

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

ANNUAL FINANCIAL REPORT

2008

WASTEWATER UTILITY

CITY OF KOKOMO

HOWARD COUNTY, INDIANA



FILED
08/05/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	James J. Brannon	01-01-08 to 12-31-11
Mayor	Gregory Goodnight	01-01-08 to 12-31-11
President of the Board of Public Works	James J. Brannon	01-01-08 to 12-31-11
President of the Common Council	John M. Kennedy	01-01-08 to 12-31-09
Superintendent	Christopher Cooper	01-01-08 to 12-31-09



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE KOKOMO WASTEWATER UTILITY,
CITY OF KOKOMO, HOWARD COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Kokomo Municipal Utility (Utility), department of the City of Kokomo, as of and for the year ended December 31, 2008. 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 examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utility, 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 Kokomo as of December 31, 2008, 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 Utility as of December 31, 2008, 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 Management's Discussion and Analysis, and Schedules of Funding Progress, as listed in the Table of Contents are not a required part of the basic financial statements but are 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 Utility has not obtained an actuarial study of its health care benefit plan for retirees. Therefore, the Utility has not accrued a liability in the Statement of Net Assets or presented certain disclosures required by accounting principles generally accepted in the United States, and has not presented the Schedule of Funding Progress that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

July 9, 2009

City of Kokomo-Wasterwater Utilites, Indiana
Management's Discussion and Analysis
December 31, 2008

This discussion and analysis highlights the financial activities of the City of Kokomo-Wastewater Utilities for the year ended December 31, 2008. We hope you will find this discussion helpful in assessing the Utilities' financial condition and activities, which are funded primarily through user charges and fees for services. Please read it in conjunction with the Utilities' financial statements and accompanying notes, which follow this discussion and analysis.

Financial Highlights

- The total net assets of the Utilities at December 31, 2008 were \$49,762,329. Of this amount, \$8,436,726 is unrestricted and may be used to meet the Utilities' ongoing obligations to its customers and users.
- The Utilities' unrestricted net assets increased by \$313,605, restricted net assets decreased by \$445,782 and the total invested in capital assets, net of related debt, increased by \$2,573,473 for a total net assets increase of \$2,441,296.
- The Utilities long-term debt increased by \$3,845,021. This consists of a \$2,600,812 reduction in notes and bonds payable for principal payments made during 2008 net of amortization of debt refunding and premiums/discount on bonds, and an increase of \$5,105,000 for a new issue of 2008 revenue bond.

Basic Financial Statements

The Governmental Accounting Standards Board (GASB) requires the Utilities to present its financial statements in accordance with GASB Statement No. 34.

The basic financial statements for the Utilities consist of the following:

1. Statement of Net Assets;
2. Statement of Revenues, Expenses and Other Changes in Fund Net Assets;
3. Statement of Cash Flows; and
4. Notes to Financial Statements.

The Statement of Net Assets and the Statement of Revenues, Expenses and Other Changes in Fund Net Assets have been prepared using the accrual basis of accounting. This means that revenue is recorded when earned, and expenses are reflected in the statements when they are incurred, regardless of when the related cash is actually received or disbursed. In doing so, revenues and expenses are more closely matched to the accounting period to which they relate.

In addition to the basic financial statements, supplementary information is also included in the accompanying report.

Condensed Financial Data

The table below provides a summary of the revenues, expenses and changes in net assets for the year ended December 31, 2008, along with comparative figures from 2007:

City of Kokomo-Wastewater Utility, Indiana Statement of Revenues, Expenses, and Other Changes in Fund Net Assets

	<u>2008</u>	<u>2007</u>
Operating Revenues	\$ 14,720,079	\$ 16,228,848
Operating Expenses	<u>11,485,792</u>	<u>12,123,855</u>
Operating Income	3,234,287	4,104,993
Non-Operating Revenues (Expenses)	<u>(792,991)</u>	<u>(651,415)</u>
Change in Net Assets	2,441,296	3,453,578
Total Net Assets-Beginning	<u>47,321,033</u>	<u>43,867,455</u>
Total Net Assets-Ending	<u>\$ 49,762,329</u>	<u>\$ 47,321,033</u>

