

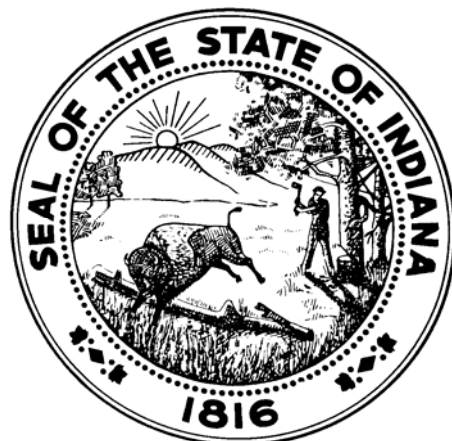
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

ANNUAL FINANCIAL REPORT

2005

CITY OF BERNE MUNICIPAL UTILITIES

ADAMS COUNTY, INDIANA



**FILED**  
09/28/2006



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Gwendolyn J. Maller	01-01-04 to 12-31-07
Mayor	John F. Minch	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	John F. Minch	01-01-04 to 12-31-07
President of the Common Council	William F. McKean	01-01-05 to 12-31-06
Water Utility Superintendent	Roger D. Parrett	01-01-05 to 12-31-06
Wastewater Utility Superintendent	Terry L. Konger, Jr.	01-01-05 to 12-31-06
Stormwater Utility Superintendent	Shannon W. Smitley	04-01-05 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the City of Berne Municipal Utilities (Utilities), departments of the City of Berne, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 Berne as of December 31, 2005, 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, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Utilities have not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

August 29, 2006

CITY OF BERNE MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2005

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>
Current assets:			
Cash and cash equivalents	\$ 859,148	\$ 37,833	\$ 314,971
Taxes receivable	106	-	-
Accounts receivable	1,124	3,320	3,773
Inventories	69,778	-	-
Prepaid items	10,619	10,619	2,939
	<u>940,775</u>	<u>51,772</u>	<u>321,683</u>
Total current assets			
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	1,007,247	189,580	-
Bond and interest cash	36,831	23,115	-
Construction cash	-	248,276	-
Reserve cash	-	209,621	-
Interfund receivable	410,000	-	-
Contracts receivable	-	47,084	-
Interest receivable	1,899	102	-
	<u>1,455,977</u>	<u>717,778</u>	<u>-</u>
Total restricted assets			
Deferred charges	-	56,280	-
Capital assets:			
Land and construction in progress	69,678	54,850	32,521
Other capital assets (net of accumulated depreciation)	1,571,550	4,607,623	222,107
	<u>1,641,228</u>	<u>4,662,473</u>	<u>254,628</u>
Total capital assets			
Total noncurrent assets			
	<u>3,097,205</u>	<u>5,436,531</u>	<u>254,628</u>
Total assets			
	<u>4,037,980</u>	<u>5,488,303</u>	<u>576,311</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	6,652	9,236	1,135
Wages payable	186	264	111
Taxes payable	1,093	-	-
Current liabilities payable from restricted assets:			
Revenue bonds payable	-	110,000	-
Accrued interest payable	-	7,163	-
	<u>7,931</u>	<u>126,663</u>	<u>1,246</u>
Total current liabilities			
Noncurrent liabilities:			
Revenue bonds payable (net of deferred amount on refunding)	-	1,627,543	-
Interfund payable	-	300,000	110,000
	<u>-</u>	<u>1,927,543</u>	<u>110,000</u>
Total noncurrent liabilities			
Total liabilities			
	<u>7,931</u>	<u>2,054,206</u>	<u>111,246</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,641,228	2,924,930	254,628
Restricted for debt service	-	232,736	-
Restricted for other purposes	1,044,078	437,856	-
Unrestricted	1,344,743	(161,425)	210,437
	<u>4,030,049</u>	<u>3,434,097</u>	<u>465,065</u>
Total net assets			

