

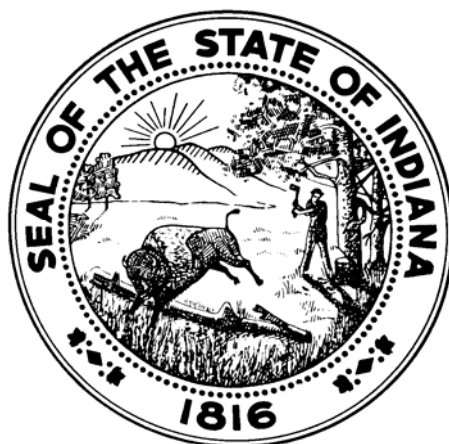
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2006

CITY OF DECATUR MUNICIPAL UTILITIES

ADAMS COUNTY, INDIANA



FILED
05/14/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Phyllis J. Whitright	01-01-04 to 12-31-07
Mayor	Fred R. Isch	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Fred R. Isch	01-01-04 to 12-31-07
President of the Common Council	Fred R. Isch	01-01-04 to 12-31-07
Utility Office Manager	Robert M. Ladd	01-01-06 to 12-31-07
Superintendent of Water Utility	James E. Inskeep, Jr.	01-01-06 to 12-31-07
Superintendent of Wastewater Utility	Anne L. Butcher	01-01-06 to 12-31-07
Superintendent of Stormwater Utility	Joan A. Eichorn	01-01-06 to 12-31-07



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 DECATUR MUNICIPAL UTILITIES, ADAMS COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the City of Decatur Municipal Utilities (Utilities), departments of the City of Decatur, as of and for the year ended December 31, 2006. 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 Decatur as of December 31, 2006, 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, 2006, 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

April 25, 2007

CITY OF DECATUR MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2006

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>
Current assets:			
Cash and cash equivalents	\$ 527,688	\$ 636,850	\$ 172,994
Interest receivable	4,000	1,814	783
Accounts receivable (net of allowance)	53,197	129,832	18,471
Accounts receivable - other	10,809	4,227	-
Inventories	66,799	-	-
Prepaid items	<u>14,989</u>	<u>8,461</u>	<u>724</u>
 Total current assets	 <u>677,482</u>	 <u>781,184</u>	 <u>192,972</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	240,088	64,424	-
Bond and interest cash and investments	-	132,574	-
Reserve cash and investments	-	227,035	-
Interest receivable	<u>-</u>	<u>3,865</u>	<u>-</u>
 Total restricted assets	 <u>240,088</u>	 <u>427,898</u>	 <u>-</u>
Deferred charges	<u>-</u>	<u>73,673</u>	<u>-</u>
Capital assets:			
Land, improvements to land and construction in progress	286,677	15,390	-
Other capital assets (net of accumulated depreciation)	<u>3,379,418</u>	<u>17,707,660</u>	<u>20,235</u>
 Total capital assets	 <u>3,666,095</u>	 <u>17,723,050</u>	 <u>20,235</u>
 Total noncurrent assets	 <u>3,906,183</u>	 <u>18,224,621</u>	 <u>20,235</u>
 Total assets	 <u>4,583,665</u>	 <u>19,005,805</u>	 <u>213,207</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	76,057	25,047	1,923
Accrued wages payable	6,931	6,396	-
Taxes payable	5,343	-	-
Current liabilities payable from restricted assets:			
Loan payable	<u>-</u>	<u>122,000</u>	<u>-</u>
 Total current liabilities	 <u>88,331</u>	 <u>153,443</u>	 <u>1,923</u>
Noncurrent liabilities:			
Loan payable	-	5,540,000	-
Compensated absences	<u>19,855</u>	<u>18,474</u>	<u>-</u>
 Total noncurrent liabilities	 <u>19,855</u>	 <u>5,558,474</u>	 <u>-</u>
 Total liabilities	 <u>108,186</u>	 <u>5,711,917</u>	 <u>1,923</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	3,666,095	12,061,050	20,235
Restricted for debt service	-	359,609	-
Unrestricted	<u>809,384</u>	<u>873,229</u>	<u>191,049</u>
 Total net assets	 <u>\$ 4,475,479</u>	 <u>\$ 13,293,888</u>	 <u>\$ 211,284</u>

