of 240 hours. These hours are paid in cash at the time an employee terminates employment.

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.

7. Net Assets

The financial statements report \$2,095,348 of restricted net assets for the Water Utility, and \$18,062,750 of restricted net assets for the Wastewater Utility, all of which was restricted by enabling legislation.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with IC 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

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

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

| <u>2011</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|-------------------|---------------------------|
| Water | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 237,523 | \$ - | \$ - | \$ 237,523 |
| Construction in progress | <u>32,512</u> | <u>146,715</u> | <u>179,227</u> | <u>-</u> |
| Total capital assets, not being depreciated | <u>270,035</u> | <u>146,715</u> | <u>179,227</u> | <u>237,523</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 46,659,843 | 1,061,748 | 44,350 | 47,677,241 |
| Machinery and equipment | 3,344,930 | 478,024 | 461,072 | 3,361,882 |
| Transportation equipment | 332,332 | 67,573 | 102,454 | 297,451 |
| Office equipment, furniture, and fixtures | 784,507 | 39,226 | 369,400 | 454,333 |
| Fully depreciated | <u>701,634</u> | <u>241,886</u> | <u>64,648</u> | <u>878,872</u> |
| Totals | <u>51,823,246</u> | <u>1,888,457</u> | <u>1,041,924</u> | <u>52,669,779</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (12,111,361) | (729,752) | (11,990) | (12,829,123) |
| Machinery and equipment | (1,073,478) | (167,115) | (15,225) | (1,225,368) |
| Transportation equipment | (208,540) | (33,532) | (99,500) | (142,572) |
| Office equipment, furniture, and fixtures | (369,707) | (39,326) | (251,037) | (157,996) |
| Fully depreciated | <u>(701,634)</u> | <u>(241,886)</u> | <u>(64,648)</u> | <u>(878,872)</u> |
| Totals | <u>(14,464,720)</u> | <u>(1,211,611)</u> | <u>(442,400)</u> | <u>(15,233,931)</u> |
| Total capital assets, being depreciated, net | <u>37,358,526</u> | <u>676,846</u> | <u>599,524</u> | <u>37,435,848</u> |
| Total water capital assets, net | <u>\$ 37,628,561</u> | <u>\$ 823,561</u> | <u>\$ 778,751</u> | <u>\$ 37,673,371</u> |
| | | | | |
| <u>2011</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
| Wastewater | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,707,894 | \$ - | \$ - | \$ 1,707,894 |
| Construction in progress | <u>41,259,971</u> | <u>9,654,770</u> | <u>50,734,652</u> | <u>180,089</u> |
| Total capital assets, not being depreciated | <u>42,967,865</u> | <u>9,654,770</u> | <u>50,734,652</u> | <u>1,887,983</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 74,979,470 | 32,562,228 | 8,570,511 | 98,971,187 |
| Machinery and equipment | 14,367,518 | 18,205,652 | 3,581,151 | 28,992,019 |
| Transportation equipment | 527,727 | 37,253 | 37,797 | 527,183 |
| Office equipment, furniture, and fixtures | 272,169 | 55,072 | 24,448 | 302,793 |
| Fully depreciated | <u>1,303,526</u> | <u>76,118</u> | <u>605,794</u> | <u>773,850</u> |
| Totals | <u>91,450,410</u> | <u>50,936,323</u> | <u>12,819,701</u> | <u>129,567,032</u> |

