

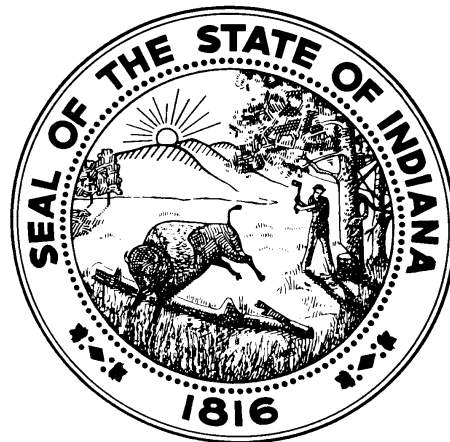
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT

OF

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
WARRICK COUNTY, INDIANA

January 1, 2006 to December 31, 2007



**FILED**  
07/17/2008



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rebecca J. Gentry	01-01-04 to 12-31-11
President of the Town Council	William Kavanaugh	01-01-06 to 12-31-08
Superintendent of Wastewater Utility	Leon Key	01-01-06 to 12-31-08
Utility Office Manager	Donna Driskell Cynthia Burger (Interim) Shawn Mundy	01-01-06 to 07-26-06 07-27-06 to 10-08-06 10-09-06 to 12-31-08



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Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WASTEWATER UTILITY,  
TOWN OF NEWBURGH, WARRICK COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Wastewater Utility (Utility), a department of the Town of Newburgh, as of and for the years ended December 31, 2006 and 2007. 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.

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 Wastewater Utility, Town of Newburgh, 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 Town that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the Town of Newburgh as of December 31, 2006 and 2007, and the changes in its financial position and its cash flows, where applicable, for the years 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 Wastewater Utility, as of December 31, 2006 and 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Utility has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

May 27, 2008

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
STATEMENT OF NET ASSETS  
December 31, 2006 And 2007

<u>Assets</u>	<u>2006</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 1,155,170	\$ 1,362,767
Accounts receivable - customer (net of allowance of \$10,666, 2006 and 2007)	381,887	295,042
Accounts receivable - town	33,505	33,505
Accounts receivable - other	15,558	32,708
Due from other funds	92,136	92,136
Prepaid items	<u>17,008</u>	<u>17,008</u>
Total current assets	<u>1,695,264</u>	<u>1,833,166</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Debt service reserve cash and investments	1,483,804	1,465,497
Bond and interest cash and investments	16,788	(20)
Improvement cash and investments	560,448	419,566
Master lift station cash and investments	759,057	152
Construction cash and investments	<u>575,101</u>	<u>4,000,442</u>
Total restricted assets:	<u>3,395,198</u>	<u>5,885,637</u>
Deferred debits	<u>139,685</u>	<u>156,725</u>
Capital assets:		
Land, improvements to land and construction in progress	8,006,249	2,087,436
Other capital assets (net of accumulated depreciation)	<u>32,656,325</u>	<u>40,022,574</u>
Total capital assets	<u>40,662,574</u>	<u>42,110,010</u>
Total noncurrent assets	<u>44,197,457</u>	<u>48,152,372</u>
Total assets	<u>45,892,721</u>	<u>49,985,538</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	120,217	28,470
Accrued payroll and withholdings	12,832	12,832
Advances for construction	1,245	1,245
Current liabilities payable from restricted assets:		
Revenue bonds payable	285,000	365,000
State revolving loan	<u>365,000</u>	<u>375,000</u>
Total current liabilities	<u>784,294</u>	<u>782,547</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized deferred amount on refunding)	8,103,855	11,919,141
State revolving loans payable	<u>7,800,000</u>	<u>7,425,000</u>
Total noncurrent liabilities	<u>15,903,855</u>	<u>19,344,141</u>
Total liabilities	<u>16,688,149</u>	<u>20,126,688</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	24,248,404	22,182,594
Restricted for debt service	2,834,750	5,466,071
Unrestricted	<u>2,121,418</u>	<u>2,210,185</u>
Total net assets	<u>\$ 29,204,572</u>	<u>\$ 29,858,850</u>

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

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Years Ended December 31, 2006 And 2007

