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

EXAMINATION REPORT
OF

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
DEKALB COUNTY, INDIANA

January 1, 2009 to December 31, 2009



FILED
08/24/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jennie DePaolo	01-01-08 to 12-31-11
Mayor	David Wiant	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	David Wiant	01-01-08 to 12-31-11
President of the Common Council	David Wiant	01-01-08 to 12-31-11
Supervisor of Electric Utility	Michael Steward	01-01-09 to 12-31-10
Supervisor of Water Utility	Pat Kleeman	01-01-09 to 12-31-10
Supervisor of Wastewater Utility	Bruce Schlosser	01-01-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Electric, Water, and Wastewater Utilities, departments of the City of Garrett, as of and for the year ended December 31, 2009. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion 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 statement 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 Electric, Water, and Wastewater Utilities, departments of the City of Garrett, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Garrett as of December 31, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Electric, Water, and Wastewater Utilities, as of December 31, 2009, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Electric, Water, and Wastewater Utilities 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

July 15, 2010

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
STATEMENT OF NET ASSETS
December 31, 2009

<u>Assets</u>	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:			
Cash and cash equivalents	\$ 1,291,389	\$ 292,855	\$ 75,999
Accounts receivable (net of allowance)	657,601	77,278	157,491
Interfund receivables	-	-	219,852
Accrued revenue	647,955	63,932	124,048
Inventories	496,738	63,907	-
Prepaid items	<u>17,095</u>	<u>10,719</u>	<u>11,792</u>
Total current assets	<u>3,110,778</u>	<u>508,691</u>	<u>589,182</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	1,722,302	109,422	1,047,830
Bond and interest cash and investments	40,692	9,972	214,400
Debt service reserve cash and investments	307,980	66,155	438,375
Construction cash and investments	-	81,734	-
Customer deposits	113,875	48,920	64,261
I&M true up	<u>460,468</u>	<u>-</u>	<u>-</u>
Total restricted assets	<u>2,645,317</u>	<u>316,203</u>	<u>1,764,866</u>
Deferred charges	<u>126,049</u>	<u>42,834</u>	<u>119,917</u>
Capital assets:			
Land, improvements to land and construction in progress	608,136	253,348	372,966
Other capital assets (net of accumulated depreciation)	<u>6,306,603</u>	<u>3,288,859</u>	<u>8,549,208</u>
Total capital assets	<u>6,914,739</u>	<u>3,542,207</u>	<u>8,922,174</u>
Total noncurrent assets	<u>9,686,105</u>	<u>3,901,244</u>	<u>10,806,957</u>
Total assets	<u>12,796,883</u>	<u>4,409,935</u>	<u>11,396,139</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	593,889	11,384	32,320
Accrued wages payable	24,525	15,130	18,352
Taxes payable	37,481	4,168	-
Compensated absences	8,035	6,188	15,584
Current liabilities payable from restricted assets:			
Customer deposits	113,875	48,920	64,261
Revenue bonds payable	-	-	220,000
Interfund payable	<u>-</u>	<u>180,000</u>	<u>-</u>
Total current liabilities	<u>777,805</u>	<u>265,790</u>	<u>350,517</u>
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	<u>3,400,000</u>	<u>690,000</u>	<u>4,024,076</u>
Total liabilities	<u>4,177,805</u>	<u>955,790</u>	<u>4,374,593</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	3,514,739	2,672,207	4,678,098
Restricted for debt service	348,672	76,127	652,775
Restricted for other purposes	2,182,770	191,156	1,047,830
Unrestricted	<u>2,572,897</u>	<u>514,655</u>	<u>642,843</u>
Total net assets	<u>\$ 8,619,078</u>	<u>\$ 3,454,145</u>	<u>\$ 7,021,546</u>