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

| <u>2011 (continued)</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|----------------------|----------------------|---------------------------|
| Wastewater (continued) | | | | |
| Capital assets, being depreciated (continued): | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | (13,793,917) | (994,712) | (3,954,037) | (10,834,592) |
| Machinery and equipment | (4,414,710) | (712,843) | (2,395,058) | (2,732,495) |
| Transportation equipment | (242,459) | (52,908) | (35,852) | (259,515) |
| Office equipment, furniture, and fixtures | (80,417) | (13,484) | (20,799) | (73,102) |
| Fully depreciated | <u>(1,303,526)</u> | <u>(76,118)</u> | <u>(605,794)</u> | <u>(773,850)</u> |
| Totals | <u>(19,835,029)</u> | <u>(1,850,065)</u> | <u>(7,011,540)</u> | <u>(14,673,554)</u> |
| Total capital assets, being depreciated, net | <u>71,615,381</u> | <u>49,086,258</u> | <u>5,808,161</u> | <u>114,893,478</u> |
| Total wastewater capital assets, net | <u>\$ 114,583,246</u> | <u>\$ 58,741,028</u> | <u>\$ 56,542,813</u> | <u>\$ 116,781,461</u> |

At year end, the Utilities' transfer the accumulated depreciation expense for any fully depreciated assets, from each of the various categories (machinery and equipment, transportation equipment, . . .) into the fully depreciated assets accumulated depreciation category. As a result, the increases to the accumulated depreciation accounts will exceed the actual depreciation expense as reported on the Statement of Revenue, Expenses and Other Changes in Fund Net Assets, by the amount of the accumulated depreciation that was transferred into those accounts.

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

| | <u>2011</u> |
|----------------------------|---------------------|
| Water | \$ 966,808 |
| Wastewater | <u>1,773,729</u> |
| Total depreciation expense | <u>\$ 2,740,537</u> |

C. Construction Commitments

Construction work in progress is composed of the following:

| | <u>2011</u> | |
|----------------------|-------------------------------------|---------------------|
| | <u>Expended to December 31,</u> | <u>Committed</u> |
| Wastewater | | |
| New Wastewater Plant | \$ 17,000 | \$ 376,804 |
| WWTP Demo | 16,302 | 162,411 |
| Bakalar LS | 44,222 | - |
| Walesboro | <u>102,565</u> | <u>3,196,280</u> |
| Totals | <u>\$ 180,089</u> | <u>\$ 3,735,495</u> |

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

D. Interfund Balances and Activity

Interfund Payable

Interfund Payable at December 31, 2011, was as follows:

| | |
|--------------------------|-------------------|
| <u>Interfund Payable</u> | <u>2011</u> |
| Due to City | <u>\$ 259,768</u> |

The Wastewater Utility collected trash service fees for the city and transferred the collections on a monthly basis.

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:

| <u>Purpose</u> | <u>Interest Rates</u> | <u>Balance at December 31</u> | <u>Less: Unamortized (Premium) Discount</u> | <u>Less: Deferral on Refunding</u> | <u>Amount</u> |
|--|-----------------------|-------------------------------|---|------------------------------------|--------------------|
| 2005 Waterworks Refunding Revenue Bond | 2.80% to 4.25% | \$ 1,405,000 | \$ (14,069) | \$ 33,783 | \$1,385,286 |
| Total Water | | <u>\$ 1,405,000</u> | <u>\$ (14,069)</u> | <u>\$ 33,783</u> | <u>\$1,385,286</u> |
| Royal View SRF | 4.1% | \$ 254,717 | \$ - | \$ - | \$ 254,717 |
| Eastern Bartholomew Revenue Bond | 4.81% | <u>715,000</u> | <u>-</u> | <u>8,787</u> | <u>706,213</u> |
| Total Wastewater | | <u>\$ 969,717</u> | <u>\$ -</u> | <u>\$ 8,787</u> | <u>\$ 960,930</u> |

Revenue bonds debt service requirements to maturity are as follows:

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

| | Water Utility | | Wastewater Utility | |
|-----------|---------------------|------------------|--------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 685,000 | \$ 44,300 | \$ 55,000 | \$ 27,240 |
| 2013 | 720,000 | 15,300 | 60,000 | 37,973 |
| 2014 | - | - | 60,000 | 39,189 |
| 2015 | - | - | 65,000 | 36,445 |
| 2016 | - | - | 65,000 | 33,460 |
| 2017-2021 | - | - | 380,000 | 122,633 |
| 2022-2025 | - | - | 284,717 | 25,982 |
| Totals | <u>\$ 1,405,000</u> | <u>\$ 59,600</u> | <u>\$ 969,717</u> | <u>\$ 322,922</u> |