	<u>2006</u>	<u>2007</u>
Operating revenues:		
Measured revenue:		
Residential and commercial	\$ 4,341,816	\$ 4,749,027
Tap in fees	563,608	889,420
Penalties	72,245	72,253
Other	<u>84,492</u>	<u>34,343</u>
Total operating revenues	<u>5,062,161</u>	<u>5,745,043</u>
Operating expenses:		
Salaries and wages	676,386	729,901
Employee pensions and benefits	316,623	343,592
Sludge removal	67,597	59,557
Purchased power	373,495	381,411
Transportation expenses	35,124	47,246
Chemicals	121,749	354,605
Materials and supplies	523,894	318,524
Contractual services	748,826	1,161,033
Depreciation and amortization	887,364	1,047,459
Miscellaneous expenses	<u>364,409</u>	<u>365,715</u>
Total operating expenses	<u>4,115,467</u>	<u>4,809,043</u>
Operating income	<u>946,694</u>	<u>936,000</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	291,119	198,739
Miscellaneous revenue	42,995	810
EPA fine expense	(56,000)	-
Interest expense	(679,791)	(656,166)
Amortization expense	<u>(13,887)</u>	<u>(13,887)</u>
Total nonoperating revenues (expenses)	<u>(415,564)</u>	<u>(470,504)</u>
Income before contributions and transfers	531,130	465,496
Capital contributions	5,472,658	648,782
Residual equity transfer out	<u>(460,000)</u>	<u>(460,000)</u>
Change in net assets	5,543,788	654,278
Total net assets - beginning	<u>23,660,784</u>	<u>29,204,572</u>
Total net assets - ending	<u>\$ 29,204,572</u>	<u>\$ 29,858,850</u>

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

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Years Ended December 31, 2006 And 2007

	<u>2006</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,966,037	\$ 5,814,738
Payments to suppliers and contractors	(2,139,790)	(2,779,838)
Payments to employees	(993,009)	(1,073,493)
Other receipts (payments)	<u>(13,005)</u>	<u>810</u>
Net cash provided by operating activities	<u>1,820,233</u>	<u>1,962,217</u>
Cash flows from noncapital financing activities:		
Residual equity transfer to town	<u>(460,000)</u>	<u>(460,000)</u>
Cash flows from capital and related financing activities:		
Proceeds from bond anticipation note	-	4,165,000
Bond issuance costs paid	-	(30,927)
Principal paid on revenue bonds	(270,000)	(285,000)
Principal paid on state revolving loans	(355,000)	(365,000)
Interest paid on revenue bonds	(366,305)	(355,105)
Interest paid on state revolving loan	(298,200)	(285,775)
Acquisition and construction of capital assets	<u>(2,969,052)</u>	<u>(1,846,113)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,258,557)</u>	<u>997,080</u>
Cash flows from investing activities:		
Interest received	<u>291,119</u>	<u>198,739</u>
Net increase in cash and cash equivalents	(2,607,205)	2,698,036
Cash and cash equivalents, January 1	<u>7,157,573</u>	<u>4,550,368</u>
Cash and cash equivalents, December 31	<u>\$ 4,550,368</u>	<u>\$ 7,248,404</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 946,694</u>	<u>\$ 936,000</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	887,364	1,047,459
Miscellaneous nonoperating revenue (expense)	(13,005)	810
(Increase) decrease in assets:		
Accounts receivable - customer	(91,544)	86,845
Accounts receivable - town	(4,621)	-
Accounts receivable - other	41	(17,150)
Increase (decrease) in liabilities:		
Accounts payable	<u>95,304</u>	<u>(91,747)</u>
Total adjustments	<u>873,539</u>	<u>1,026,217</u>
Net cash provided by operating activities	<u>\$ 1,820,233</u>	<u>\$ 1,962,217</u>
Noncash investing, capital and financing activities:		
Contributions of wastewater lines from developers	\$ 419,444	\$ 648,782
Contributions of capital assets from government	5,053,214	-
Capital asset valuation adjustments	1,794,741	-
Accumulated depreciation valuation adjustment	678,437	-
Capital assets transferred from construction in progress	1,203,405	7,715,681

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

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
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 Town of Newburgh (Town), and the results of its operations and cash flows of its enterprise funds. The Utility, whose operations are controlled by the Town, represents a substantial portion of the Town'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.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Open-end mutual funds are reported at fair value.

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.

2. Prepaid Items

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 they are maintained in separate bank accounts and 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Improvements other than buildings	\$ 5,000	Composite	2%
Machinery and equipment	5,000	Composite	12½%

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.

5. Compensated Absences

Paid Time Off (PTO) Leave - Utility employees earn PTO at the rate of 19½ days to 34½ days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated PTO is paid to employees through cash payments upon termination.