The following table outlines the composition of the Utilities' total net assets as of December 31, 2008, with comparative figures from 2007:

City of Kokomo-Wastewater Utility, Indiana Statement of Net Assets

	<u>2008</u>	<u>2007</u>
Capital Assets	\$ 67,686,287	\$ 63,511,887
Other Assets and Deferred Debits	<u>21,661,273</u>	<u>19,778,242</u>
Total Assets	<u>\$ 89,347,560</u>	<u>\$ 83,290,129</u>
Liabilities		
Current Liabilities		
Accounts Payable	\$ 126,658	\$ 41,710
Payroll and Withholdings Payable	123,905	100,418
Contract Payable	963,041	-
Retainage Payable	-	43,497
Accrued Interest Payable	611,726	584,316
Bonds, loans and leases payable	3,001,959	2,741,959
Other	327,571	271,013
Non-Current Liabilities		
Bonds, loans and leases payable (Net of Deferred amount on Refunding)	34,420,081	32,175,893
Compensated Absences	<u>10,290</u>	<u>10,290</u>
Total Liabilities	<u>\$ 39,585,231</u>	<u>\$ 35,969,096</u>
Assets:		
Invested in capital assets (net of related debt)	\$ 30,266,206	\$ 27,692,733
Restricted for Debt Service	11,059,397	11,505,179
Unrestricted	<u>8,436,726</u>	<u>8,123,121</u>
Total Net Assets	<u>\$ 49,762,329</u>	<u>\$ 47,321,033</u>

Total net assets increased in 2008, due to income recorded of \$2,441,296.

More detailed information is presented in the Statement of Net Assets; the Statement of Revenues, Expenses and Other Changes in Fund Net Assets; and the Statement of Cash Flows, which are included in the annual report.

Cash Balances Analysis

In total, the wastewater utility's cash, cash equivalents and investments increased by \$1,976,257 during 2008.

- The operating and maintenance cash increased by \$1,388,756 primarily due to decline in operating expenses.
- The Replacement/Depreciation cash increased by \$67,087 in 2008. The increase was due to interest earnings which were credited back to this fund.
- The bond and interest cash increased by \$371,324. The increase was largely due to the issue of 2008 revenue bond net of payments made for the Construction-In-Progress.
- The sewer extension and betterment cash increased by \$149,090 during 2008. The increase was due to revenues generated from sewer tap connection fees.

Compared to the previous year, operating revenues in the wastewater utilities decreased by \$1,508,769 and operating expenses decreased by \$638,063 for a decrease in operating income of \$870,706. Wastewater net assets increased by \$2,441,296 (5%).

The average number of wastewater customers for 2008 was 20,246, remaining unchanged from the previous year's average.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity:

As of December 31, 2008, the Utilities had \$124,322,609, invested in capital assets, such as land, buildings, improvements, equipment, and infrastructures. Total accumulated depreciation at the end of 2008 was \$56,636,322, resulting in net capital assets of \$67,686,287. The total capital assets of the Utilities are summarized by category as follows:

City of Kokomo-Wastewater Utility, Indiana
Capital Assets

	<u>2008</u>	<u>2007</u>
Capital Assets, not being depreciated		
Land	\$ 122,849	\$ 122,849
Construction-In-Progress	<u>5,356,231</u>	<u>7,170,109</u>
Total capital assets, not being depreciated	<u>5,479,080</u>	<u>7,292,958</u>
Capital Assets, being depreciated		
Improvements Other Than Buildings	754,025	754,025
Buildings	18,806,233	18,806,233
Infrastructure-Collection	48,390,165	42,334,385
Infrastructure-Stormwater	37,350,628	37,350,628
Machinery & Equipment	<u>13,542,478</u>	<u>10,901,899</u>
Totals	118,843,529	110,147,170
Less accumulated depreciation	<u>(56,636,322)</u>	<u>(53,928,241)</u>
Total capital assets, being depreciated net	<u>62,207,207</u>	<u>56,218,929</u>
Total Capital Assets Net	<u>\$ 67,686,287</u>	<u>\$ 63,511,887</u>