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

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2009

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Operating revenues:			
Metered revenue	\$ 7,398,089	\$ -	\$ -
Fire protection revenue	-	18,516	-
Penalties	34,143	5,642	31,129
Measured revenue	-	657,544	1,393,700
Other	<u>11,360</u>	<u>14,543</u>	<u>6,000</u>
 Total operating revenues	 <u>7,443,592</u>	 <u>696,245</u>	 <u>1,430,829</u>
Operating expenses:			
Transmission and distribution	527,624	106,385	-
Pumping - operations and maintenance	-	-	64,115
Treatment and disposal - operations and maintenance	-	186,711	150,339
Customer accounts	64,820	35,207	33,277
Administration and general	464,688	222,069	280,285
Contractual services	-	-	123,136
Employee pensions and benefits	107,453	81,917	94,295
Purchased power	5,043,902	89,001	108,488
Sludge removal	-	-	194,105
Rents	8,333	8,356	8,333
Insurance expense	41,019	28,939	39,380
Regulatory commission expenses	-	-	7,509
Depreciation	<u>514,846</u>	<u>96,788</u>	<u>411,807</u>
 Total operating expenses	 <u>6,772,685</u>	 <u>855,373</u>	 <u>1,515,069</u>
 Operating income (loss)	 <u>670,907</u>	 <u>(159,128)</u>	 <u>(84,240)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	6,527	1,072	7,674
Miscellaneous revenue	29,107	-	24,924
Interest expense	(148,398)	(35,715)	(184,940)
Amortization of bond issue costs	<u>(8,403)</u>	<u>(2,519)</u>	<u>(8,883)</u>
 Total nonoperating revenues (expenses)	 <u>(121,167)</u>	 <u>(37,162)</u>	 <u>(161,225)</u>
 Income (loss) before contributions	 549,740	 (196,290)	 (245,465)
Capital contributions	<u>-</u>	<u>153,986</u>	<u>-</u>
 Change in net assets	 549,740	 (42,304)	 (245,465)
Total net assets - beginning	<u>8,069,338</u>	<u>3,496,449</u>	<u>7,267,011</u>
Total net assets - ending	<u>\$ 8,619,078</u>	<u>\$ 3,454,145</u>	<u>\$ 7,021,546</u>

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

ELECTRIC, WATER, AND WASTEWATER UTILITIES
CITY OF GARRETT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2009

	Electric Utility	Water Utility	Wastewater Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 7,571,875	\$ 682,338	\$ 1,420,410
Payments to suppliers and contractors	(5,820,149)	(591,180)	(825,260)
Payments to employees	(436,125)	(180,719)	(285,012)
Other receipts	29,107	-	24,924
	<u>1,344,708</u>	<u>(89,561)</u>	<u>335,062</u>
Net cash provided (used) by operating activities			
Cash flows from noncapital financing activities:			
Interfund loans/receivables	-	200,000	(200,000)
Payments/receipts on interfund loans/receivables	-	(20,000)	38,528
	<u>-</u>	<u>180,000</u>	<u>(161,472)</u>
Net cash provided (used) by noncapital financing activities			
Cash flows from capital and related financing activities:			
Capital contributions	-	153,986	-
Acquisition and construction of capital assets	(140,732)	(246,105)	(457,591)
Principal paid on capital debt	(145,000)	(30,000)	(210,000)
Interest paid on capital debt	(148,398)	(35,715)	(182,649)
	<u>(434,130)</u>	<u>(157,834)</u>	<u>(850,240)</u>
Net cash used by capital and related financing activities			
Cash flows from investing activities:			
Interest received	6,527	1,072	8,640
	<u>6,527</u>	<u>1,072</u>	<u>8,640</u>
Net increase (decrease) in cash and cash equivalents	917,105	(66,323)	(668,010)
Cash and cash equivalents, January 1	<u>3,019,601</u>	<u>675,381</u>	<u>2,508,875</u>
Cash and cash equivalents, December 31	<u>\$ 3,936,706</u>	<u>\$ 609,058</u>	<u>\$ 1,840,865</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ 670,907</u>	<u>\$ (159,128)</u>	<u>\$ (84,240)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	514,846	96,788	411,807
Nonoperating revenues	29,107		24,924
(Increase) decrease in assets:			
Accounts receivable	13,674	(11,728)	(19,198)
Accrued revenue	114,609	(2,179)	8,779
Inventories	(158,709)	8,138	-
Prepaid items	792	(2,177)	(2,209)
Increase (decrease) in liabilities:			
Accounts payable	166,565	(24,932)	(8,613)
Wages payable	82	(3,331)	(3,272)
Taxes payable	(20)	(5)	-
Compensated absence payable	8,035	6,188	15,584
Customer deposits	(15,180)	2,805	(8,500)
	<u>673,801</u>	<u>69,567</u>	<u>419,302</u>
Total adjustments			
Net cash provided (used) by operating activities	<u>\$ 1,344,708</u>	<u>\$ (89,561)</u>	<u>\$ 335,062</u>

