

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

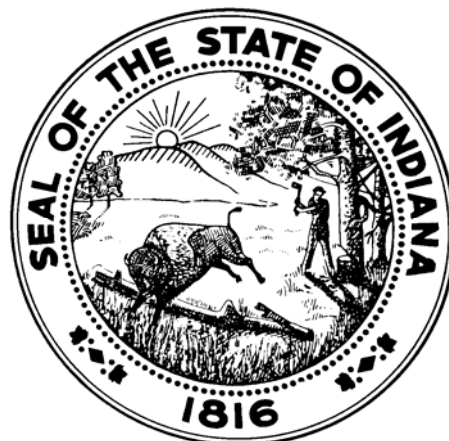
ANNUAL FINANCIAL REPORT

2005

ELECTRIC, WATER, AND WASTEWATER UTILITIES

CITY OF GARRETT

DEKALB COUNTY, INDIANA



FILED
12/29/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jennie DePaolo	01-01-04 to 12-31-07
Mayor	David Wiant	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	David Wiant	01-01-04 to 12-31-07
President of the Common Council	David Wiant	01-01-04 to 12-31-07
Superintendent of Utilities	David N. Conkle	01-01-05 to 02-14-05
Foreman of Electric Utility	Michael Steward	02-14-05 to 12-31-06
Forman of Water Utility	John A. Simon Pat Kleeman	02-14-05 to 05-30-05 06-01-05 to 12-31-06
Forman of Wastewater Utility	Bruce Schlosser	02-14-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Electric, Water, and Wastewater Utilities, departments of the City of Garrett, 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 Electric, Water, and Wastewater Utilities, departments of the City of Garrett, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Garrett as of December 31, 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 Electric, Water, and Wastewater 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 inquires 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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

November 27, 2006

CITY OF GARRETT
ELECTRIC, WATER, AND WASTEWATER UTILITIES
STATEMENT OF NET ASSETS
December 31, 2005

<u>Assets</u>	2005		
	Electric Utility	Water Utility	Wastewater Utility
Current assets:			
Cash and cash equivalents	\$ 741,150	\$ 674,440	\$ 1,127,129
Accounts receivable (net of allowance)	494,212	75,639	163,169
Interfund receivables:			
Interfund loans	66,000	10,871	-
Accrued revenue	497,888	61,866	129,024
Inventories	311,942	22,379	-
Prepaid items	15,791	6,825	6,421
Total current assets	2,126,983	852,020	1,425,743
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation	372,929	55,199	1,500
Bond and interest	112,422	6,903	452,340
Construction	1,265,751	223,917	400,888
Debt service reserve	307,980	66,155	516,688
Customer deposits	118,873	39,260	51,212
Total restricted assets:	2,177,955	391,434	1,422,628
Deferred charges	159,661	52,912	163,819
Capital assets:			
Land, improvements to land and construction in progress	1,348,119	579,536	43,792
Other capital assets (net of accumulated depreciation)	5,684,606	2,236,379	9,554,042
Total capital assets	7,032,725	2,815,915	9,597,834
Total noncurrent assets	9,370,341	3,260,261	11,184,281
Total assets	11,497,324	4,112,281	12,610,024
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	348,960	13,611	11,997
Accrued wages payable	14,204	9,392	9,861
Interfund payables:			
Interfund loans	-	-	10,871
Taxes payable	24,598	3,381	-
Current liabilities payable from restricted assets:			
Customer deposits	118,873	39,260	51,212
Revenue bonds payable	-	-	238,000
Accrued interest payable	82,124	-	113,910
Total current liabilities	588,759	65,644	435,851
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts and premiums)	3,950,000	800,000	5,188,653
Total liabilities	4,538,759	865,644	5,624,504
<u>Net Assets</u>			
Invested in capital assets, net of related debt	3,082,725	2,015,915	4,171,181
Restricted for debt service	420,402	73,058	969,028
Restricted for other purposes	1,638,680	279,116	402,388
Unrestricted	1,816,758	878,548	1,442,923
Total net assets	\$ 6,958,565	\$ 3,246,637	\$ 6,985,520