2. State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of the Royal View Sewer Improvement Project and the New Wastewater Treatment Plant. Funds were loaned to the Utility as construction costs accrued to the maximum allowed. The Royal View Sewer Improvement Project loan established a maximum draw of \$400,000; the Combined Sewer Overflow Project loan established a maximum draw of \$27,449,000. At the completion of construction, the outstanding principal balance of \$399,717 and \$27,449,000 was amortized over a period of twenty-one years. Annual debt service requirements to maturity for these loans are as follows:

| | Principal | Interest |
|-----------|----------------------|----------------------|
| 2012 | \$ 3,546,000 | \$ 2,274,582 |
| 2013 | 3,646,000 | 2,170,894 |
| 2014 | 3,754,000 | 2,064,045 |
| 2015 | 3,863,000 | 1,953,859 |
| 2016 | 3,980,000 | 1,840,205 |
| 2017-2021 | 21,376,000 | 7,371,907 |
| 2022-2026 | 25,091,000 | 3,951,003 |
| 2027-2031 | <u>15,966,000</u> | <u>688,624</u> |
| Totals | <u>\$ 81,222,000</u> | <u>\$ 22,315,119</u> |

3. Changes in Long-Term Liabilities

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

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

| <u>2011</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------------------------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Revenue bonds payable: | | | | | |
| Water Utility | \$ 2,060,000 | \$ - | \$ 655,000 | \$ 1,405,000 | \$ 685,000 |
| Add unamortized premium | 26,127 | - | 12,059 | 14,068 | - |
| Less deferred amount on refunding | <u>(62,738)</u> | <u>-</u> | <u>(28,956)</u> | <u>(33,782)</u> | <u>-</u> |
| Total revenue bonds payable | 2,023,389 | - | 638,103 | 1,385,286 | 685,000 |
| Total long-term liabilities | <u>\$ 2,023,389</u> | <u>\$ -</u> | <u>\$ 638,103</u> | <u>\$ 1,385,286</u> | <u>\$ 685,000</u> |
| Revenue bonds payable: | | | | | |
| Wastewater Utility | \$ 1,939,717 | \$ - | \$ 970,000 | \$ 969,717 | \$ 55,000 |
| Add unamortized premium | 2,831 | - | 2,831 | - | - |
| Less deferred amount on refunding | <u>(16,895)</u> | <u>-</u> | <u>(8,108)</u> | <u>(8,787)</u> | <u>-</u> |
| Total revenue bonds payable | 1,925,653 | - | 964,723 | 960,930 | 55,000 |
| Loans payable | <u>83,750,000</u> | <u>-</u> | <u>2,528,000</u> | <u>81,222,000</u> | <u>3,546,000</u> |
| Total long-term liabilities | <u>\$ 85,675,653</u> | <u>\$ -</u> | <u>\$ 3,492,723</u> | <u>\$ 83,143,860</u> | <u>\$ 3,601,000</u> |

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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.

Job Related Illnesses and Injuries to Employees

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with job related illnesses or injuries to employees. The risk financing fund is where assets are set aside for claims settlements. An excess policy through commercial insurance covers individual claims in excess of \$500,000 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, claims 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.

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

Medical Benefits to Employees, Retirees, and Dependents

The City, including the Utilities, has chosen to establish a risk financing fund for medical benefits to employees. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$500,000 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.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on November 15, 1992. The Water Utility has 16,474 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on May 4, 1992, with a rate increase approved on March 7, 2006. The Wastewater Utility has 16,664 customers.

C. Pension Plan

Columbus City Utilities Employee Pension

Plan Description

The Columbus City Utilities Employee Pension Plan is a defined benefit plan completely funded by Columbus City Utilities for the benefit of its employees.