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

CITY OF BERNE MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Stormwater Utility
Operating Revenues:			
Metered water revenue	\$ 317,281	\$ -	\$ -
Unmetered revenue	-	-	418,961
Fire protection revenue	63,112	-	-
Measured revenue	-	504,546	-
Other	9,478	4,412	303
	<u>389,871</u>	<u>508,958</u>	<u>419,264</u>
Total operating revenues			
Operating expenses:			
Salaries and wages	123,084	113,103	38,297
Employee pensions and benefits	37,466	36,401	5,454
Purchased power	46,757	36,033	-
Chemicals	19,175	-	-
Materials and supplies	133,706	70,506	22,669
Contractual services	6,150	60,098	29,080
Transportation expenses	2,864	8,151	871
Insurance expense	13,108	12,707	791
Depreciation	89,552	102,300	5,702
Miscellaneous expenses	7,999	2,136	537
	<u>479,861</u>	<u>441,435</u>	<u>103,401</u>
Total operating expenses			
Operating income (loss)	<u>(89,990)</u>	<u>67,523</u>	<u>315,863</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	59,314	26,343	9,362
Miscellaneous revenue	-	3,075	-
Interest expense	-	(100,088)	-
Amortization of bond issue costs	-	(4,721)	-
	<u>59,314</u>	<u>(75,391)</u>	<u>9,362</u>
Total nonoperating revenues (expenses)			
Change in net assets	(30,676)	(7,868)	325,225
Total net assets - beginning	<u>4,060,725</u>	<u>3,441,965</u>	<u>139,840</u>
Total net assets - ending	<u>\$ 4,030,049</u>	<u>\$ 3,434,097</u>	<u>\$ 465,065</u>

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

CITY OF BERNE MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Stormwater Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 319,098	\$ 504,224	\$ 418,479
Payments to suppliers and contractors	(212,867)	(191,929)	(59,710)
Payments to employees	(160,689)	(149,809)	(38,186)
Interfund services provided (used)	40,000	-	(40,000)
Other receipts	72,590	29,418	303
	<u>58,132</u>	<u>191,904</u>	<u>280,886</u>
Net cash provided by operating activities			
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(10,256)	(51,069)	(160,673)
Principal paid on capital debt	-	(105,000)	-
Interest paid on capital debt	-	(89,515)	-
	<u>(10,256)</u>	<u>(245,584)</u>	<u>(160,673)</u>
Net cash used by capital and related financing activities			
Cash flows from investing activities:			
Interest received	58,232	26,343	9,362
	<u>58,232</u>	<u>26,343</u>	<u>9,362</u>
Net increase (decrease) in cash and cash equivalents	106,108	(27,337)	129,575
Cash and cash equivalents, January 1	1,547,118	735,762	185,396
Cash and cash equivalents, December 31	<u>\$ 1,653,226</u>	<u>\$ 708,425</u>	<u>\$ 314,971</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (89,990)	\$ 67,523	\$ 315,863
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	89,552	102,300	5,702
(Increase) decrease in assets:			
Accounts receivable	1,817	(322)	(482)
Interfund receivable	40,000	-	-
Contracts receivable	-	25,006	-
Inventories	18,599	-	-
Prepaid items	(654)	(1,055)	(1,443)
Increase (decrease) in liabilities:			
Accounts payable	(762)	(1,243)	1,135
Interfund payable	-	-	(40,000)
Wages payable	(139)	(305)	111
Taxes Payable	(291)	-	-
	<u>148,122</u>	<u>124,381</u>	<u>(34,977)</u>
Total adjustments			
Net cash provided by operating activities	<u>\$ 58,132</u>	<u>\$ 191,904</u>	<u>\$ 280,886</u>
Noncash investing, capital and financing activities:			
Purchase of equipment on account	\$ -	\$ 1,360	\$ -

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

CITY OF BERNE 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 Berne Municipal Utilities and are not intended to present fairly the position of the City of Berne (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.

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.

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

CITY OF BERNE MUNICIPAL UTILITIES  
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 in both government-wide and fund 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 balance sheet because their use is limited by applicable bond covenants.

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	\$ 1,000	Composite rate	2%
Improvements other than buildings	1,000	Composite rate	1% to 5%
Machinery and equipment	1,000	Composite rate	5%
Transportation equipment	1,000	Straight-line	10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at various rates with a maximum of 25 days per year after 15 years of service. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is not paid to employees upon termination of employment.
- b. Vacation Leave – Utility 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.

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

- c. Personal Leave – Utility employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick 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

Deposits, made in accordance with Indiana Code 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. Receivables

The following receivable accounts have timing and credit characteristics different from typical accounts receivable. The Wastewater Utility has a contract with the Town of Monroe for its share of 2001 Capital Improvements.