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

CITY OF DECATUR MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>
Operating revenues:			
Measured revenue:			
Residential, commercial and industrial	\$ 705,555	\$ 1,317,135	\$ -
Fire protection revenue	99,790	-	-
Penalties	5,902	23,508	2,524
Flat rate revenues	-	-	211,409
Other	<u>54,138</u>	<u>18,679</u>	<u>282</u>
Total operating revenues	<u>865,385</u>	<u>1,359,322</u>	<u>214,215</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	118,709	-	-
Water treatment expense - operations and maintenance	437,118	-	-
Transmission and distribution	308,728	-	-
Collection system - operations and maintenance	-	69,303	-
Treatment and disposal - operations and maintenance	-	541,589	-
Operations and maintenance	-	-	70,834
Customer accounts	130,751	84,516	16,527
Administration and general	98,285	103,763	11,700
Depreciation	<u>133,897</u>	<u>341,913</u>	<u>10,024</u>
Total operating expenses	<u>1,227,488</u>	<u>1,141,084</u>	<u>109,085</u>
Operating income (loss)	<u>(362,103)</u>	<u>218,238</u>	<u>105,130</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	55,984	57,990	6,493
Interest expense	-	(213,213)	-
Gain (loss) on disposal of assets	<u>16,791</u>	<u>(1,195)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>72,775</u>	<u>(156,418)</u>	<u>6,493</u>
Income (loss) before contributions	(289,328)	61,820	111,623
Capital contributions	<u>-</u>	<u>11,815</u>	<u>-</u>
Change in net assets	(289,328)	73,635	111,623
Total net assets - beginning	<u>4,764,807</u>	<u>13,220,253</u>	<u>99,661</u>
Total net assets - ending	<u>\$ 4,475,479</u>	<u>\$ 13,293,888</u>	<u>\$ 211,284</u>

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

CITY OF DECATUR MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2006

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 874,010	\$ 1,335,562	\$ 211,688
Payments to suppliers and contractors	(580,179)	(389,651)	(31,776)
Payments to employees	<u>(482,295)</u>	<u>(414,760)</u>	<u>(66,513)</u>
Net cash provided (used) by operating activities	<u>(188,464)</u>	<u>531,151</u>	<u>113,399</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(384,054)	(86,203)	(6,581)
Principal paid on capital debt	-	(238,000)	-
Interest paid on capital debt	<u>-</u>	<u>(208,879)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(384,054)</u>	<u>(533,082)</u>	<u>(6,581)</u>
Cash flows from investing activities:			
Interest received	<u>56,629</u>	<u>56,018</u>	<u>5,710</u>
Net increase (decrease) in cash and cash equivalents	(515,889)	54,087	112,528
Cash and cash equivalents, January 1	<u>1,283,665</u>	<u>1,006,796</u>	<u>60,466</u>
Cash and cash equivalents, December 31	<u>\$ 767,776</u>	<u>\$ 1,060,883</u>	<u>\$ 172,994</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ (362,103)</u>	<u>\$ 218,238</u>	<u>\$ 105,130</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	133,897	341,913	10,024
(Increase) decrease in assets:			
Accounts receivable - customers	12,274	(22,474)	(2,527)
Accounts receivable - other	(3,649)	(1,286)	-
Inventories	(4,514)	-	-
Prepaid items	(14,989)	(8,461)	(724)
Increase (decrease) in liabilities:			
Accounts payable	53,848	9,255	1,496
Accrued wages payable	(1,880)	306	-
Contracts payable	-	(8,400)	-
Taxes payable	(716)	-	-
Compensated absence payable	<u>(632)</u>	<u>2,060</u>	<u>-</u>
Total adjustments	<u>173,639</u>	<u>312,913</u>	<u>8,269</u>
Net cash provided (used) by operating activities	<u>\$ (188,464)</u>	<u>\$ 531,151</u>	<u>\$ 113,399</u>
Noncash investing, capital and financing activities:			
Purchase of equipment on account	\$ -	\$ 25,513	\$ -
Contributions of capital assets from government	-	11,815	-

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

CITY OF DECATUR 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 Decatur Municipal Utilities and are not intended to present fairly the position of the City of Decatur (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 Utility's 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 Utility 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.

