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

EXAMINATION REPORT

OF

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES

WHITLEY COUNTY, INDIANA

January 1, 2010 to December 31, 2010

FILED
04/14/2011

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## OFFICIALS

| Office | Official | Term |
|---|---|---|
| Clerk-Treasurer | Rosie M. Coyle | 01-01-08 to 12-31-11 |
| Mayor | James R. Fleck | 01-01-08 to 12-31-11 |
| President of the Board of Public Works and Safety | James R. Fleck | 01-01-08 to 12-31-11 |
| President of the Common Council | Walter C. Crowder | 01-01-10 to 12-31-10 |
| | Roger Seymoure | 01-01-11 to 12-31-11 |
| Superintendent of Water Utility | Michael D. Dear | 01-01-10 to 12-31-11 |
| Superintendent of Wastewater Utility | Michel C. Cook | 01-01-10 to 12-31-11 |
| Superintendent of Electric Utility | Larry G. Whetstone | 01-01-10 to 12-31-11 |

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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# INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE COLUMBIA CITY MUNICIPAL
UTILITIES, WHITLEY COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Columbia City Municipal Utilities (Utilities), departments of the City of Columbia City, as of and for the year ended December 31, 2010. 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 Utilities, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Columbia City as of December 31, 2010, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Utilities, as of December 31, 2010, 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 examine the information and express no opinion on it.

The Utilities have 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

March 16, 2011

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2010

| Assets | Water Utility | Wastewater Utility | Electric Utility | Storm Water Utility |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ 18,652 | $ 191,769 | $ 996,713 | $ 794,105 |
| Accounts receivable (net of allowance) | 123,882 | 324,044 | 901,514 | 78,639 |
| Inventories | 94,796 | - | 544,376 | - |
| Prepaid items | 27,569 | 31,680 | 30,859 | - |
| Total current assets | 264,899 | 547,493 | 2,473,462 | 872,744 |
| Noncurrent assets: | | | | |
| Restricted cash, cash equivalents and investments: | | | | |
| Depreciation | 57,820 | 155,972 | 143,551 | - |
| Bond and interest | 58,674 | - | - | - |
| Debt service reserve | 271,703 | - | - | - |
| Customer deposits | 38,760 | - | 226,388 | - |
| Cash reserve | 24,688 | 54,856 | 304,363 | - |
| Cash with fiscal agent - sinking | - | 770,437 | - | - |
| Cash with fiscal agent - debt service reserve | - | 1,563,996 | - | - |
| Total restricted assets | 451,645 | 2,545,261 | 674,302 | - |
| Deferred charges: | | | | |
| Deferred loss on advanced refunding | 36,515 | - | - | - |
| Unamortized bond issuance costs | 111,058 | 238,137 | - | - |
| Total deferred charges | 147,573 | 238,137 | - | - |
| Capital assets: | | | | |
| Land, improvements to land and construction in progress | 21,665 | 10,147,793 | 223,573 | - |
| Land held for resale | - | - | 1,981 | - |
| Other capital assets (net of accumulated depreciation) | 6,412,660 | 20,797,252 | 4,486,823 | 242,729 |
| Total capital assets | 6,434,325 | 30,945,045 | 4,712,377 | 242,729 |
| Total noncurrent assets | 7,033,543 | 33,728,443 | 5,386,679 | 242,729 |
| Total assets | 7,298,442 | 34,275,936 | 7,860,141 | 1,115,473 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 6,801 | 4,951 | 564,879 | 3,805 |
| Taxes payable | 12,315 | - | 65,355 | - |
| Compensated absences | 29,024 | 21,413 | 56,166 | 8,454 |
| Current liabilities payable from restricted assets: | | | | |
| Customer deposits | 38,760 | - | 226,388 | - |
| Revenue bonds payable | 150,000 | - | - | - |
| Loans payable | - | 1,039,000 | - | - |
| Accrued interest payable | 30,613 | 311,600 | - | - |
| Total current liabilities | 267,513 | 1,376,964 | 912,788 | 12,259 |
| Noncurrent liabilities: | | | | |
| Loans payable | - | 19,923,368 | - | - |
| Revenue bonds payable | 2,519,000 | - | - | - |
| Total noncurrent liabilities | 2,519,000 | 19,923,368 | - | - |
| Total liabilities | 2,786,513 | 21,300,332 | 912,788 | 12,259 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 3,765,325 | 9,982,677 | 4,712,377 | 242,729 |
| Restricted for debt service | 330,377 | 2,334,433 | - | - |
| Restricted for other purposes | 121,268 | 210,828 | 674,302 | |
| Unrestricted | 294,959 | 447,666 | 1,560,674 | 860,485 |
| Total net assets | $ 4,511,929 | $ 12,975,604 | $ 6,947,353 | $ 1,103,214 |