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

CITY OF GARRETT
ELECTRIC, WATER, AND WASTEWATER UTILITIES
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

	2005		
	Electric Utility	Water Utility	Wastewater Utility
Operating revenues:			
Measured revenue	\$ -	\$ 596,250	\$ 1,447,599
Metered revenue	5,325,787	-	-
Fire protection revenue	-	155,654	-
Penalties	23,986	5,188	31,931
Other	8,922	10,616	31,500
Total operating revenues	<u>5,358,695</u>	<u>767,708</u>	<u>1,511,030</u>
Operating expenses:			
Water treatment expense - operations and maintenance	-	110,098	-
Transmission and distribution	-	197,284	-
Pumping - operations and maintenance	-	-	88,192
Treatment and disposal - operations and maintenance	-	-	33,530
Operations and maintenance	562,653	-	-
Customer accounts	54,059	31,696	28,887
Administration and general	250,531	110,227	184,769
Insurance claims and premiums	58,888	21,649	28,385
Employee pensions and benefits	148,039	85,291	83,390
Purchased power	3,788,097	80,251	60,575
Sludge removal	-	-	117,022
Contractual services	111,345	8,216	62,233
Rents	11,466	6,667	6,749
Depreciation	299,323	71,042	397,989
Miscellaneous expenses	-	10,221	21,523
Total operating expenses	<u>5,284,401</u>	<u>732,642</u>	<u>1,113,244</u>
Operating income	<u>74,294</u>	<u>35,066</u>	<u>397,786</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	18,481	6,317	11,234
Miscellaneous revenue	27,780	5,522	4,209
Interest expense	(111,324)	(4,583)	(231,543)
Amortization of bond issue costs	(8,403)	-	(10,279)
Total nonoperating revenues (expenses)	<u>(73,466)</u>	<u>7,256</u>	<u>(226,379)</u>
Change in net assets	828	42,322	171,407
Total net assets - beginning	<u>6,957,737</u>	<u>3,204,315</u>	<u>6,814,113</u>
Total net assets - ending	<u>\$ 6,958,565</u>	<u>\$ 3,246,637</u>	<u>\$ 6,985,520</u>

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

CITY OF GARRETT
ELECTRIC, WATER, AND WASTEWATER UTILITIES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2005

	2005		
	Electric Utility	Water Utility	Wastewater Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 5,257,132	\$ 765,112	\$ 1,500,132
Payments to suppliers and contractors	(4,677,462)	(459,363)	(383,010)
Payments to employees	(382,201)	(238,844)	(327,438)
Interfund services provided	833,100	-	-
Other receipts	27,780	5,522	4,209
Net cash provided by operating activities	<u>1,058,349</u>	<u>72,427</u>	<u>793,893</u>
Cash flows from capital and related financing activities:			
Proceeds from capital debt	3,863,981	-	-
Acquisition and construction of capital assets	(3,448,313)	(592,074)	(309,594)
Principal paid on capital debt	-	-	(230,000)
Interest paid on capital debt	(29,200)	(43,022)	(118,208)
Net cash provided (used) by capital and related financing activities	<u>386,468</u>	<u>(635,096)</u>	<u>(657,802)</u>
Cash flows from investing activities:			
Interest received	18,481	6,317	11,234
Net increase in cash and cash equivalents	1,463,298	(556,352)	147,325
Cash and cash equivalents, January 1	<u>1,455,807</u>	<u>1,622,226</u>	<u>2,402,432</u>
Cash and cash equivalents, December 31	<u>\$ 2,919,105</u>	<u>\$ 1,065,874</u>	<u>\$ 2,549,757</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 74,294</u>	<u>\$ 35,066</u>	<u>\$ 397,786</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	299,323	71,042	397,989
Nonoperating revenues	27,780	5,522	4,209
(Increase) decrease in assets:			
Accounts receivable	(52,934)	(2,596)	(11,717)
Interfund services provided or used	833,100	(10,871)	-
Accrued revenue	(48,629)	-	818
Inventories	37,203	13,518	-
Prepaid items	3,073	2,460	5,794
Increase (decrease) in liabilities:			
Accounts payable	(115,107)	(40,786)	(20,925)
Interfund payables	-	-	10,871
Taxes payable	2,830	88	-
Wages payable	(2,646)	(16)	89
Customer deposits	62	(1,000)	8,979
Total adjustments	<u>984,055</u>	<u>37,361</u>	<u>396,107</u>
Net cash provided by operating activities	<u>\$ 1,058,349</u>	<u>\$ 72,427</u>	<u>\$ 793,893</u>

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

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Garrett (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represent a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activities are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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.