The Utilities recorded a decrease of \$1,813,878 in Capital Assets not being depreciated. This was due to completed projects placed in service and reclassified as depreciable capital assets. These projects allowed the Utilities to be in compliance with the Clean Water Act mandate which required the reduction of the raw sewage flowing untreated into local streams.

The utilities also recorded a \$5,988,278 net increase in Capital Assets being depreciated. The net additions for 2008 increased by \$8,696,359 and the net accumulated depreciation for 2008 increased by \$2,708,081.

Some of the major capital additions during 2008 include the following:

- \$5,778,494 for Highland Park Lift Station.
- \$2,137,878 for various Combined Sewer Overflow and /or Sanitary Sewer Relief projects.
- \$325,000 for 6 Waste Pumps/Return Waste Pump and 5 TFIPS Variable Frequency Drive.
- \$139,750 for a sweeper.
- \$135,703 for a Jet Rodder.
- \$43,831 for a utility truck.

Long-term Debt Activity:

As of December 31, 2008 and 2007 the Wasterwater Utilities' outstanding debt (principal only) consisted of the following:

<u>2008</u>	<u>2007</u>
\$ 37,420,081	\$ 34,915,893

During 2008, the Utilities made principal payments net of debt refunding and amortization of bond discounts/premiums of \$2,600,812 and interest payments of \$1,146,229.

Other Currently Known Facts

On April 30th, 2009 Chrysler, a major customer for the Utilities, filed petition in the United States Bankruptcy court for the Southern District of New York seeking relief under Chapter 11 reorganization. Chrysler also filed a motion under Section 363 of the Bankruptcy Code requesting the swift approval by the Court of the agreement with Fiat and the sale of Chrysler's principal assets to the new company. Chrysler emerged out of bankruptcy on June 12th, 2009.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show accountability for the money the Utilities receive. If you have questions about this report or need additional financial information, please contact the City's Controller Office at 100 S Union Street, Kokomo, Indiana.

KOKOMO WASTEWATER UTILITY
STATEMENT OF NET ASSETS
December 31, 2008

	2008
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 6,163,081
Accounts receivable (net of allowance)	2,665,099
Inventories	175,215
Prepaid items	23,714
Total current assets	9,027,109
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Depreciation cash and investments	2,191,378
Bond and interest cash and investments	7,261,452
Sewer extension, betterment and improvement cash and investments	2,639,652
Wastewater utility trust cash and investments	198
Total restricted assets	12,092,680
Deferred charges	541,484
Capital assets:	
Land, improvements to land and construction in progress	5,479,080
Other capital assets (net of accumulated depreciation)	62,207,207
Total capital assets	67,686,287
Total noncurrent assets	80,320,451
Total assets	89,347,560
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	126,658
Wages payable	123,905
Contracts payable	963,041
Customer overpayments	54,974
Matured unpaid bonds and coupons	1,959
Compensated absences	272,597
Current liabilities payable from restricted assets:	
Notes payable	370,000
Revenue bonds payable	2,630,000
Accrued interest payable	611,726
Total current liabilities	5,154,860
Noncurrent liabilities:	
Notes payable	18,290,000
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	16,130,081
Compensated absences	10,290
Total noncurrent liabilities	34,430,371
Total liabilities	39,585,231
<u>Net Assets</u>	
Invested in capital assets, net of related debt	30,266,206
Restricted funds	11,059,397
Unrestricted	8,436,726
Total net assets	\$ 49,762,329