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2010

| | Water Utility | Wastewater Utility | Electric Utility | Storm Water Utility |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Residential sales | $ 546,959 | $ 1,653,570 | $ 3,524,340 | $ - |
| Commercial sales | 300,311 | 1,314,401 | 2,092,067 | - |
| Industrial sales | 121,461 | 550,221 | 3,377,364 | - |
| Municipal sales | - | - | 110,651 | - |
| Residential, commercial and industrial sales | - | - | - | 703,126 |
| Other sales | 54,138 | - | - | - |
| Security lights | - | - | 39,569 | - |
| Public street and highway lighting | - | - | 73,588 | - |
| Public fire protection revenue | 275,584 | - | - | - |
| Private fire protection revenue | 67,512 | - | - | - |
| Penalties | 6,249 | 45,403 | 35,218 | 9,567 |
| Franchises | - | - | 33,242 | - |
| Other | 62,334 | 10,466 | 82,716 | 50 |
| Total operating revenues | 1,434,548 | 3,574,061 | 9,368,755 | 712,743 |
| Operating expenses: | | | | |
| Sources of supply | 41,457 | - | - | - |
| Water treatment | 153,216 | - | - | - |
| Transmission and distribution | 353,468 | - | - | - |
| Purchased power | - | - | 6,600,197 | - |
| Distribution | - | - | 730,542 | - |
| Sewer maintenance | - | 68,576 | - | - |
| Plant maintenance | - | 442,589 | - | - |
| Lift station expense | - | 366,492 | - | - |
| Customer accounts | 83,875 | 36,147 | 86,803 | - |
| Storm water maintenance | - | - | - | 61,025 |
| Administration and general | 508,249 | 480,350 | 1,262,666 | 250,852 |
| Depreciation | 154,950 | 1,113,973 | 484,435 | - |
| Total operating expenses | 1,295,215 | 2,508,127 | 9,164,643 | 311,877 |
| Operating income | 139,333 | 1,065,934 | 204,112 | 400,866 |
| Nonoperating revenues (expenses): | | | | |
| Interest income | 1,007 | 593 | 4,359 | 1,376 |
| Miscellaneous revenue | 2,286 | 2,251 | 9,548 | 8,250 |
| Tap fees | - | 24,882 | - | - |
| Sale of assets | 15,200 | - | 1,000 | - |
| Rental income | - | - | 37,872 | - |
| Interest expense | (125,800) | (505,713) | - | - |
| Payment in lieu of taxes | (24,000) | (180,000) | (96,000) | - |
| Amortization expense | (11,255) | (11,864) | - | - |
| Total nonoperating revenues (expenses) | (142,562) | (669,851) | (43,221) | 9,626 |
| Income (loss) before contributions | (3,229) | 396,083 | 160,891 | 410,492 |
| Capital contributions | - | 1,810,714 | 249,483 | (171,744) |
| Change in net assets | (3,229) | 2,206,797 | 410,374 | 238,748 |
| Total net assets - beginning | 4,515,158 | 10,768,807 | 6,536,979 | 864,466 |
| Total net assets - ending | $ 4,511,929 | $ 12,975,604 | $ 6,947,353 | $ 1,103,214 |