2. Inventories and Prepaid Items

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

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

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

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because 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	\$ 500	Straight-line	50 years
Improvements other than buildings	500	Straight-line	10 to 100 years
Machinery and equipment	500	Straight-line	5 to 20 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 the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 200 days. A percentage of accumulated sick leave, based upon the number of years of service, is paid to employees through cash payments upon termination.
- 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.

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

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

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. Capital Assets

Capital asset activity for the year ended December 31, 2006, 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	\$ 98,030	\$ 81,694	\$ -	\$ 179,724
Construction in progress	<u>-</u>	<u>106,953</u>	<u>-</u>	<u>106,953</u>
Total capital assets, not being depreciated	<u>98,030</u>	<u>188,647</u>	<u>-</u>	<u>286,677</u>
Capital assets, being depreciated:				
Buildings	413,604	27,183	15,200	425,587
Improvements other than buildings	3,836,095	64,235	10,045	3,890,285
Machinery and equipment	<u>1,497,504</u>	<u>106,841</u>	<u>124,425</u>	<u>1,479,920</u>
Totals	<u>5,747,203</u>	<u>198,259</u>	<u>149,670</u>	<u>5,795,792</u>
Less accumulated depreciation for:				
Buildings	277,330	9,016	14,769	271,577
Improvements other than buildings	1,432,898	65,301	10,045	1,488,154
Machinery and equipment	<u>718,900</u>	<u>59,580</u>	<u>121,837</u>	<u>656,643</u>
Totals	<u>2,429,128</u>	<u>133,897</u>	<u>146,651</u>	<u>2,416,374</u>
Total capital assets, being depreciated, net	<u>3,318,075</u>	<u>64,362</u>	<u>3,019</u>	<u>3,379,418</u>
Total capital assets, net	<u>\$ 3,416,105</u>	<u>\$ 253,009</u>	<u>\$ 3,019</u>	<u>\$ 3,666,095</u>

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

<u>Wastewater Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 15,390	\$ -	\$ -	\$ 15,390
Construction in progress	5,831,667	49,044	5,880,711	-
Total capital assets, not being depreciated	<u>5,847,057</u>	<u>49,044</u>	<u>5,880,711</u>	<u>15,390</u>
Capital assets, being depreciated:				
Buildings	5,078,559	28,303	-	5,106,862
Improvements other than buildings	10,183,960	5,892,527	-	16,076,487
Machinery and equipment	3,601,637	32,759	92,618	3,541,778
Totals	<u>18,864,156</u>	<u>5,953,589</u>	<u>92,618</u>	<u>24,725,127</u>
Less accumulated depreciation for:				
Buildings	2,105,440	100,052	-	2,205,492
Improvements other than buildings	1,895,714	101,932	-	1,997,646
Machinery and equipment	2,765,892	139,929	91,492	2,814,329
Totals	<u>6,767,046</u>	<u>341,913</u>	<u>91,492</u>	<u>7,017,467</u>
Total capital assets, being depreciated, net	<u>12,097,110</u>	<u>5,611,676</u>	<u>1,126</u>	<u>17,707,660</u>
Total capital assets, net	<u>\$ 17,944,167</u>	<u>\$ 5,660,720</u>	<u>\$ 5,881,837</u>	<u>\$ 17,723,050</u>

Stormwater Utility

Capital assets, being depreciated:				
Machinery and equipment	\$ 39,351	\$ 6,581	\$ -	\$ 45,932
Less accumulated depreciation for:				
Machinery and equipment	15,673	10,024	-	25,697
Total capital assets, net	<u>\$ 23,678</u>	<u>\$ (3,443)</u>	<u>\$ -</u>	<u>\$ 20,235</u>

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

Water	\$ 133,897
Wastewater	341,913
Stormwater	<u>10,024</u>
Total depreciation expense	<u>\$ 485,834</u>