Niles Lankford Group, Inc., 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. That report may be obtained by contacting:

Niles Lankford Group Inc.
1500 N Oak Drive, P.O. Box 329
Plymouth, IN 46563
(574) 936-6200

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

Actuarial Information for the Above Plan

| | | <u>Columbus City Utilities Employee Pension Plan</u> |
|---|----|--|
| Annual required contribution | \$ | 383,901 |
| Interest on net pension obligation | | 14,121 |
| Adjustment to annual required contribution | | <u>(15,534)</u> |
| Annual pension cost | | 382,488 |
| Contributions made | | <u>300,000</u> |
| Increase (decrease) in net pension obligation | | 82,488 |
| Net pension obligation, beginning of year | | <u>201,733</u> |
| Net pension obligation, end of year | \$ | <u><u>284,221</u></u> |
| Contribution rates: | | |
| Government | | 100% |
| Plan members | | 0% |
| Actuarial valuation date | | 01-01-2011 |
| Actuarial cost method | | Entry age normal cost |
| Amortization method | | Level dollar, closed amortization period |
| Amortization period | | 30 years |
| Amortization period (from date) | | 1/1/2009 |
| Asset valuation method | | Market Value |

Actuarial Assumptions

| | | |
|------------------------------------|--|-------|
| Investment rate of return | | 7.00% |
| Projected future salary increases: | | |
| Total | | 4.00% |
| Cost-of-living adjustments | | 0.00% |

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

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of December 31, 2011, the most recent actuarial valuation date is as follows:

| Three Year Trend Information | | | | |
|------------------------------|-------------|---------------------------|-------------------------------|------------------------|
| | Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
| Columbus City Utilities | | | | |
| Employee Pension Plan | 12-31-09 | \$ 427,238 | 70.2% | \$ 127,238 |
| | 12-31-10 | 374,495 | 80.1% | 201,733 |
| | 12-31-11 | 398,700 | 78.4% | 284,221 |

The Schedule of Funding Progress 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.

| | Actuarial Value of Plan Assets | Actuarial Accrued Liability (AAL) Entry Age | Unfunded AAL or (Funding Excess) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c) |
|-------------------------|--------------------------------|---|--|--------------------|----------------------------|---|
| Retirement Plan | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| Columbus City Utilities | | | | | | |
| Employee Pension Plan | \$ 4,742,174 | \$ 7,697,600 | \$ 2,955,426 | 61.61% | \$2,552,523 | 115.78% |

Funding Policy and Annual Pension Cost

The Columbus City Utilities Employee's Pension Plan does not have an annual required contribution rate. The actuary prepares an annual statement that includes a suggested contribution amount that covers the annual expenses.

Columbus City Utility employees are not required to contribute to the cost of the pension plan. The Columbus City Utilities normally contributes the actuarially suggested amount. The cost is split evenly between the Utilities' operating expenses.

D. Special Item

In 2011, our new wastewater treatment plant was completed. We began the demolition of the old treatment plant which will be completed in 2013. The assets will be written off over three years. In 2011, a loss was recognized on disposal of capital assets of \$5,771,042.

WATER AND WASTEWATER UTILITIES
CITY OF COLUMBUS
EXAMINATION RESULT AND COMMENT

INTERNAL CONTROLS

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient.

There should be evidence of the review of the bank reconciliations and significant adjusting journal entries. Also, cash, investment, and other transfers and adjusting journal entries posted to the general ledger should be clearly labeled.

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)

WATER AND WASTEWATER UTILITIES
CITY OF COLUMBUS
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2012, with Dale Langferman, Manager of Finance and Business, and Connie Armstrong, Accountant.

The contents of this report were also discussed on October 3, 2012, with Luann Welmer, Clerk-Treasurer; Pam Harrell, Chief Deputy Clerk-Treasurer; and Kelly Benjamin, City Attorney.