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

2. Inventories and Prepaid Items

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

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

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

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 of applicable bond indentures or governing body action.

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.

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 \$190,430. Of the amount, \$34,703 was included as part of the cost of capital assets under construction in connection with water main extension and tower projects.

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

5. Compensated Absences

- a. Sick Leave – Utilities employees earn sick leave at the rate of 5 days per year. Unused sick leave may be accumulated to a maximum of 65 days. Accumulated sick leave is paid to employees through cash payments at a rate of \$20 per day upon retirement.
- b. Vacation Leave – Utilities employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utilities 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

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 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, 2005, was as follows:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 183,832	\$ -	\$ -	\$ 183,832
Construction in progress	<u>707,026</u>	<u>457,261</u>	<u>-</u>	<u>1,164,287</u>
				-
Total capital assets, not being depreciated	<u>890,858</u>	<u>457,261</u>	<u>-</u>	<u>1,348,119</u>
Capital assets, being depreciated:				
Buildings	54,044	-	-	54,044
Improvements other than buildings	6,748,222	2,855,949	-	9,604,171
Machinery and equipment	252,499	53,058	-	305,557
Transportation equipment	428,306	-	-	428,306
Less accumulated depreciation	<u>(4,408,149)</u>	<u>(299,323)</u>	<u>-</u>	<u>(4,707,472)</u>
Total capital assets, being depreciated, net	<u>3,074,922</u>	<u>2,609,684</u>	<u>-</u>	<u>5,684,606</u>
Total Electric Utility capital assets, net	<u>\$ 3,965,780</u>	<u>\$ 3,066,945</u>	<u>\$ -</u>	<u>\$ 7,032,725</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 25,333	\$ 12,650	\$ -	\$ 37,983
Construction in progress	<u>35,920</u>	<u>614,127</u>	<u>108,494</u>	<u>541,553</u>
				-
Total capital assets, not being depreciated	<u>61,253</u>	<u>626,777</u>	<u>108,494</u>	<u>579,536</u>
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	3,058,337	108,494	-	3,166,831
Machinery and equipment	120,468	-	-	120,468
Transportation equipment	83,158	-	-	83,158
Less accumulated depreciation	<u>(1,353,193)</u>	<u>(71,042)</u>	<u>-</u>	<u>(1,424,235)</u>
Total capital assets, being depreciated, net	<u>2,198,927</u>	<u>37,452</u>	<u>-</u>	<u>2,236,379</u>
Total Water Utility capital assets, net	<u>\$ 2,260,180</u>	<u>\$ 664,229</u>	<u>\$ 108,494</u>	<u>\$ 2,815,915</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 31,142	\$ 12,650	\$ -	\$ 43,792
Capital assets, being depreciated:				
Buildings	1,157,697	-	-	1,157,697
Improvements other than buildings	7,001,188	293,656	-	7,294,844
Machinery and equipment	4,991,078	-	-	4,991,078
Transportation equipment	25,941	10,000	-	35,941
Totals	13,175,904	303,656	-	13,479,560
Less accumulated depreciation for:				
Buildings	(420,056)	(23,154)	-	(443,210)
Improvements other than buildings	(2,059,379)	(155,420)	-	(2,214,799)
Machinery and equipment	(1,022,153)	(219,415)	-	(1,241,568)
Transportation equipment	(25,941)	-	-	(25,941)
Totals	(3,527,529)	(397,989)	-	(3,925,518)
Total capital assets, being depreciated, net	9,648,375	(94,333)	-	9,554,042
Total Wastewater Utility capital assets, net	\$ 9,679,517	\$ (81,683)	\$ -	\$ 9,597,834

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2005
Electric Utility West Substation	\$ 302,366	\$ 302,366
Electric Utility North Substation	861,921	861,921
Water Utility New Water Tower	541,553	541,553
Totals	\$ 1,705,840	\$ 1,705,840