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

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Water Utility:				
Water towers	<u>\$ 2,118,575</u>	<u>\$ 106,953</u>	<u>\$ 2,011,622</u>	<u>\$ 1,950,000</u>

D. Long-Term Liabilities

1. Loan Payable

The Wastewater Utility has entered into a loan. Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank. The proceeds of which are set aside to finance the separation of sewer lines for the Wastewater Utility. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The 2004 loan established a maximum draw of \$5,910,000. Annual debt service requirements to maturity for the loan, including interest of \$1,945,623, are as follows:

2007	\$ 223,350
2008	448,095
2009	447,001
2010	447,604
2011	447,848
2012-2016	2,237,164
2017-2021	2,237,905
2022-2024	<u>1,118,656</u>
Total	<u>\$ 7,607,623</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
State Revolving Fund Loan:					
Wastewater Utility	\$ 5,740,780	\$ 159,220	\$ 238,000	\$ 5,662,000	\$ 122,000
Compensated absences:					
Water Utility	20,487	-	632	19,855	-
Wastewater Utility	<u>16,413</u>	<u>2,061</u>	<u>-</u>	<u>18,474</u>	<u>-</u>
Total compensated absences	<u>36,900</u>	<u>2,061</u>	<u>632</u>	<u>38,329</u>	<u>-</u>
Total long-term liabilities	<u>\$ 5,777,680</u>	<u>\$ 161,281</u>	<u>\$ 238,632</u>	<u>\$ 5,700,329</u>	<u>\$ 122,000</u>

E. Restricted Assets

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

Depreciation account	\$ 304,512
Revenue bond operations and maintenance account	132,574
Revenue bond reserve account	227,035
Interest receivable	<u>3,865</u>
Total restricted assets	<u>\$ 667,986</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 2001, the Utilities joined the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Utilities pay an annual premium to the risk pool for its job related illnesses or injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

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

B. Subsequent Events

The Water Utility borrowed \$1,950,000 in 2007 to finance the construction of a water tower and the renovation of two other water towers. The Water Utility also increased water utility rates by approximately 53% to pay for the construction.

C. Rate Structure

1. Water Utility

On June 5, 1990, the City Council adopted Ordinance No. 1990-3 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the City Council on February 20, 2007.

2. Wastewater Utility

The current rate structure was approved by the City Council on June 15, 2004.

3. Stormwater Utility

The current rate structure was approved by the City Council on July 20, 2004.

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 Utility 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

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

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.

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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 87,575
Interest on net pension obligation	(1,722)
Adjustment to annual required contribution	1,963
Annual pension cost	87,816
Contributions made	115,071
Decrease in net pension obligation	(27,255)
Net pension obligation, beginning of year	(23,755)
Net pension obligation, end of year	\$ (51,010)
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	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%

CITY OF DECATUR MUNICIPAL UTILITIES
 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	\$ 123,863	77%	\$ (14,794)
	06-30-04	100,014	109%	(23,755)
	06-30-05	87,816	115%	(51,010)

CITY OF DECATUR 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	\$ 1,835,402	\$ 2,302,721	\$ (467,319)	80%	\$ 1,531,847	(31%)
07-01-04	1,874,373	2,159,695	(285,322)	87%	1,472,068	(19%)
07-01-05	1,965,275	2,232,834	(267,559)	88%	1,525,917	(18%)

CITY OF DECATUR MUNICIPAL UTILITIES
AUDIT RESULT AND COMMENT

ACCOUNTS RECEIVABLE

Accounts receivable as reported in the general ledger did not agree with the aged trial balance. At year end, adjustments were made to the general ledger to agree with the detail aged trial balance. The accounts receivable balance in the general ledger for the Water Utility was decreased by \$17,710; for the Wastewater Utility it was increased by \$11,191; and for the Stormwater Utility it was increased by \$3,119.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF DECATUR MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on April 25, 2007, with Phyllis J. Whitright, Clerk-Treasurer; Fred R. Isch, Mayor; and Robert M. Ladd, Utility Office Manager.