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

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Garrett (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, 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 Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund 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 Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utilities' policies are to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

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 they are maintained in separate accounts and their use is limited by applicable bond covenants.

The financial statements report \$2,531,442, \$267,283 and \$1,700,605 of restricted net assets in the Electric, Water, and Wastewater, respectively, of which \$460,468 and \$81,734 in the Electric and Water, respectively, is restricted by enabling legislation.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Electric and Water:			
Buildings	\$ 5,000	Composite	2% to 4%
Improvements other than buildings	5,000	Composite	2% to 4%
Machinery and equipment	5,000	Composite	2% to 4%
Transportation equipment	5,000	Composite	2% to 4%
Wastewater:			
Buildings	5,000	Straight-line	50 years
Improvements other than buildings	5,000	Straight-line	50 to 100 years
Machinery and equipment	5,000	Straight-line	5 to 30 years
Transportation equipment	5,000	Straight-line	10 years

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

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. No amount of interest was included as part of the cost of capital assets in the Utilities.

5. Compensated Absences

Utilities employees earn paid time off (PTO) at rates from 14 days to 29 days per year based upon the number of years of service. Up to 20 days of unused PTO at year end can be banked in Paid Leave Bank (PLB). Any unused days over 20 at year end are lost. Employees who terminate/retire are paid up to 20 days of unused PTO/PLB at their normal rate of compensation.

Unused PTO up to 20 days accrued when incurred.

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

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 Utilities do not have a deposit policy for custodial credit risk. At December 31, 2009, the Electric, Water, and Wastewater Utilities had deposit balances in the amount of \$3,939,706, \$609,058 and \$1,840,865, respectively.

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.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 183,832	\$ 19,259	\$ -	\$ 203,091
Construction in progress	380,082	91,471	66,508	405,045
Total capital assets, not being depreciated	563,914	110,730	66,508	608,136
Capital assets, being depreciated:				
Buildings	54,044	-	-	54,044
Improvements other than buildings	11,997,723	74,708	-	12,072,431
Machinery and equipment	378,664	21,802	-	400,466
Transportation equipment	440,721	-	-	440,721
Less accumulated depreciation	(6,146,213)	(514,846)	-	(6,661,059)
Total capital assets, being depreciated, net	6,724,939	(418,336)	-	6,306,603
Total Electric Utility capital assets, net	\$ 7,288,853	\$ (307,606)	\$ 66,508	\$ 6,914,739
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 37,983	\$ -	\$ -	\$ 37,983
Construction in progress	154,509	215,365	154,509	215,365
Total capital assets, not being depreciated	192,492	215,365	154,509	253,348
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	4,258,719	154,509	-	4,413,228
Machinery and equipment	190,842	30,740	-	221,582
Transportation equipment	99,673	-	-	99,673
Less accumulated depreciation	(1,638,993)	(96,788)	-	(1,735,781)
Total capital assets, being depreciated, net	3,200,398	88,461	-	3,288,859
Total Water Utility capital assets, net	\$ 3,392,890	\$ 303,826	\$ 154,509	\$ 3,542,207