The following is a schedule by years of future payments as of December 31, 2005:

Year Ended December 31	Principal	Interest
2006	\$ 22,971	\$ 2,034
2007	24,113	892
Totals	\$ 47,084	\$ 2,926

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

C. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 69,678	\$ -	\$ -	\$ 69,678
Capital assets, being depreciated:				
Buildings	1,501,867	8,654	-	1,510,521
Improvements other than buildings	1,602,642	-	-	1,602,642
Machinery and equipment	244,347	1,602	-	245,949
Transportation equipment	75,990	-	-	75,990
Totals	<u>3,424,846</u>	<u>10,256</u>	<u>-</u>	<u>3,435,102</u>
Less accumulated depreciation for:				
Buildings	767,709	30,037	-	797,746
Improvements other than buildings	873,438	40,499	-	913,937
Machinery and equipment	93,145	12,217	-	105,362
Transportation equipment	39,708	6,799	-	46,507
Totals	<u>1,774,000</u>	<u>89,552</u>	<u>-</u>	<u>1,863,552</u>
Total capital assets, being depreciated, net	<u>1,650,846</u>	<u>(79,296)</u>	<u>-</u>	<u>1,571,550</u>
Total Water Utility capital assets, net	<u>\$ 1,720,524</u>	<u>\$ (79,296)</u>	<u>\$ -</u>	<u>\$ 1,641,228</u>
 <u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 54,850	\$ -	\$ -	\$ 54,850
Capital assets, being depreciated:				
Buildings	2,709,074	-	-	2,709,074
Improvements other than buildings	3,002,210	6,265	-	3,008,475
Machinery and equipment	361,927	46,164	10,000	398,091
Totals	<u>6,073,211</u>	<u>52,429</u>	<u>10,000</u>	<u>6,115,640</u>

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

<u>Wastewater Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued)				
Less accumulated depreciation for:				
Buildings	852,801	54,181	-	906,982
Improvements other than buildings	404,806	30,022	-	434,828
Machinery and equipment	<u>158,110</u>	<u>18,097</u>	<u>10,000</u>	<u>166,207</u>
Totals	<u>1,415,717</u>	<u>102,300</u>	<u>10,000</u>	<u>1,508,017</u>
Total capital assets, being depreciated, net	<u>4,657,494</u>	<u>(49,871)</u>	<u>-</u>	<u>4,607,623</u>
Total Wastewater Utility capital assets, net	<u>\$ 4,712,344</u>	<u>\$ (49,871)</u>	<u>\$ -</u>	<u>\$ 4,662,473</u>

Stormwater Utility

Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 32,521	\$ -	\$ 32,521
Capital assets, being depreciated:				
Machinery and equipment	114,036	113,773	-	227,809
Less accumulated depreciation for:				
Machinery and equipment	<u>-</u>	<u>5,702</u>	<u>-</u>	<u>5,702</u>
Total capital assets, being depreciated, net	<u>114,036</u>	<u>108,071</u>	<u>-</u>	<u>222,107</u>
Total Stormwater Utility capital assets, net	<u>\$ 114,036</u>	<u>\$ 140,592</u>	<u>\$ -</u>	<u>\$ 254,628</u>

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

Water	\$ 89,552
Wastewater	102,300
Stormwater	<u>5,702</u>
Total depreciation expense	<u>\$ 197,554</u>

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

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2005
Stormwater Utility: South trunk line	<u>\$ 32,521</u>

E. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2005, is as follows:

Receivable Fund	Wastewater Utility	Stormwater Utility	Total
Water Utility	<u>\$ 300,000</u>	<u>\$ 110,000</u>	<u>\$ 410,000</u>

F. Long-Term Liabilities

1. Revenue Bonds

The Wastewater Utility issues 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	Unamortized Loss on Advance Refunding	Revenue Bonds
1997 Wastewater revenue bonds	4.4% to 5.1%	<u>\$ 1,775,000</u>	<u>\$ 37,457</u>	<u>\$ 1,737,543</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2006	\$ 110,000	\$ 84,718
2007	115,000	79,754
2008	120,000	74,392
2009	130,000	68,741
2010	135,000	62,664
2011-2015	785,000	207,471
2016-2020	380,000	24,538
Totals	<u>\$ 1,775,000</u>	<u>\$ 602,278</u>