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

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2010

| | Water Utility | Wastewater Utility | Electric Utility | Storm Water Utility |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Receipts from customers and users | $ 1,438,743 | $ 3,553,406 | $ 9,320,034 | $ 680,606 |
| Payments to suppliers and contractors | (387,233) | (662,252) | (7,468,826) | (76,722) |
| Payments to employees | (746,570) | (738,541) | (1,252,901) | (237,745) |
| Net cash provided by operating activities | 304,940 | 2,152,613 | 598,307 | 366,139 |
| Cash flows from noncapital financing activities: | | | | |
| Payment in lieu of taxes | (24,000) | (180,000) | (96,000) | - |
| Cash flows from capital and related financing activities: | | | | |
| Proceeds from capital debt | - | 652,290 | - | - |
| Capital contributions | - | 1,810,714 | 249,483 | (171,744) |
| Acquisition and construction of capital assets | (194,505) | (1,784,036) | (455,069) | (175,616) |
| Principal paid on capital debt | (142,000) | (925,000) | - | - |
| Interest paid on capital debt | (127,438) | (610,830) | - | - |
| Other non-operating revenue/expense | 17,486 | 27,133 | 48,420 | 8,250 |
| Net cash used by capital and related financing activities | (446,457) | (829,729) | (157,166) | (339,110) |
| Cash flows from investing activities: | | | | |
| Interest received | 1,007 | 593 | 4,359 | 1,376 |
| Net increase (decrease) in cash and cash equivalents | (164,510) | 1,143,477 | 349,500 | 28,405 |
| Cash and cash equivalents, January 1 | 634,807 | 1,593,553 | 1,321,515 | 765,700 |
| Cash and cash equivalents, December 31 | $ 470,297 | $ 2,737,030 | $ 1,671,015 | $ 794,105 |
| Reconciliation of operating income to net cash provided by operating activities: | | | | |
| Operating income | $ 139,333 | $ 1,065,934 | $ 204,112 | $ 400,866 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation expense | 154,950 | 1,113,973 | 484,435 | - |
| (Increase) decrease in assets: | | | | |
| Accounts receivable | 4,195 | (20,655) | (13,721) | (32,137) |
| Inventories | (240) | - | 12,905 | - |
| Prepaid items | 4,263 | 5,219 | 37,537 | - |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable | (5,982) | (21,256) | (82,464) | 212 |
| Other | - | - | (35,000) | - |
| Taxes payable | (265) | - | 6,693 | - |
| Compensated absence payable | 6,956 | 9,398 | (20,933) | (2,802) |
| Customer deposits | 1,730 | - | 4,743 | - |
| Total adjustments | 165,607 | 1,086,679 | 394,195 | (34,727) |
| Net cash provided by operating activities | $ 304,940 | $ 2,152,613 | $ 598,307 | $ 366,139 |
| Noncash investing, capital and financing activities: | | | | |
| Capital assets acquired through loan payable | $ - | $ 1,070,696 | $ - | $ - |
| Loan issuance costs acquired through loan payable | - | 84,838 | - | - |

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

# I. Summary of Significant Accounting Policies

## A. Reporting Entity

The financial statements reflect only the activity of the Columbia City Municipal Utilities (Utilities) and are not intended to present fairly the position of the City of Columbia City (City). The Utilities, whose operations are controlled by the City, represent all of the City's enterprise funds.

## B. Fund Financial Statements

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

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

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

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' policy is 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.

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.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

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

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because 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:

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|---|---|---|---|
| Water collection systems | $ 1,000 | Composite rate and straight line | 1.5% - 5.0% 10 years |
| Wastewater distribution and collection systems | 1,000 | Composite rate and straight line | 2.5% - 7.5% 10 years |
| Electric distribution systems | 1,000 | Composite rate and straight line | 3.5% - 6.67% 10 years |
| Storm water system | 1,000 | Composite rate | 2.5% - 7.5% |

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 Utilities during the current year was $740,571. Of the amount, $109,058 was included as part of the cost of capital assets under construction in connection with the Water Pollution Control Blue River Interceptor Sewer project and the equalization basin and Chauncey Street interceptor sewer project.

5. Compensated Absences

a. Sick Leave – Utility employees earn sick leave at the rate of one day per month. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees through cash payments upon retirement at the rate of $10 for every sick day accumulated. Accumulated sick leave is not paid to employees who resign their position.

b. Vacation Leave – Utility employees earn vacation leave at rates from five days to twenty-five days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of two years' vacation earnings. Accumulated vacation leave is paid to employees through cash payments upon termination.

c. Personal Leave – Utility employees earn personal leave at the rate of four days per year. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred. No liability is reported for sick and personal 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.

E. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2010, the Utilities had deposit balances in the amount of $5,672,447.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Utilities to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Utilities may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Utilities' purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utilities do not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Utilities do not have a formal investment policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Utilities do not have a formal investment policy for credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Utilities do not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The Utilities do not have a formal policy in regards to foreign currency risk.

B. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

| Water Utility | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 7,654 | $ - | $ - | $ 7,654 |
| Construction in progress | 7,900 | 144,508 | 138,397 | 14,011 |
| Total capital assets, not being depreciated | 15,554 | 144,508 | 138,397 | 21,665 |
| Capital assets, being depreciated: | | | | |
| Buildings | 1,600,226 | - | - | 1,600,226 |
| Improvements other than buildings | 6,357,226 | 160,765 | - | 6,517,991 |
| Machinery and equipment | 576,921 | 27,628 | 29,488 | 575,061 |
| Totals | 8,534,373 | 188,393 | 29,488 | 8,693,278 |
| Less accumulated depreciation for: | | | | |
| Buildings | 490,600 | 24,003 | - | 514,603 |
| Improvements other than buildings | 1,470,596 | 95,358 | - | 1,565,954 |
| Machinery and equipment | 193,961 | 35,589 | 29,488 | 200,062 |
| Totals | 2,155,157 | 154,950 | 29,488 | 2,280,619 |
| Total capital assets, being depreciated, net | 6,379,216 | 33,443 | - | 6,412,659 |
| Total capital assets, net | $ 6,394,770 | $ 177,951 | $ 138,397 | $ 6,434,324 |

| Wastewater Utility | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 23,396 | $ - | $ - | $ 23,396 |
| Construction in progress | 7,247,172 | 2,877,225 | - | 10,124,397 |
| Total capital assets, not being depreciated | 7,270,568 | 2,877,225 | - | 10,147,793 |
| Capital assets, being depreciated: | | | | |
| Buildings | 7,648,951 | - | - | 7,648,951 |
| Improvements other than buildings | 12,040,332 | 53,284 | 9,589 | 12,084,027 |
| Machinery and equipment | 8,203,791 | 33,282 | 55,446 | 8,181,627 |
| Totals | 27,893,074 | 86,566 | 65,035 | 27,914,605 |
| Less accumulated depreciation for: | | | | |
| Buildings | 845,496 | 191,223 | - | 1,036,719 |
| Improvements other than buildings | 4,367,412 | 301,009 | 9,589 | 4,658,832 |
| Machinery and equipment | 855,507 | 621,741 | 55,446 | 1,421,802 |
| Totals | 6,068,415 | 1,113,973 | 65,035 | 7,117,353 |
| Total capital assets, being depreciated, net | 21,824,659 | (1,027,407) | - | 20,797,252 |
| Total capital assets, net | $ 29,095,227 | $ 1,849,818 | $ - | $ 30,945,045 |

| Electric Utility | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 223,573 | $ - | $ - | $ 223,573 |
| Land held for resale | 1,981 | - | - | 1,981 |
| Total capital assets, not being depreciated | 225,554 | - | - | 225,554 |
| Capital assets, being depreciated: | | | | |
| Buildings | 1,566,314 | - | - | 1,566,314 |
| Improvements other than buildings | 9,395,372 | 249,483 | 22,276 | 9,622,579 |
| Machinery and equipment | 1,777,160 | 205,587 | 21,856 | 1,960,891 |
| Totals | 12,738,846 | 455,070 | 44,132 | 13,149,784 |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,036,505 | 54,821 | - | 1,091,326 |
| Improvements other than buildings | 5,977,912 | 328,838 | 22,276 | 6,284,474 |
| Machinery and equipment | 1,208,240 | 100,776 | 21,856 | 1,287,160 |
| Totals | 8,222,657 | 484,435 | 44,132 | 8,662,960 |
| Total capital assets, being depreciated, net | 4,516,189 | (29,365) | - | 4,486,824 |
| Total capital assets, net | $ 4,741,743 | $ (29,365) | $ - | $ 4,712,378 |

| Storm Water Utility | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | $ 65,147 | $ 175,616 | $ 240,763 | $ - |
| Capital assets, being depreciated: | | | | |
| Improvements other than buildings | - | 240,763 | - | 240,763 |
| Machinery and equipment | 1,966 | - | - | 1,966 |
| Totals | 1,966 | 240,763 | - | 242,729 |
| Total capital assets, net | $ 67,113 | $ 416,379 | $ 240,763 | $ 242,729 |

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

| | 2010 |
|---|---|
| Water | $ 154,950 |
| Wastewater | 1,113,973 |
| Electric | 484,435 |
| Total depreciation expense | $ 1,753,358 |

C. Construction Commitments

Construction work in progress is composed of the following:

| Project | Total Project Authorized | Expended to December 31, 2010 | Committed |
|---|---|---|---|
| Water Utility: | | | |
| North Elm Street improvements | $ 19,011 | $ 14,011 | $ 5,000 |
| Wastewater Utility: | | | |
| Chauncey Street interceptor sewer | $ 8,248,500 | $ 3,478,396 | $ 4,770,104 |
| Blue River interceptor sewer | 6,928,000 | 6,486,147 | 441,853 |
| Lift station modification | 764,100 | 101,354 | 662,746 |
| Long term control plan update | 58,500 | 58,500 | - |
| Total Wastewater Utility | $ 15,999,100 | $ 10,124,397 | $ 5,874,703 |

