

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

ANNUAL FINANCIAL REPORT

2006

WATER RECLAMATION UTILITY

CITY OF PORTAGE

PORTER COUNTY, INDIANA



FILED
07/31/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Pappas	01-01-04 to 12-31-07
Mayor	Douglas Olson	01-01-04 to 12-31-07
President of the Common Council	Edward H. Gottschling	01-01-06 to 12-31-07
Secretary/Treasurer of the Water Reclamation Utility	Sherry L. Smolar	01-01-06 to 12-31-07
Superintendent of the Field Division	Bob Dixon	01-01-06 to 12-31-07
Superintendent of the Water Treatment Plan	Ricky Dodd	01-01-06 to 12-31-07
President of the Water Reclamation Board	Douglas Olson	01-01-04 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER RECLAMATION UTILITY,
CITY OF PORTAGE, PORTER COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water Reclamation Utility (Utility), a department of the City of Portage, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth paragraph, 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 Water Reclamation Utility, City of Portage, 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 Utility. They do not purport to, and do not, present fairly the financial position of the City of Portage 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.

The Water Reclamation Utility does not maintain a complete record of capital assets in accordance with generally accepted accounting principles. The Water Reclamation Utility does not have records providing historical costs for some of the Utility's capital assets and records classifying and summarizing the Utility's capital assets are incomplete.

In our opinion, except for the effects, if any, of incomplete capital assets records referred to in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water Reclamation Utility, 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 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.

The Utility has 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.

STATE BOARD OF ACCOUNTS

April 23, 2007

WATER RECLAMATION UTILITY
CITY OF PORTAGE
STATEMENT OF NET ASSETS
December 31, 2006

Assets

Current assets:	
Cash and cash equivalents	\$ 53,673
Revenue cash and cash equivalents	3,417,588
Accounts receivable - customer	397,364
Accounts receivable - trash	<u>28,749</u>
Total current assets	<u>3,897,374</u>
Noncurrent assets:	
Restricted cash and cash equivalents:	
Bond and interest cash and cash equivalents	158,820
Debt reserve cash and cash equivalents	1,099,770
Improvement cash and cash equivalents	1,053,838
Employee medical benefit cash and cash equivalents	<u>42,731</u>
Total restricted assets	<u>2,355,159</u>
Deferred charges	<u>38,070</u>
Capital assets:	
Land	711,013
Other capital assets (net of accumulated depreciation)	<u>24,478,933</u>
Total capital assets	<u>25,189,946</u>
Total noncurrent assets	<u>27,583,175</u>
Total assets	<u>31,480,549</u>

Liabilities

Current liabilities:	
Accounts payable	54,879
Accrued wages and withholding payable	27,663
Due to other entities	107,733
Accrued interest payable	79,892
Loan payable	255,000
Current liabilities payable from restricted assets:	
Revenue bonds payable	490,000
Accrued interest payable	<u>26,748</u>
Total current liabilities	<u>1,041,915</u>
Noncurrent liabilities:	
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	1,559,948
Loan payable	<u>7,850,000</u>
Total noncurrent liabilities	<u>9,409,948</u>
Total liabilities	<u>10,451,863</u>

Net Assets

Invested in capital assets, net of related debt	15,073,068
Restricted for debt service	1,258,590
Restricted for capital improvements	1,053,838
Restricted for employee medical benefits	42,731
Unrestricted	<u>3,600,459</u>
Total net assets	<u>\$ 21,028,686</u>

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

WATER RECLAMATION UTILITY
CITY OF PORTAGE
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006

Operating revenues:	
Residential sales	\$ 5,071,571
Penalties	82,098
Sewer taps	150,000
Inspection fees	12,250
Capacity fees	88,400
Other	<u>25,094</u>
Total operating revenues	<u>5,429,413</u>
Operating expenses:	
Wastewater operations:	
Salaries and wages	424,761
Employee pensions and benefits	170,147
Purchased power	53,244
Maintenance and repairs	87,250
Materials and supplies	70,979
Insurance	75,453
Other	15,914
Plant operations:	
Salaries and wages	582,855
Employee pensions and benefits	253,135
Purchased power	291,108
Maintenance and repairs	142,064
Materials and supplies	90,619
Insurance	6,053
Sludge removal	109,829
Chemicals	58,926
Other	13,796
Administrative and general:	
Salaries and wages	219,376
Employee pensions and benefits	31,112
Office supplies	26,689
Insurance	62,604
Contractual services	188,602
Payment in lieu of tax	360,000
Other	98,532
Depreciation	<u>1,796,636</u>
Total operating expenses	<u>5,229,684</u>
Operating income	<u>199,729</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	176,610
Amortization of deferred charges	(11,714)
Interest expense	<u>(459,182)</u>
Total nonoperating expenses	<u>(294,286)</u>
Loss before contributions	(94,557)
Capital contributions	<u>73,886</u>
Change in net assets	(20,671)
Total net assets - beginning	<u>21,049,357</u>
Total net assets - ending	<u>\$ 21,028,686</u>