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

No liability is reported for paid time off 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. Capital Assets

Capital asset activity for the years ended December 31, 2006 and 2007, was as follows:

<u>2006</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 329,871	\$ 97,109	\$ -	\$ 426,980
Construction in progress	<u>6,237,632</u>	<u>2,545,042</u>	<u>1,203,405</u>	<u>7,579,269</u>
Total capital assets, not being depreciated	<u>6,567,503</u>	<u>2,642,151</u>	<u>1,203,405</u>	<u>8,006,249</u>
Capital assets, being depreciated:				
Improvements other than buildings	34,837,732	5,566,867	594,201	39,810,398
Machinery and equipment	<u>1,532,639</u>	<u>353,628</u>	<u>752,760</u>	<u>1,133,507</u>
Totals	<u>36,370,371</u>	<u>5,920,495</u>	<u>1,346,961</u>	<u>40,943,905</u>
Less accumulated depreciation for:				
Improvements other than buildings	6,447,952	731,976	-	7,179,928
Machinery and equipment	<u>1,630,702</u>	<u>251,582</u>	<u>774,632</u>	<u>1,107,652</u>
Totals	<u>8,078,654</u>	<u>983,558</u>	<u>774,632</u>	<u>8,287,580</u>
Total capital assets, being depreciated, net	<u>28,291,717</u>	<u>4,936,937</u>	<u>572,329</u>	<u>32,656,325</u>
Total capital assets, net	<u>\$ 34,859,220</u>	<u>\$ 7,579,088</u>	<u>\$ 1,775,734</u>	<u>\$ 40,662,574</u>

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>2007</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 426,980	\$ 84,253	\$ -	\$ 511,233
Construction in progress	<u>7,579,269</u>	<u>1,712,615</u>	<u>7,715,681</u>	<u>1,576,203</u>
Total capital assets, not being depreciated	<u>8,006,249</u>	<u>1,796,868</u>	<u>7,715,681</u>	<u>2,087,436</u>
Capital assets, being depreciated:				
Improvements other than buildings	39,810,398	7,929,421	-	47,739,819
Machinery and equipment	<u>1,133,507</u>	<u>484,287</u>	<u>-</u>	<u>1,617,794</u>
Totals	<u>40,943,905</u>	<u>8,413,708</u>	<u>-</u>	<u>49,357,613</u>
Less accumulated depreciation for:				
Improvements other than buildings	7,179,928	894,493	-	8,074,421
Machinery and equipment	<u>1,107,652</u>	<u>152,966</u>	<u>-</u>	<u>1,260,618</u>
Totals	<u>8,287,580</u>	<u>1,047,459</u>	<u>-</u>	<u>9,335,039</u>
Total capital assets, being depreciated, net	<u>32,656,325</u>	<u>7,366,249</u>	<u>-</u>	<u>40,022,574</u>
Total capital assets, net	<u>\$ 40,662,574</u>	<u>\$ 9,163,117</u>	<u>\$ 7,715,681</u>	<u>\$ 42,110,010</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2007</u>	<u>Committed</u>	<u>Required Future Funding</u>
Lines, lift stations and improvements	<u>\$ 2,425,696</u>	<u>\$ 1,576,203</u>	<u>\$ 849,493</u>	<u>\$ -</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2007, is as follows:

<u>Due To</u>	<u>Due From General Fund</u>
Wastewater Utility	<u>\$ 92,136</u>

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 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 for refunding and improvements	5.15%	\$ 370,000
2002 revenue bonds for improvements	3.2% to 4.6%	3,995,000
2005 revenue bonds for improvements	3.5% to 4.25%	3,800,000
2007 bond anticipation note	3.9%	<u>4,165,000</u>
Total		<u><u>\$ 12,330,000</u></u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2008	\$ 300,000	\$ 343,220
2009	4,545,000	557,735
2010	255,000	311,613
2011	265,000	302,600
2012	275,000	293,103
2013-2017	1,575,000	1,295,050
2018-2022	3,455,000	820,715
2023-2027	<u>1,660,000</u>	<u>71,399</u>
Totals	<u><u>\$ 12,330,000</u></u>	<u><u>\$ 3,995,435</u></u>

2. Loans Payable

The Town has entered into four State Revolving loans. Under the terms of the State Revolving Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance improvements to the wastewater treatment plant. Funds were loaned to the Utility as construction costs accrued to the maximum allowed. The loans established maximum draws of \$1,450,000 for the 1998A Series, \$6,930,000 for the 1999B

TOWN OF NEWBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Series, \$1,000,000 for the 1999C Series, and \$1,000,000 for the 2001A Series. At the completion of construction, the outstanding principal balances were amortized over 20 years, 21 years, 21 years, and 18 years, respectively. Annual debt service requirements to maturity for the loans, including interest of \$352,800, \$1,268,050, \$164,325 and \$172,900, respectively, as of December 31, 2007, for the years ended December 31, are as follows:

2008	\$	136,500
2009		641,438
2010		638,138
2011		835,900
2012		834,550
2013-2017		4,169,937
2018-2022		<u>2,501,612</u>
 Total	 \$	 <u><u>9,758,075</u></u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

<u>2006</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 8,720,000	\$ -	\$ 270,000	\$ 8,450,000	\$ 285,000
Less deferred amount on refunding	<u>76,430</u>	<u>-</u>	<u>15,285</u>	<u>61,145</u>	<u>-</u>
Total revenue bonds payable	8,643,570	-	254,715	8,388,855	285,000
Loans payable	<u>8,520,000</u>	<u>-</u>	<u>355,000</u>	<u>8,165,000</u>	<u>365,000</u>
Total long-term liabilities	<u>\$ 17,163,570</u>	<u>\$ -</u>	<u>\$ 609,715</u>	<u>\$ 16,553,855</u>	<u>\$ 650,000</u>
<u>2007</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 8,450,000	\$ 4,165,000	\$ 285,000	\$ 12,330,000	\$ 365,000
Less deferred amount on refunding	<u>61,145</u>	<u>-</u>	<u>15,286</u>	<u>45,859</u>	<u>-</u>
Total revenue bonds payable	8,388,855	4,165,000	269,714	12,284,141	365,000
Loans payable	<u>8,165,000</u>	<u>-</u>	<u>365,000</u>	<u>7,800,000</u>	<u>375,000</u>
Total long-term liabilities	<u>\$ 16,553,855</u>	<u>\$ 4,165,000</u>	<u>\$ 634,714</u>	<u>\$ 20,084,141</u>	<u>\$ 740,000</u>

TOWN OF NEWBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Restricted Assets

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

Debt service reserve account	\$ 1,465,497
Bond and interest account	(20)
Improvement account	419,566
Master lift station account	152
Construction account	<u>4,000,442</u>
Total restricted assets	<u>\$ 5,885,637</u>

III. Other Information

A. Risk Management

The Town 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; 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 1996, the Town joined with other governmental entities in the Indiana Public Employers' Plan a public entity risk pool currently operating as a common risk management and insurance program for 740 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 Town 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. Rate Structure

Wastewater Utility

The current rate structure was approved by the Utility on February 9, 2005, and provides for a small annual increase through 2010. The Utility has 8,672 customers.

TOWN OF NEWBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town, 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, 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 Utility'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 Town and the Utility is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the Town as a whole.

TOWN OF NEWBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 47,129
Interest on net pension obligation	(2,401)
Adjustment to annual required contribution	2,736
Annual pension cost	47,464
Contributions made	55,334
Decrease in net pension obligation	(7,870)
Net pension obligation, beginning of year	(33,116)
Net pension obligation, end of year	\$ (40,986)
Contribution rates:	
Utility	5.5%
Plan members	3%
Actuarial valuation date	07-01-06
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%

TOWN OF NEWBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 31,456	176%	\$ (34,996)
	06-30-05	53,287	96%	(33,116)
	06-30-06	47,464	117%	(40,986)

D. Bond Anticipation Note

On May 4, 2007, the Wastewater Utility received bond anticipation funds of \$4,165,000 to be repaid at 3.9% interest by October 1, 2008; however, as of the balance sheet date the renewable note was determined to be a long-term debt.

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
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)
07-01-04	\$ 1,011,630	\$ 1,064,875	\$ (53,245)	95%	\$ 1,013,190	(5%)
07-01-05	1,052,759	1,043,439	9,320	101%	964,049	1%
07-01-06	890,018	1,035,095	(145,077)	86%	1,121,853	(13%)

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
AUDIT RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS

As stated in several prior reports, delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
  - (B) a description of the premises, as shown by the records of the county auditor; and
  - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May . . ."

OVERDRAWN CASH BALANCE

The cash balance of the Bond and Interest Fund was overdrawn in 2007.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WASTEWATER UTILITY  
TOWN OF NEWBURGH  
EXIT CONFERENCE

The contents of this report were discussed on June 5, 2008, with Rebecca J. Gentry, Clerk-Treasurer; William Kavanaugh, President of the Town Council; Anne Rust Aurand, Council member; Cynthia E. Burger, Town Manager; Shawn Mundy, Utility Office Manager; and Susan Helms, Deputy Clerk-Treasurer. The officials concurred with our audit findings.