D. Interfund Balances and Activity

Interfund Transfers

Interfund transfers at December 31, 2010, were as follows:

| Transfer From | Transfer To | 2010 |
|---|---|---|
| Water Cash Reserve Fund | General Fund | $ 24,000 |
| Water Operating Fund | Information Services Fund | 5,000 |
| Water Operating Fund | Self Insurance Fund | 120,000 |
| Wastewater Cash Reserve Fund | General Fund | 180,000 |
| Wastewater Operating Fund | Information Services Fund | 5,000 |
| Wastewater Operating Fund | Wayne Waste Financial Assurance Fund | 55,000 |
| Wastewater Operating Fund | Self Insurance Fund | 120,000 |
| Electric Cash Reserve Fund | General Fund | 96,000 |
| Electric Operating Fund | Information Services Fund | 10,000 |
| Electric Operating Fund | Self Insurance Fund | 240,000 |
| Storm Water Operating Fund | Self Insurance Fund | 24,000 |
| Storm Water Operating Fund | Wastewater Operating Fund | 171,744 |
| Total | | $ 1,050,744 |

The Utilities typically use transfers to fund ongoing operating subsidies.

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:

| Purpose | Interest Rates | Balance at December 31 |
|---|---|---|
| 2004 Waterworks refunding | 4.7% | $ 1,198,000 |
| 2006 Waterworks north pressure booster station | 4.5% | 1,471,000 |
| Total | | $ 2,669,000 |

Revenue bonds debt service requirements to maturity are as follows:

| | Water Utility | |
|---|---|---|
| | Principal | Interest |
| 2011 | $ 150,000 | $ 120,794 |
| 2012 | 156,000 | 113,804 |
| 2013 | 164,000 | 106,515 |
| 2014 | 172,000 | 98,856 |
| 2015 | 180,000 | 90,826 |
| 2016-2020 | 1,035,000 | 319,849 |
| 2021-2025 | 687,000 | 103,367 |
| 2026-2030 | 125,000 | 4,230 |
| Totals | $ 2,669,000 | $ 958,241 |

2. Notes and Loans Payable

State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank. The proceeds are set aside to finance the construction of the Wastewater WPCF upgrade, the Blue River Interceptor Sewer project, and the equalization basin and Chauncey Street Interceptor Sewer project. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The State Revolving Loan Fund loan established a maximum draw of $16,672,000 for the Wastewater WPCF upgrade, $6,928,000 for the Blue River Interceptor Sewer project, and $3,469,000 for the equalization basin and Chauncey Street Interceptor Sewer project. As of December 31, 2010, the loan principal balance was $14,452,000 for the Wastewater WPCF upgrade, $4,831,499 for the Blue River Interceptor Sewer project, and $1,678,869 for the equalization basin and Chauncey Street Interceptor Sewer project. Annual debt service requirements for the State Revolving Loan Fund loans for the Blue River Interceptor Sewer project and the equalization basin and Chauncey Street Interceptor Sewer project will not be determined until the construction project is completed. Annual debt service requirements for the State Revolving Loan Fund loan for the Wastewater WPCF upgrade are as follows:

| | Principal | Interest |
|---|---|---|
| 2011 | $ 680,000 | $ 449,930 |
| 2012 | 702,000 | 428,337 |
| 2013 | 724,000 | 406,051 |
| 2014 | 747,000 | 383,056 |
| 2015 | 770,000 | 359,352 |
| 2016-2020 | 4,235,000 | 1,414,019 |
| 2021-2025 | 4,951,000 | 697,693 |
| 2026-2030 | 1,643,000 | 52,022 |
| Totals | $ 14,452,000 | $ 4,190,460 |

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Water Utility: | | | | | |
| Revenue bonds payable | $ 2,811,000 | $ - | $ 142,000 | $ 2,669,000 | $ 150,000 |
| Wastewater Utility: | | | | | |
| SRF loan payable #1 | $ 15,111,000 | $ - | $ 659,000 | $ 14,452,000 | $ 680,000 |
| SRF loan payable #2 | 4,968,545 | 128,954 | 266,000 | 4,831,499 | 274,000 |
| SRF loan payable #3 | - | 1,678,869 | - | 1,678,869 | 85,000 |
| Total loans payable | $ 20,079,545 | $ 1,807,823 | $ 925,000 | $ 20,962,368 | $ 1,039,000 |