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

KOKOMO WASTEWATER UTILITY
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

	2008
Operating revenues:	
Penalties	\$ 392,617
Measured revenue:	
Residential and commercial	13,517,174
Storm water fees	599,089
Tap fees	149,090
Other	62,109
Total operating revenues	14,720,079
Operating expenses:	
Collection system - operations and maintenance	2,134,951
Treatment and disposal - operations and maintenance	3,195,845
Laboratory services - operations and maintenance	292,629
Customer accounts	669,473
Sanitary engineering - operations and maintenance	807,359
Administration and general	896,659
Pretreatment - operations and maintenance	307,797
Storm water - operations and maintenance	106,032
Depreciation	2,722,153
Miscellaneous expenses	352,894
Total operating expenses	11,485,792
Operating income	3,234,287
Nonoperating revenues (expenses):	
Interest and investment revenue	414,109
Miscellaneous revenue	11,351
Interest expense	(1,146,229)
Miscellaneous expense	(72,222)
Total nonoperating expenses	(792,991)
Change in net assets	2,441,296
Total net assets - beginning	47,321,033
Total net assets - ending	\$ 49,762,329

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

KOKOMO WASTEWATER UTILITY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2008

	2008
Cash flows from operating activities:	
Receipts from customers and users	\$ 14,958,267
Payments to suppliers and contractors	(3,540,611)
Payments to employees	(5,065,156)
Other receipts	11,351
Net cash provided by operating activities	6,363,851
Cash flows from capital and related financing activities:	
Proceeds from capital debt	4,893,485
Acquisition and construction of capital assets	(5,977,009)
Principal paid on capital debt	(2,740,000)
Interest paid on capital debt	(967,179)
Bond issuance costs paid	(11,000)
Net cash used by capital and related financing activities	(4,801,703)
Cash flows from investing activities:	
Interest received	414,109
Net increase in cash and cash equivalents	1,976,257
Cash and cash equivalents, January 1	16,279,504
Cash and cash equivalents, December 31	\$ 18,255,761
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	\$ 3,234,287
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,722,153
	11,351
(Increase) decrease in assets:	
Accounts receivable	238,188
Inventories	9,577
Prepaid items	(16,698)
Increase (decrease) in liabilities:	
Accounts payable	84,531
Wages payable	23,487
Customer overpayments	4,938
Compensated absence payable	51,620
Matured unpaid coupons	417
Total adjustments	3,129,564
Net cash provided by operating activities	\$ 6,363,851
Noncash investing, capital and financing activities:	
Increase in contracts payable for capital assets	\$ 919,544
Interest capitalized	395,633
Bond issuance costs deducted from bond proceeds	199,063

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

WASTEWATER UTILITY
CITY OF KOKOMO
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 Kokomo (City), and the results of its operations and cash flows of its enterprise fund. The Utility, whose operations are controlled by the City, represents a substantial portion of the City's enterprise fund.

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.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in the enterprise fund financial statements, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The utility has elected not to follow subsequent private-sector guidance.

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.

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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 use is limited by bond covenants and trust statements.

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:

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 5,000	Straight-line	10 to 50 years
Equipment	5,000	Straight-line	5 to 20 years
Water collection systems	5,000	Straight-line	40 years
Wastewater distribution and collection systems	5,000	Straight-line	50 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 Utility during the current year was \$1,390,222. Of the amount, \$395,633 was included as part of the cost of capital assets under construction in connection with Wastewater construction projects.

5. Compensated Absences

The Utility uses paid time-off to provide for absences of eligible employees. The paid time-off replaced vacation, sick, and personal time but will continue to be based on years of completed service. Paid time-off will be accumulated on actual hours worked per week and the years of completed service. The accumulations of paid time-off may be carried over from year to year with a maximum of 480 hours. Excess accumulations over the maximum of 480 hours will be reduced in December of each year through a payout if the employee uses at least 10 days of paid-time off during the calendar year or 50% of available time earned, whichever is less. Accumulated paid time-off is paid to employees through cash payments upon termination.