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

D. Interfund Balances and Activity

Interfund Receivables and Payables

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

Due To	Due From		
	City - Debt Service Fund	Wastewater Utility	Total
Electric Utility	\$ 66,000	\$ -	\$ 66,000
Water Utility	-	10,871	10,871
Totals	\$ 66,000	\$ 10,871	\$ 76,871

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Balance at December 31	Current Portion	Premium (Discount)	Net Noncurrent
1992 Sewage Utility expansion	6.15% to 6.25%	\$ 400,000	50,000	(2,937)	347,063
2002 Sewage works subordinate refunding	8.55%	3,000	3,000	1,678	1,678
2002A Sewage works, wastewater expansion	2.5% to 4.375%	5,065,000	185,000	(40,088)	4,839,912
2004 Waterworks improvement	4.25% to 4.85%	800,000	-	-	800,000
2005 Electric Utility improvements and extension	4% to 4.4%	3,950,000	-	-	3,950,000
Totals		\$ 10,218,000	\$ 238,000	\$ (41,347)	\$ 9,938,653

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Electric Utility		Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ -	\$ 164,247	\$ -	\$ 18,308	\$ 238,000	\$ 227,948
2007	130,000	161,647	25,000	36,084	250,000	220,122
2008	135,000	156,348	25,000	35,021	260,000	210,861
2009	140,000	150,848	30,000	33,853	275,000	200,112
2010	145,000	145,147	30,000	32,578	290,000	188,699
2011-2015	825,000	631,538	160,000	143,340	1,355,000	765,171
2016-2020	1,010,000	447,575	205,000	103,859	1,610,000	476,259
2021-2025	1,270,000	208,431	265,000	48,380	1,190,000	106,093
2026-2030	295,000	6,490	60,000	1,455	-	-
Totals	\$ 3,950,000	\$ 2,072,271	\$ 800,000	\$ 452,878	\$ 5,468,000	\$ 2,395,265

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
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:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Electric Utility	\$ -	\$ 3,950,000	\$ -	\$ 3,950,000	\$ -
Water Utility	800,000	-	-	800,000	-
Wastewater Utility	5,698,000	-	230,000	5,468,000	238,000
Total long-term liabilities	<u>\$ 6,498,000</u>	<u>\$ 3,950,000</u>	<u>\$ 230,000</u>	<u>\$ 10,218,000</u>	<u>\$ 238,000</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.

Group Health Insurance

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. 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 \$12,000 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.

Workers' Compensation

During 1993, the Utilities joined together with other governmental entities in the Indiana Public Employers' Plan, Inc., 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 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.

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

B. Rate Structure

1. Electric Utility

The current rate structure was approved by the Utility on December 22, 2004. The Utility has 3,191 customers.

2. Water Utility

The current rate structure was approved by the Utility on June 19, 2001. The Utility has 2,192 customers.

3. Wastewater Utility

The current rate structure was approved by the Utility on November 19, 2002. The Utility has 2,236 customers

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 PERF Board, most requirements of the system and gives the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of 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 cost and related information, as provided by the actuary, is presented in this note.

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

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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 59,452
Interest on net pension obligation	(2,760)
Adjustment to annual required contribution	3,145
Annual pension cost	59,837
Contributions made	62,428
Decrease in net pension obligation	(2,591)
Net pension obligation, beginning of year	(38,070)
Net pension obligation, end of year	\$ (40,661)
Contribution rates:	
Utilities	4.75%
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	75% of expected actuarial value plus 25% of market value

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%

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

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 69,381	95%	\$ (29,391)
	06-30-04	56,500	115%	(38,070)
	06-30-05	59,837	110%	(40,661)

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,568,767	\$ 1,557,028	\$ 11,739	101%	\$ 1,252,757	1%
07-01-04	1,579,657	1,594,163	(14,506)	99%	1,224,813	(1%)
07-01-05	1,629,478	1,685,837	(56,359)	97%	1,269,795	(4%)

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

The contents of this report were discussed on November 27, 2006, with Jennie DePaolo, Clerk-Treasurer; and David Wiant, Mayor. Our audit disclosed no material items that warrant comment at this time.