F. Restricted Assets

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

| | Water Utility | Wastewater Utility | Electric Utility |
|---|---|---|---|
| Depreciation | $ 57,820 | $ 155,972 | $ 143,551 |
| Bond and interest | 58,674 | 770,437 | - |
| Debt service reserve | 271,703 | 1,563,996 | - |
| Internally restricted | 24,688 | 54,856 | 304,363 |
| Customer deposits | 38,760 | - | 226,388 |
| Total restricted assets | $ 451,645 | $ 2,545,261 | $ 674,302 |

G. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future operating revenues, net of specified operating expenditures, to repay revenue bonds issued in 2004 and 2006. Proceeds from the bonds provided financing for water works improvements. The bonds are payable solely from net operating revenues and are payable through 2026. Annual principal and interest payments are expected to require less than 20 percent of revenues.

Wastewater Utility Revenues Pledged

The Utility has pledged future operating revenues, net of specified operating expenditures, to repay State Revolving Fund loans issued in 2005, 2006, and 2010. Proceeds from the bonds provided financing for wastewater improvement projects. The bonds are payable solely from net operating revenues and are payable through 2028. Annual principal and interest payments are expected to require less than 48%of revenues.

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; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The City has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Self Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of $55,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds 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 affected fund and are reported as quasi-external interfund transactions.

B. Subsequent Events

A Wastewater Utility project for an equalization basin and interceptor sewers, estimated to cost $8,248,500, is to be funded by a grant from the Office of Community and Rural Affairs for $4,779,500 (received $1,638,970 in 2010) and a State Revolving Fund loan of $3,469,000 (received $1,678,869 in 2010).

C. Termination Benefits

During the current year, the Utilities offered/is offering to pay 50% of healthcare premiums the Utilities offer to its employees for any employee who retires with twenty years of service and is 55 years of age. Three employees are currently participating in the plan, and these benefits could not be determined.

D. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on August 22, 2007. The Utility has 3,593 customers.

2. Wastewater Utility

The current rate structure was approved by the City Council on December 9, 2009. The Utility has 3,600 customers.

3. Electric Utility

   The current rate structure was approved by the Indiana Utility Regulatory Commission on June 30, 2010. The Utility has 4,669 customers.

4. Storm Water Utility

   The current rate structure was approved by the City Council on December 9, 2009. The Utility has 3,605 customers.

E. 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 Utilities 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

PERF members are required to contribute 3 percent of their annual covered salary. The Utilities are required to contribute at an actuarially determined rate; the current rate is 8.5 percent of annual covered payroll. The contribution requirements of plan members and the Utilities 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 2010, the Utilities' annual pension cost for PERF was equal to the Utilities' required and actual contributions.

Actuarial Information for the Above Plan

| | PERF |
|---|---|
| Annual required contribution | $ 194,755 |
| Interest on net pension obligation | (17,816) |
| Adjustment to annual required contribution | 20,303 |
| Annual pension cost | 197,242 |
| Contributions made | 186,255 |
| Increase in net pension obligation | 10,987 |
| Net pension obligation, beginning of year | (245,736) |
| Net pension obligation, end of year | $ (234,749) |
| Contribution rates: | |
| Utilities | 8% |
| 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 |

| 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 | $ 167,495 | 94% | $ (272,278) |
| | 06-30-08 | 194,190 | 86% | (245,736) |
| | 06-30-09 | 197,242 | 94% | (234,749) |

Funded Status and Funding Progress for the Above Plan

The funded status of the 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 | $ 2,501,307 | $ 3,583,143 | $ 1,081,836 | 70% | $ 2,663,221 | 41% |

The schedule of funding progress, presented as RSI for the above plan 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.

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c) |
|---|---|---|---|---|---|---|
| 07-01-07 | $ 2,767,109 | $ 3,526,824 | $ (759,715) | 78% | $ 2,347,475 | (32%) |
| 07-01-08 | 2,494,502 | 3,295,124 | (800,622) | 76% | 2,291,239 | (35%) |
| 07-01-09 | 2,501,307 | 3,583,143 | (1,081,836) | 70% | 2,663,221 | (41%) |

CITY OF COLUMBIA CITY MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on March 16, 2011, with Rosie M. Coyle, Clerk-Treasurer; and James R. Fleck, Mayor. Our examination disclosed no material items that warrant comment at this time.