

**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, 2012 to December 31, 2012



**FILED**  
01/30/2014



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Accountant's Report.....	3
Financial Information:	
Statement of Net Position.....	4
Statement of Revenues, Expenses, and Changes in Net Position .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-15
Exit Conference.....	16

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marcie L. Conkle	01-01-12 to 12-31-15
Mayor	Tonya Hoeffel	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Tonya Hoeffel	01-01-12 to 12-31-13
President Pro Tempore of the Common Council	Brad Stump	01-01-12 to 12-31-13
Supervisor of Water Utility	Pat Kleeman	01-01-12 to 12-31-13
Supervisor of Wastewater Utility	Bruce Schlosser	01-01-12 to 12-31-13
Supervisor of Electric Utility	Michael Steward Dave Vanderbosch	01-01-12 to 12-31-12 01-01-13 to 12-31-13



**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 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 (Utilities), major enterprise funds and departments of the City of Garrett, (City) as of and for the year ended December 31, 2012. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

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

As discussed in Note I, the financial statements of the Utilities, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Garrett as of December 31, 2012, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Utilities, as of December 31, 2012, 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.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

December 18, 2013

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF GARRETT  
STATEMENT OF NET POSITION  
December 31, 2012

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 130,317	\$ 394,260	\$ 238,157
Accounts receivable (net of allowance)	116,641	144,110	602,066
Interfund receivables	-	90,000	-
Accrued revenue	90,378	114,336	562,093
Inventories	71,288	-	472,785
Prepaid items	23,973	26,295	24,919
	<u>432,597</u>	<u>769,001</u>	<u>1,900,020</u>
<b>Noncurrent assets:</b>			
<b>Restricted cash, cash equivalents and investments:</b>			
Depreciation cash and investments	4,195	186,136	845,131
Bond and interest cash and investments	10,357	12,852	43,590
Debt service reserve cash and investments	66,155	393,759	307,980
Customer deposits	58,730	66,687	111,440
I&M true up	-	-	167,547
	<u>139,437</u>	<u>659,434</u>	<u>1,475,688</u>
Deferred charges	<u>35,277</u>	<u>70,500</u>	<u>100,840</u>
<b>Capital assets:</b>			
Land and improvements to land	37,983	43,792	203,091
Other capital assets (net of accumulated depreciation)	<u>3,943,809</u>	<u>9,038,100</u>	<u>7,028,971</u>
	<u>3,981,792</u>	<u>9,081,892</u>	<u>7,232,062</u>
Total noncurrent assets	<u>4,156,506</u>	<u>9,811,826</u>	<u>8,808,590</u>
<b>Total assets</b>	<u>4,589,103</u>	<u>10,580,827</u>	<u>10,708,610</u>
<b><u>Liabilities</u></b>			
<b>Current liabilities:</b>			
Accounts payable	13,600	31,505	492,064
Accrued wages payable	7,722	8,495	11,013
Interfund payables	90,000	-	-
Taxes payable	7,069	-	36,042
Compensated absences	6,188	15,583	10,143
<b>Current liabilities payable from restricted assets:</b>			
Customer deposits	58,730	66,687	111,440
Revenue bonds payable	-	150,000	-
	<u>183,309</u>	<u>272,270</u>	<u>660,702</u>
<b>Noncurrent liabilities:</b>			
Unearned revenue	-	-	204,044
Revenue bonds payable (net of loss deferral on refunding)	<u>600,000</u>	<u>3,344,972</u>	<u>2,925,000</u>
	<u>600,000</u>	<u>3,344,972</u>	<u>3,129,044</u>
<b>Total liabilities</b>	<u>783,309</u>	<u>3,617,242</u>	<u>3,789,746</u>
<b><u>Net Position</u></b>			
Net investments in capital assets	3,381,792	5,586,920	4,307,062
Restricted for debt service	76,512	406,611	351,570
Restricted for other purposes	4,195	186,136	1,012,678
Unrestricted	<u>343,295</u>	<u>783,918</u>	<u>1,247,554</u>
<b>Total net position</b>	<u>\$ 3,805,794</u>	<u>\$ 6,963,585</u>	<u>\$ 6,918,864</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 CHANGES IN NET POSITION  
As Of And For The Year Ended December 31, 2012