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 IC 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.

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 122,849	\$ -	\$ -	\$ 122,849
Construction in progress	<u>7,170,109</u>	<u>963,041</u>	<u>2,776,919</u>	<u>5,356,231</u>
 Total capital assets, not being depreciated	 <u>7,292,958</u>	 <u>963,041</u>	 <u>2,776,919</u>	 <u>5,479,080</u>
Capital assets, being depreciated:				
Improvements other than buildings	754,025	-	-	754,025
Buildings	18,806,233	-	-	18,806,233
Collection system/infrastructure	42,334,385	6,073,946	18,166	48,390,165
Storm water system/infrastructure	37,350,628	-	-	37,350,628
Machinery and equipment	<u>10,901,899</u>	<u>2,658,632</u>	<u>18,053</u>	<u>13,542,478</u>
 Totals	 <u>110,147,170</u>	 <u>8,732,578</u>	 <u>36,219</u>	 <u>118,843,529</u>
Less accumulated depreciation for:				
Improvements other than buildings	60,205	15,399	-	75,604
Buildings	5,593,500	457,934	-	6,051,434
Collection system/infrastructure	20,546,529	14,072	14,072	20,546,529
Storm water system/infrastructure	22,965,930	1,569,173	-	24,535,103
Machinery and equipment	<u>4,762,077</u>	<u>665,575</u>	<u>-</u>	<u>5,427,652</u>
 Totals	 <u>53,928,241</u>	 <u>2,722,153</u>	 <u>14,072</u>	 <u>56,636,322</u>
 Total capital assets, being depreciated, net	 <u>56,218,929</u>	 <u>6,010,425</u>	 <u>22,147</u>	 <u>62,207,207</u>
 Total capital assets, net	 <u>\$ 63,511,887</u>	 <u>\$ 6,973,466</u>	 <u>\$ 2,799,066</u>	 <u>\$ 67,686,287</u>

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

Wastewater \$ 2,722,153

WASTEWATER UTILITY
CITY OF KOKOMO
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, 2008	Committed
2005 Improvement Projects	\$ 4,157,544	\$ 1,786,046	\$ 2,371,498
2008 Wet Weather Excess Flow	<u>7,526,000</u>	<u>3,570,185</u>	<u>3,955,815</u>
Totals	<u>\$ 11,683,544</u>	<u>\$ 5,356,231</u>	<u>\$ 6,327,313</u>

D. Leases

Operating Leases

The Utility has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for office equipment. Rental expenditures for these leases were \$3,686. The following is a schedule by years of future minimum rental payments as of December 31, 2008:

2009	\$ 3,686
2010	1,677
2011	672
2012	<u>336</u>
Total	<u>\$ 6,371</u>

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
1999 Sewage works refunding bonds	4.25% to 5.00%	\$ 2,500,000
2005 Sewage works refunding bonds	4.00% to 4.50%	11,270,000
2008 Wet weather treatment excess flow project	2.40% to 4.50%	<u>5,105,000</u>
Total		<u>\$ 18,875,000</u>

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2009	\$ 2,630,000	\$ 782,322
2010	605,000	679,160
2011	635,000	656,522
2012	660,000	632,442
2013	690,000	606,859
2014-2018	3,945,000	2,590,628
2019-2023	4,995,000	1,556,004
2024-2028	4,715,000	521,934
Totals	<u>\$ 18,875,000</u>	<u>\$ 8,025,871</u>

2. Notes and Loans Payable

The Utility has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$4,806,391, are as follows:

2009	\$ 1,024,776
2010	1,928,688
2011	1,927,750
2012	1,930,296
2013	1,925,975
2014-2018	9,639,818
2019-2023	<u>5,089,088</u>
Total	<u>\$ 23,466,391</u>