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 43,792	\$ -	\$ -	\$ 43,792
Construction in progress	<u>117,408</u>	<u>328,520</u>	<u>116,754</u>	<u>329,174</u>
Total capital assets, not being depreciated	<u>161,200</u>	<u>328,520</u>	<u>116,754</u>	<u>372,966</u>
Capital assets, being depreciated:				
Buildings	1,279,568	6,964	-	1,286,532
Improvements other than buildings	7,436,790	116,754	-	7,553,544
Machinery and equipment	5,107,411	122,107	-	5,229,518
Transportation equipment	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Totals	<u>13,833,769</u>	<u>245,825</u>	<u>-</u>	<u>14,079,594</u>
Less accumulated depreciation for:				
Buildings	(512,672)	(25,591)	-	(538,263)
Improvements other than buildings	(2,701,442)	(165,274)	-	(2,866,716)
Machinery and equipment	(1,899,464)	(219,275)	-	(2,118,739)
Distribution and collection systems	<u>(5,001)</u>	<u>(1,667)</u>	<u>-</u>	<u>(6,668)</u>
Totals	<u>(5,118,579)</u>	<u>(411,807)</u>	<u>-</u>	<u>(5,530,386)</u>
Total capital assets, being depreciated, net	<u>8,715,190</u>	<u>(165,982)</u>	<u>-</u>	<u>8,549,208</u>
Total Wastewater Utility capital assets, net	<u>\$ 8,876,390</u>	<u>\$ 162,538</u>	<u>\$ 116,754</u>	<u>\$ 8,922,174</u>

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

	<u>2009</u>
Electric	\$ 514,846
Water	96,788
Wastewater	<u>411,807</u>
Total depreciation expense	<u>\$ 1,023,441</u>

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

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2009	Committed
Electric Utility:		
West substation	\$ 351,658	\$ 351,658
Electric improvement project	53,387	53,387
Total for Electric Utility	<u>\$ 405,045</u>	<u>\$ 405,045</u>
Water Utility:		
Water Utility improvement/expansion project	<u>\$ 215,365</u>	<u>\$ 215,365</u>
Wastewater Utility:		
Wastewater Utility improvement/expansion project	<u>\$ 329,174</u>	<u>\$ 329,174</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2009, is as follows:

Interfund Receivable	Interfund Payable	2009
Wastewater Utility	City - General Fund	\$ 39,852
	Water Utility	<u>180,000</u>
Total		<u>\$ 219,852</u>

Interfund balances resulted from the time lag between the dates that interfund loans are repaid.

E. Long-Term Liabilities

1. Revenue Bonds

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

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

Purpose	Interest Rates	Balance at December 31	Less:	
			Unamortized Discount	Amount
2005 Electric Utility improvements and extension	4.0% to 4.4%	\$ 3,400,000	\$ -	\$ 3,400,000
2004 Waterworks improvement	4.25% to 4.85%	690,000	-	690,000
2002A Sewage works wastewater expansion	3.5% to 4.375%	4,275,000	30,924	4,244,076
Totals		<u>\$ 8,365,000</u>	<u>\$ 30,924</u>	<u>\$ 8,334,076</u>

Revenue bonds debt service requirements to maturity are as follows:

	Electric Utility		Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ -	\$ 71,124	\$ -	\$ 15,970	\$ 220,000	\$ 89,036
2011	150,000	139,248	30,000	31,303	230,000	169,824
2012	160,000	133,048	30,000	30,028	240,000	161,199
2013	165,000	126,547	30,000	28,753	250,000	152,078
2014	170,000	119,848	35,000	27,372	260,000	142,330
2015-2019	970,000	487,975	195,000	112,912	1,530,000	540,595
2020-2024	1,210,000	261,739	250,000	60,846	1,545,000	173,689
2025-2029	575,000	25,630	120,000	5,820	-	-
Totals	<u>\$ 3,400,000</u>	<u>\$ 1,365,159</u>	<u>\$ 690,000</u>	<u>\$ 313,004</u>	<u>\$ 4,275,000</u>	<u>\$ 1,428,751</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

2009	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Electric Utility	\$ 3,545,000	\$ -	\$ 145,000	\$ 3,400,000	\$ -
Water Utility	720,000	-	30,000	690,000	-
Wastewater Utility	4,485,000	-	210,000	4,275,000	220,000
Total long-term liabilities	<u>\$ 8,750,000</u>	<u>\$ -</u>	<u>\$ 385,000</u>	<u>\$ 8,365,000</u>	<u>\$ 220,000</u>