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Operating revenues:			
Metered revenue	\$ -	\$ -	\$ 6,954,544
Fire protection revenue	50,503	-	-
Penalties	7,203	32,254	31,420
Measured revenue	922,191	1,425,255	-
Other	8,671	28,857	13,571
	<u>988,568</u>	<u>1,486,366</u>	<u>6,999,535</u>
Total operating revenues			
Operating expenses:			
Transmission and distribution	197,225	-	534,260
Pumping - operations and maintenance	-	488,357	-
Treatment and disposal - operations and maintenance	195,539	2,741	-
Customer accounts	45,774	50,466	77,715
Administration and general	283,130	575,562	730,070
Purchased power	-	-	5,727,781
Bad debt expense	642	507	2,619
Depreciation	113,594	444,661	590,379
	<u>835,904</u>	<u>1,562,294</u>	<u>7,662,824</u>
Total operating expenses			
Operating income (loss)	<u>152,664</u>	<u>(75,928)</u>	<u>(663,289)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	124	5,775	939
Miscellaneous revenue	-	56,622	10,909
Interest expense	(35,052)	(66,431)	(130,197)
Miscellaneous expense	-	(155,000)	-
Amortization of bond issue costs	(2,519)	(8,883)	(8,403)
	<u>(37,447)</u>	<u>(167,917)</u>	<u>(126,752)</u>
Total nonoperating revenues (expenses)			
Income (loss) before contributions and transfers	115,217	(243,845)	(790,041)
Capital contributions	<u>52,070</u>	<u>40,883</u>	<u>51,260</u>
Change in net position	167,287	(202,962)	(738,781)
Total net position - beginning	<u>3,638,507</u>	<u>7,166,547</u>	<u>7,657,645</u>
Total net position - ending	<u>\$ 3,805,794</u>	<u>\$ 6,963,585</u>	<u>\$ 6,918,864</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, 2012

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 937,806	\$ 1,489,471	\$ 7,101,594
Payments to suppliers and contractors	(478,299)	(831,711)	(6,554,203)
Payments to employees	(281,166)	(311,302)	(531,849)
Other receipts (disbursements)	<u>-</u>	<u>(98,378)</u>	<u>10,909</u>
Net cash provided by operating activities	<u>178,341</u>	<u>248,080</u>	<u>26,451</u>
Cash flows from noncapital financing activities:			
Proceeds from defeasance of debt	-	3,980,000	-
Bond issue costs	-	(70,500)	-
Interfund loans	(90,000)	90,000	-
Severance damages received	<u>-</u>	<u>-</u>	<u>204,044</u>
Net cash provided (used) by noncapital financing activities	<u>(90,000)</u>	<u>3,999,500</u>	<u>204,044</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(11,160)	(211,160)	(72,150)
Principal paid on capital debt	(60,000)	(4,195,000)	(325,000)
Interest paid on capital debt	<u>(50,385)</u>	<u>(144,739)</u>	<u>(198,321)</u>
Net cash used by capital and related financing activities	<u>(121,545)</u>	<u>(4,550,899)</u>	<u>(595,471)</u>
Cash flows from investing activities:			
Interest received	<u>124</u>	<u>5,775</u>	<u>939</u>
Net decrease in cash and cash equivalents	(33,080)	(297,544)	(364,037)
Cash and cash equivalents, January 1	<u>302,834</u>	<u>1,351,238</u>	<u>2,077,882</u>
Cash and cash equivalents, December 31	<u>\$ 269,754</u>	<u>\$ 1,053,694</u>	<u>\$ 1,713,845</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	<u>\$ 152,664</u>	<u>\$ (75,928)</u>	<u>\$ (663,289)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	113,594	444,661	590,379
Nonoperating revenues (expenses)	-	(98,378)	10,909
(Increase) decrease in assets:			
Accounts receivable	(32,027)	(3,330)	28,123
Accrued revenue	(18,735)	6,435	73,936
Inventories	(7,381)	-	58,671
Prepaid items	(18,018)	(18,870)	(18,910)
Increase (decrease) in liabilities:			
Accounts payable	(18,087)	(9,625)	(56,088)
Wages payable	2,002	2,328	1,949
Taxes payable	1,889	-	(1,474)
Customer deposits	<u>2,440</u>	<u>787</u>	<u>2,245</u>
Total adjustments	<u>25,677</u>	<u>324,008</u>	<u>689,740</u>
Net cash provided by operating activities	<u>\$ 178,341</u>	<u>\$ 248,080</u>	<u>\$ 26,451</u>
Noncash investing, capital and financing activities:			
Contributions of capital assets from government	\$ 52,070	\$ 40,883	\$ 51,260

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 activities of the City of Garrett Municipal Utilities (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, represent all of the City's enterprise funds.