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

WATER RECLAMATION UTILITY
CITY OF PORTAGE
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2006

Cash flows from operating activities:	
Receipts from customers and users	\$ 5,355,450
Payments to suppliers and contractors	(2,189,372)
Payments to employees	<u>(1,235,782)</u>
Net cash provided by operating activities	<u>1,930,296</u>
Cash flows from capital and related financing activities:	
Capital contributions	73,886
Acquisition and construction of capital assets	(105,353)
Principal paid on capital debt	(710,000)
Interest paid on capital debt	<u>(445,986)</u>
Net cash used by capital and related financing activities	<u>(1,187,453)</u>
Cash flows from investing activities:	
Interest received	<u>176,610</u>
Net increase in cash and cash equivalents	919,453
Cash and cash equivalents, January 1	<u>4,906,967</u>
Cash and cash equivalents, December 31	<u>\$ 5,826,420</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 199,729</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,796,636
(Increase) decrease in assets:	
Accounts receivable	(73,963)
Increase (decrease) in liabilities:	
Accounts payable	8,408
Accrued wages and withholding payables	(8,790)
Due to other entities	<u>8,276</u>
Total adjustments	<u>1,730,567</u>
Net cash provided by operating activities	<u>\$ 1,930,296</u>

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

WATER RECLAMATION UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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

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

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.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

WATER RECLAMATION UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. 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.

3. 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 composite rates are as follows:

	Capitalization Threshold	Depreciation Method	Composite Rate
Buildings	\$ 5,000	Composite rate	2.5%
Plant	5,000	Composite rate	2.5%
Improvements other than buildings	5,000	Composite rate	2.5%
Machinery and equipment	5,000	Composite rate	10%
Furniture and fixtures	5,000	Composite rate	10%

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.

4. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 6 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave is paid to employees through cash payments upon termination. Every full-time employee earns major illness leave at the rate of 1 day per month of continuous service. Unused major illness may be accumulated to 90 days. Accumulated major illness leave is not paid to employees upon termination.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- 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 sick, vacation and personal leave.

WATER RECLAMATION UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond discount and deferral of loss on refunding, 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 discount and deferral of loss on refunding. 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

1. 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 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.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the Utilities had no investments.

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 711,013	\$ -	\$ -	\$ 711,013
Capital assets, being depreciated:				
Buildings	2,571,317	7,076	-	2,578,393
Plant	14,041,392	-	-	14,041,392
Improvements other than buildings	24,306,480	54,013	-	24,360,493
Machinery and equipment	7,683,789	37,622	-	7,721,411
Furniture and fixtures	52,772	6,642	-	59,414
	<u>48,655,750</u>	<u>105,353</u>	<u>-</u>	<u>48,761,103</u>
Totals				

WATER RECLAMATION UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	1,048,421	64,283	-	1,112,704
Plant	3,685,778	351,035	-	4,036,813
Improvements other than buildings	12,175,121	607,662	-	12,782,783
Machinery and equipment	5,572,844	768,379	-	6,341,223
Furniture and fixtures	3,370	5,277	-	8,647
 Totals	 22,485,534	 1,796,636	 -	 24,282,170
 Total capital assets, being depreciated, net	 26,170,216	 (1,691,283)	 -	 24,478,933
 Total capital assets, net	 \$ 26,881,229	 \$ (1,691,283)	 \$ -	 \$ 25,189,946

C. Long-Term Liabilities

1. Revenue Bonds

The 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	Amount
1996 Refunding for plant expansion	4.9% to 5.1%	\$ 2,115,000

Revenue bonds debt service requirements to maturity are as follows:

Year Ended		
December 31	Principal	Interest
2007	\$ 490,000	\$ 99,950
2008	515,000	75,445
2009	540,000	49,445
2010	570,000	21,930
 Totals	 \$ 2,115,000	 \$ 246,770

2. Loan Payable

The Utility has entered into a loan with the State Revolving Loan Fund. Annual debt service requirements to maturity for the loan are as follows:

WATER RECLAMATION UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ended December 31	Principal	Interest
2007	\$ 255,000	\$ 313,560
2008	265,000	303,615
2009	275,000	293,085
2010	280,000	282,360
2011	890,000	265,590
2012-2016	5,015,000	962,324
2017-2021	<u>1,125,000</u>	<u>108,615</u>
Totals	<u>\$ 8,105,000</u>	<u>\$ 2,529,149</u>

3. Advance Refunding

In prior years, the Utility defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utility's financial statements. At December 31, 2006, \$470,000 of outstanding bonds were considered defeased.

4. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	\$ 2,585,000	\$ -	\$ 470,000	\$ 2,115,000	\$ 490,000
Less discount	(2,461)	-	(579)	(1,882)	-
Less deferred amount on refunding	<u>(82,607)</u>	<u>-</u>	<u>(19,437)</u>	<u>(63,170)</u>	<u>-</u>
Total net revenue bonds payable	2,499,932	-	449,984	2,049,948	490,000
Loan payable	<u>8,345,000</u>	<u>-</u>	<u>240,000</u>	<u>8,105,000</u>	<u>255,000</u>
Total long-term liabilities	<u>\$ 10,844,932</u>	<u>\$ -</u>	<u>\$ 689,984</u>	<u>\$ 10,154,948</u>	<u>\$ 745,000</u>

III. Other Information

A. Risk Management

The Utility is 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.

WATER RECLAMATION UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Medical Benefits to Employees, Retirees and Dependents

The Utility has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, 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 \$50,000 per year, per person, and up to \$1,000,000 per year for the City and Utility as a whole. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Funding for this risk group is through actual claim payment. Provisions are also made for unexpected and unusual claims.

Job Related Illnesses or Injuries to Employees

During 1993, the City (including the utilities) joined 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 approximately 740 member governmental entities. This risk pool was formed in 1990. 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 City (including the utilities) pays 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.

B. Due To Other Entities

The Utility bills and collects the City's trash fee and subsequently remits collections to the City. During 2006, the Utility remitted \$697,910 to the City and as of December 31, 2006, owed \$106,681 to the City. In addition, the Utility provides collection system services to the Damon Run Conservancy District through a sewer line located between Highway 49 and Bay Road. Whenever any property owner or user applies to tap on within this area, a \$526 fee for each equivalent dwelling unit is to be collected and remitted to Damon Run Conservancy District within 90 days of collection. As of December 31, 2006, the Utility owed Damon Run Conservancy District \$1,052.

C. Rate Structure

The current rate structure was approved by the Water Reclamation Board and Common Council on September 1, 1996.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utility, 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,

WATER RECLAMATION UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's 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	\$ 225,346
Interest on net pension obligation	(11,446)
Adjustment to annual required contribution	13,043
Annual pension cost	226,943
Contributions made	226,025
Increase in net pension obligation	918
Net pension obligation, beginning of year	(157,873)
Net pension obligation, end of year	\$ (156,955)

WATER RECLAMATION UTILITY
CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
Utility	4.5%
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	\$ 215,347	80%	\$ (149,546)
	06-30-04	189,053	104%	(157,873)
	06-30-05	226,943	120%	(156,955)

WATER RECLAMATION UTILITY
CITY OF PORTAGE
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	\$ 3,663,967	\$ 3,535,300	\$ 128,667	104%	\$ 4,563,193	3%
07-01-04	3,725,598	3,874,773	(149,175)	96%	4,890,176	(3%)
07-01-05	3,904,815	4,555,414	(650,599)	86%	5,095,369	(13%)

WATER RECLAMATION UTILITY
CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

The Utility does not maintain sufficient detailed records of capital assets for its Utility Plant in Service accounts. Upon purchase, the costs of the capital assets are added to an aggregate Utility Plant in Service account, and to subsidiary accounts for land, buildings, etc., in the General Ledger. However, records providing historical costs for some of the Utility's capital assets are not available, and records classifying and summarizing the Utility's capital assets are incomplete. Deletions or disposals of capital assets are not recorded.

The Capital Asset Ledger presented did not include an acquisition date nor did the report summarize by capital asset category. The Capital Asset Ledger has columns for depreciation and net value; however, since all fields are not completed the values in the columns are not correct.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPRECIATION POLICY

As stated in the prior report, the Utility did not present a current board approved capital asset and depreciation policy. The Utility is using the City's policy in which the depreciation method stated in the policy is straight-line and the method used by the Utility is composite rate.

The governing body should establish capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ACCOUNTS RECEIVABLE

The General Ledger accounts receivable balances did not accurately reflect the total balances of customer accounts at December 31, 2006. The General Ledger accounts receivable balance was \$4,741.32 greater than the detail accounts receivable balance. The net effect of the accounts was determined to be immaterial to the financial statements; however, officials need to research the balances and make adjustments to avoid future material misstatement.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER RECLAMATION UTILITY
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on April 23, 2007, with Doug Olson, Mayor and President of the Water Reclamation Board; and Sherry L. Smolar, Secretary/Treasurer of the Water Reclamation Utility. The officials concurred with our audit findings.