F. Restricted Assets

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

	Electric Utility	Water Utility	Wastewater Utility
Depreciation	\$ 1,722,302	\$ 109,422	\$ 1,047,830
Bond and interest	40,692	9,972	214,400
Debt Service reserve	307,980	66,155	438,375
Construction	-	81,734	-
Customer deposits	113,875	48,920	64,261
I&M true up	460,468	-	-
Total restricted assets	<u>\$ 2,645,317</u>	<u>\$ 316,203</u>	<u>\$ 1,764,866</u>

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

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Group Health Insurance

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$20,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

Workers' Compensation

During 1993, the Utilities joined together with other governmental entities to form the Indiana Public Employers' Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The Utilities pay an annual premium to the risk pool for its workers' compensation claims coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Subsequent Events

Per a settlement agreement dated December 28, 2009, on January 25, 2010, Indiana Michigan Power paid the City of Garrett \$423,000 to satisfy all claims related to the Through Path Facilities. Per this agreement, Garrett turned over ownership of the Through Path Facilities to I&M which include the 138kV bus, two 138kV circuit breakers connecting to the I&M circuit, the associated disconnect switches, steel structures, foundations, line traps, tuners, SCADA, CCVTs, relays, communications, power cables, relay wiring and associated apparatus.

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

C. Rate Structure

1. Electric Utility

On July 6, 2004, the City Council adopted Ordinance No. 2004-12 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the City Council on January 2006. The Utility has 3,163 customers.

2. Water Utility

On April 15, 1997, the City Council adopted Ordinance No. 97-8 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the City Council on June 17, 2008. The Utility has 2,125 customers.

3. Wastewater Utility

The current rate structure was approved by the City Council on November 19, 2002. The Utility has 2,187 customers.

D. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utility authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three 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

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

Funding Policy

PERF members are required to contribute three percent of their annual covered salary. The Utility is required to contribute at an actuarially determined rate; the current rate is 7.75 percent of annual covered payroll. The contribution requirements of plan members and the Utility are established and may be amended by the PERF Board of Trustees.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole (and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds).

Annual Pension Cost

For 2009, the City's annual pension cost of \$109,960 for PERF was equal to the City's required and actual contributions.

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	109,960
Interest on net pension obligation		1,116
Adjustment to annual required contribution		(1,272)
Annual pension cost		109,804
Contributions made		98,790
Increase (decrease) in net pension obligation		11,014
Net pension obligation, beginning of year		15,391
Net pension obligation, end of year	\$	26,405
Contribution rates:		
Utilities		0%
Plan members		3%
Actuarial valuation date		07-01-09
Actuarial cost method		Entry age normal cost
Amortization method		Level dollar, closed amortization period
Amortization period		30 years
Amortization period (from date)		07-01-07
Asset valuation method		75% of expected actuarial value plus 25% of market value

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

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	4.00%
Cost-of-living adjustments	1.50%

Three Year Trend Information						
	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation		
PERF	06-30-07	\$ 88,954	69%	\$ (3,569)		
	06-30-08	95,592	80%	15,391		
	06-30-09	109,804	90%	26,405		

Funded Status and Funding Progress for the Above Plan

The funded status of each plan as of July 1, 2009, the most recent actuarial valuation date is as follows:

Retirement Plan	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
PERF	\$ 1,549,134	\$ 2,094,903	\$ 545,769	74%	\$ 1,496,083	36%

The Schedule of Funding Progress, presented as RSI for the above plans following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

Public Employees' Retirement Plan

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)
07-01-07	\$ 1,555,382	\$ 1,829,520	\$ (274,138)	85%	\$ 1,278,272	(21%)
07-01-08	1,428,234	1,820,346	(392,112)	78%	1,293,651	(30%)
07-01-09	1,549,134	2,094,903	(545,769)	74%	1,496,083	(36%)

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

The contents of this report were discussed on July 15, 2010, with Jennie DePaolo, Clerk-Treasurer. Our examination disclosed no material items that warrant comment at this time.