B. Fund Financial Statements

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

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 Position 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.

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

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 Position because they are maintained in separate funds and/or bank accounts and their use is limited by applicable bond covenants.

The financial statements report Water Utility restricted net position of \$80,707 of which \$80,707 is restricted by enabling legislation; Wastewater Utility restricted net position of \$592,747 of which \$592,747 is restricted by enabling legislation; and Electric Utility restricted net position of \$1,364,248 of which \$1,364,248 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Electric and Water:			
Buildings	\$ 5,000	Composite	2% to 4%
Improvements other than buildings	5,000	Composite	2% to 4%
Machinery and equipment	5,000	Composite	2% to 4%
Transportation equipment	5,000	Composite	2% to 4%
Wastewater:			
Buildings	5,000	Straight-line	50 years
Improvements other than buildings	5,000	Straight-line	50 to 100 years
Machinery and equipment	5,000	Straight-line	5 to 30 years
Transportation equipment	5,000	Straight-line	10 years

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.

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

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. Total interest expense incurred by the Water Utility, Wastewater Utility, and Electric Utility was \$35,052, \$66,431, and \$130,197, respectively. Of these amounts, nothing was included as part of the cost of capital assets under construction.

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 the 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 Position. 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

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, 2012, the Water, Wastewater, and Electric Utilities had deposit balances in the amount of \$269,754, \$1,053,694, and \$1,713,845, 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, 2012, was as follows:

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:				
Capital assets, not being depreciated:				
Land	\$ 37,983	\$ -	\$ -	\$ 37,983
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	5,030,282	63,230	-	5,093,512
Machinery and equipment	299,043	-	-	299,043
Transportation equipment	60,504	-	-	60,504
Less accumulated depreciation	<u>(1,685,813)</u>	<u>(113,594)</u>	<u>-</u>	<u>(1,799,407)</u>
Total capital assets, being depreciated, net	<u>3,994,173</u>	<u>(50,364)</u>	<u>-</u>	<u>3,943,809</u>
Total Water Utility capital assets, net	<u>\$ 4,032,156</u>	<u>\$ (50,364)</u>	<u>\$ -</u>	<u>\$ 3,981,792</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 43,792	\$ -	\$ -	\$ 43,792
Capital assets, being depreciated:				
Buildings	1,286,532	-	-	1,286,532
Improvements other than buildings	9,055,564	254,694	-	9,310,258
Machinery and equipment	5,245,433	-	-	5,245,433
Distribution and collection systems	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Totals	<u>15,597,529</u>	<u>254,694</u>	<u>-</u>	<u>15,852,223</u>
Less accumulated depreciation for:				
Buildings	(589,725)	(25,730)	-	(615,455)
Improvements other than buildings	(3,212,583)	(197,650)	-	(3,410,233)
Machinery and equipment	(2,339,563)	(1,667)	-	(2,341,230)
Transportation equipment	<u>(227,591)</u>	<u>(219,614)</u>	<u>-</u>	<u>(447,205)</u>
Totals	<u>(6,369,462)</u>	<u>(444,661)</u>	<u>-</u>	<u>(6,814,123)</u>
Total capital assets, being depreciated, net	<u>9,228,067</u>	<u>(189,967)</u>	<u>-</u>	<u>9,038,100</u>
Total Wastewater Utility capital assets, net	<u>\$ 9,271,859</u>	<u>\$ (189,967)</u>	<u>\$ -</u>	<u>\$ 9,081,892</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 203,091	\$ -	\$ -	\$ 203,091
Capital assets, being depreciated:				
Buildings	145,515	-	-	145,515
Improvements other than buildings	13,744,541	123,410	111,080	13,756,871
Machinery and equipment	428,700	-	-	428,700
Transportation equipment	440,721	-	-	440,721
Less accumulated depreciation	<u>(7,263,537)</u>	<u>(590,379)</u>	<u>(111,080)</u>	<u>(7,742,836)</u>
Total capital assets, being depreciated, net	<u>7,495,940</u>	<u>(466,969)</u>	<u>-</u>	<u>7,028,971</u>
Total Electric Utility capital assets, net	<u>\$ 7,699,031</u>	<u>\$ (466,969)</u>	<u>\$ -</u>	<u>\$ 7,232,062</u>

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

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

	2012
Water	\$ 113,594
Wastewater	444,661
Electric	590,379
Total depreciation expense	\$ 1,148,634

C. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2012, is as follows:

Interfund Receivable	Interfund Payable	2012
Wastewater Utility	Water Utility	\$ 90,000

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:

Purpose	Interest Rates	Balance at December 31	Less: Deferral on Refunding	Amount
2004 Waterworks improvement	4.25% to 4.85%	\$ 600,000	\$ -	\$ 600,000
2012 Sewage Works refunding revenue bonds	2.42%	3,610,000	115,028	3,494,972
2005 Electric Utility improvements and extension	4.0% to 4.4%	2,925,000	-	2,925,000
Totals		\$ 7,135,000	\$ 115,028	\$ 7,019,972

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

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility		Electric Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ -	\$ 14,058	\$ 150,000	\$ 43,681	\$ -	\$ 61,624
2014	35,000	27,372	310,000	81,857	170,000	119,848
2015	35,000	25,884	315,000	74,355	180,000	112,848
2016	35,000	24,388	325,000	66,672	185,000	105,548
2017	40,000	22,746	335,000	58,685	195,000	97,948
2018-2022	225,000	83,764	1,790,000	167,831	1,100,000	359,863
2023-2027	230,000	22,796	385,000	6,958	1,095,000	99,138
Totals	<u>\$ 600,000</u>	<u>\$ 221,008</u>	<u>\$ 3,610,000</u>	<u>\$ 500,039</u>	<u>\$ 2,925,000</u>	<u>\$ 956,817</u>

2012 Sewage Works Refunding Revenue Bonds

On May 2012, the City issued \$3,980,000 in refunding revenue bonds with an average interest rate of 2.42 percent to advance refund \$3,825,000 of outstanding 2002 series bond with an average interest rate of 4.15 percent. The net proceeds of \$3,941,120 (after payment of \$38,880 in issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the refunding of the 2002 series bonds on July 1, 2012. The refunding resulted in an accounting loss of \$115,028, which has been recognized on the Statement of Net Position as a deferral of loss on refunding (net reduction of noncurrent revenue bonds payable). This amount will be amortized using the straight-line method and charged to interest expense over the life of the new bonds. The City in effect reduced its aggregate debt service payment by \$302,204 over the next 11 years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$251,169.

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

<u>2012</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 660,000	\$ -	\$ 60,000	\$ 600,000	\$ -
Wastewater Utility	3,825,000	3,980,000	4,195,000	3,610,000	150,000
Electric Utility	3,250,000	-	325,000	2,925,000	-
Total long-term liabilities	<u>\$ 7,735,000</u>	<u>\$ 3,980,000</u>	<u>\$ 4,580,000</u>	<u>\$ 7,135,000</u>	<u>\$ 150,000</u>

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

E. Restricted Assets

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

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Depreciation	\$ 4,195	\$ 186,136	\$ 845,131
Bond and interest	10,357	12,852	43,590
Debt service reserve	66,155	393,759	307,980
Customer deposits	58,730	66,687	111,440
I&M true up	-	-	167,547
	<u>          </u>	<u>          </u>	<u>          </u>
Total restricted assets	<u>\$ 139,437</u>	<u>\$ 659,434</u>	<u>\$ 1,475,688</u>

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 10 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$821,008. Principal and interest paid for the current year and total net revenues were \$95,052 and \$988,568, respectively.

Wastewater Utility Revenues Pledged

The Utility has pledged future wastewater revenues, net of specified operating expenditures, to repay revenue bonds issued in 2012. Proceeds from the bonds refunded, revenue bonds issued in 2002. 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 32 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,110,039. Principal and interest paid for the current year and total net revenues were \$436,431 and \$1,486,366, 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 7 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,881,817. Principal and interest paid for the current year and total net revenues were \$455,197 and \$6,999,535, 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 three 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 August 21, 2012. The Utility has 2,146 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 3,197 customers.

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

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the 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 and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees in 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.

D. Subsequent Events

On June 28, 2013, the City issued Sewage Works Revenue Bonds of 2013 in the amount of \$4,170,000. The proceeds of these bonds are for improvement to the Wastewater Plant to comply with an Agreed Order with IDEM.

On June 28, 2013, the City entered into a \$3,397,000 Guaranteed Energy Savings Performance Contract with Bowen Engineering for the Wastewater Treatment Plant Improvement Project.

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

The contents of this report were discussed on December 18, 2013, with Marcie L. Conkle, Clerk-Treasurer, and Tonya Hoeffel, Mayor.