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Wastewater Utility	\$ 16,140,000	\$ 5,105,000	\$ 2,370,000	\$ 18,875,000	\$ 2,630,000
Less bond discount	13,669	12,452	1,136	24,985	-
Add bond premium	21,398	-	14,866	6,532	-
Less deferred amount on refunding	<u>261,836</u>	<u>-</u>	<u>165,370</u>	<u>96,466</u>	<u>-</u>
Total revenue bonds payable	15,885,893	5,092,548	2,218,360	18,760,081	2,630,000
Notes and loans payable	19,030,000	-	370,000	18,660,000	370,000
Compensated absences	<u>231,267</u>	<u>63,295</u>	<u>11,675</u>	<u>282,887</u>	<u>-</u>
Total long-term liabilities	<u>\$ 35,147,160</u>	<u>\$ 5,155,843</u>	<u>\$ 2,600,035</u>	<u>\$ 37,702,968</u>	<u>\$ 3,000,000</u>

F. Restricted Assets

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

Depreciation operations and maintenance	\$ 2,191,378
Revenue bond operations and maintenance account	7,261,452
Sewer extension, betterment, and improvement account	2,639,652
Utility trust	<u>198</u>
Total restricted assets	<u>\$ 12,092,680</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.

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.

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 and job related illnesses or injuries to employees. 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 for medical benefits and claims in excess of \$1,000,000 for job related illnesses or injuries to employees. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund based primarily upon the percentage of each fund's payroll as it relates to total payroll.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

However, claim liabilities cannot be reasonably estimated. Accordingly, no provision has been made for unsettled claims outstanding as of December 31 in these financial statements.

B. Postemployment Benefits

In addition to the pension benefits described below, the Utility provides postemployment medical, dental, and vision benefits, as authorized by IC 5-10-8, to all employees who retire from the Utility on or after attaining age 55 with at least 30 years of service. Currently, three retirees meet these eligibility requirements. The Utility (and retirees) provide 85.3% and 14.7%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. Postemployment benefits are provided by the Utility until the retiree reaches age 65. Expenditures for postemployment benefits cannot be reasonably estimated. Accordingly, no liability has been recorded for post-employment benefits due as of December 31, 2009.

C. Rate Structure

Wastewater Utility

The current rate structure was approved by the Utility on September 26, 2005. The Utility has 20,246 customers.

D. Pension Plan

Agent Multiple-Employer and Single-Employer Defined Benefit 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, through the PERF Board, most requirements of the system and give the

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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% percent 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 City and the Utility 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	\$ 943,326
Interest on net pension obligation	(724)
Adjustment to annual required contribution	825
Annual pension cost	943,427
Contributions made	859,944
Increase (decrease) in net pension obligation	83,483
Net pension obligation, beginning of year	(9,988)
Net pension obligation, end of year	\$ 73,495

WASTEWATER UTILITY
CITY OF KOKOMO
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
Utility	6.5%
Plan members	3%
Actuarial valuation date	07-01-08
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	PERF
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	06-30-06	\$ 874,895	75%	\$ (170,047)
	06-30-07	889,738	82%	(9,988)
	06-30-08	943,427	91%	73,495

KOKOMO WASTEWATER UTILITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

PERF

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)
07-01-06	\$ 13,785,278	\$ 16,982,065	\$ (3,196,787)	81%	\$ 11,929,877	(27%)
07-01-07	15,272,899	18,452,387	(3,179,488)	83%	12,523,968	(25%)
07-01-08	15,930,682	19,249,646	(3,318,964)	83%	12,613,460	(26%)

WASTEWATER UTILITY
CITY OF KOKOMO
EXIT CONFERENCE

The contents of this report were discussed on July 9, 2009, with Gregory Goodnight, Mayor; James J. Brannon, Controller; Thu Caven, Deputy Controller; and Randall J. Morris, Director of Operations. Our audit disclosed no material items that warrant comment at this time.