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

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable:					
Wastewater Utility	\$ 1,880,000	\$ -	\$ 105,000	\$ 1,775,000	\$ 110,000
Less deferred amount on refunding	<u>(48,419)</u>	<u>-</u>	<u>(10,962)</u>	<u>(37,457)</u>	
Total long-term liabilities	<u>\$ 1,831,581</u>	<u>\$ -</u>	<u>\$ 94,038</u>	<u>\$ 1,737,543</u>	<u>\$ 110,000</u>

G. Restricted Assets

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

	<u>Water Utility</u>	<u>Wastewater Utility</u>
Depreciation	\$ 1,007,247	\$ 189,580
Bond and Interest	36,831	23,115
Construction	-	248,276
Reserve	-	209,621
Interfund receivable	410,000	-
Contracts receivable	-	47,084
Interest receivable	<u>1,899</u>	<u>102</u>
Total restricted assets	<u>\$ 1,455,977</u>	<u>\$ 717,778</u>

H. Segment Information

The Wastewater Utility issued revenue bonds to finance construction. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for the Wastewater Utility is presented below.

Condensed Statement of Net Assets

Assets:	
Current assets	\$ 51,772
Restricted assets	717,778
Deferred Charges	56,280
Capital assets	<u>4,662,473</u>
Total assets	<u>\$ 5,488,303</u>

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

Condensed Statement of Net Assets

Liabilities:	
Current liabilities	\$ 126,663
Noncurrent liabilities	<u>1,927,543</u>
Total liabilities	<u>\$ 2,054,206</u>
Net assets:	
Invested in capital assets, net of related debt	\$ 2,924,930
Restricted	670,592
Unrestricted	<u>(161,425)</u>
Total net assets	<u>\$ 3,434,097</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Charges (pledged against bonds)	\$ 508,958
Depreciation expense	(102,300)
Other operating expenses	<u>(339,135)</u>
Operating income	67,523
Nonoperating revenues (expenses):	
Investment earnings	26,343
Miscellaneous revenue	3,075
Interest expense	(100,088)
Amortization of bond issue costs	<u>(4,721)</u>
Change in net assets	(7,868)
Beginning net assets	<u>3,441,965</u>
Ending net assets	<u>\$ 3,434,097</u>

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

Condensed Statement of Cash Flows

Net cash provided (used) by:	
Operating activities	\$ 191,904
Capital and related financing activities	(245,584)
Investing activities	<u>26,343</u>
Net decrease	(27,337)
Beginning cash and cash equivalents	<u>735,762</u>
Ending cash and cash equivalents	<u>\$ 708,425</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; and natural disasters.

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

Job Related Illnesses or Injuries to Employees

During 2002, 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 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. Subsequent Events

The Stormwater Utility expects to do a separation of storm and sanitary sewers in the city for an estimated cost of \$3,000,000. Anticipated funding for the project will be a state revolving fund loan and a possible bond issue. Officials expect to advertise for bids in the latter part of 2006.

C. Rate Structure

1. Water Utility

On May 8, 2000, the City Council adopted Ordinance 485 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the City Council on November 13, 2000. The Utility has 1,483 customers.

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

2. Wastewater Utility

The current rate structure was approved by the City Council on November 13, 2000. The Utility has 1,488 customers.

3. Stormwater Utility

The current rate structure was approved by the City Council on June 14, 2004. The Utility has 1,467 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 the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utilities' annual pension costs and related information, as provided by the actuary, is presented in this note.

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.

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 36,613
Interest on net pension obligation	(3,537)
Adjustment to annual required contribution	4,031
Annual pension cost	37,107
Contributions made	46,930
Decrease in net pension obligation	(9,823)
Net pension obligation, beginning of year	(48,793)
Net pension obligation, end of year	\$ (58,616)
Contribution rates:	
Utilities	7.25%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 42,489	117%	\$ (33,019)
	06-30-04	36,178	144%	(48,793)
	06-30-05	37,107	130%	(58,616)

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

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 414,476	\$ 587,302	\$ (172,826)	71%	\$ 522,172	(33%)
07-01-04	445,198	600,631	(155,433)	74%	535,049	(29%)
07-01-05	482,492	703,830	(221,338)	69%	628,413	(35%)

CITY OF BERNE MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on August 29, 2006, with Gwendolyn J. Maller, Clerk-Treasurer; and John F. Minch, Mayor. Our audit disclosed no material items that warrant comment at this time.