

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

FINANCIAL STATEMENTS EXAMINATION REPORT
OF

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

January 1, 2013 to December 31, 2014



FILED
07/01/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marcie Conkle	01-01-12 to 12-31-19
Mayor	Tonya Hoeffel (Vacant) Chris Hoeffel Todd Fiandt	01-01-12 to 09-06-15 09-07-15 to 09-30-15 10-01-15 to 12-31-15 01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Tonya Hoeffel (Vacant) Chris Hoeffel Todd Fiandt	01-01-12 to 09-06-15 09-07-15 to 09-30-15 10-01-15 to 12-31-15 01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Brad Stump	01-01-13 to 12-31-16
Superintendent of Water Utility	Pat Kleeman	01-01-13 to 12-31-16
Superintendent of Wastewater Utility	Bruce Schlosser	01-01-13 to 12-31-16
Superintendent of Electric Utility	Dave Vanderbosch	01-01-13 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF GARRETT, DEKALB COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Water, Wastewater, and Electric Utilities (Utilities), departments of the City of Garrett (City), for the years ended December 31, 2013 and 2014. The financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on the 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 statements 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 the 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 as of December 31, 2013 and 2014, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Utilities, as of December 31, 2013 and 2014, and the respective changes in financial position and cash flows, thereof and for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

March 30, 2016

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FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Utilities. The financial statements and notes are presented as intended by the Utilities.

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF GARRETT
STATEMENT OF NET POSITION
December 31, 2013

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 162,309	\$ 613,499	\$ 113,416
Accounts receivable (net of allowance)	116,200	205,411	657,915
Accrued revenue	97,529	168,351	753,178
Inventories	71,288	-	472,785
Prepaid items	<u>21,457</u>	<u>18,533</u>	<u>30,076</u>
Total current assets	<u>468,783</u>	<u>1,005,794</u>	<u>2,027,370</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	191,035	244,853	537,442
Bond and interest cash and investments	7,925	14,405	44,275
Debt service reserve cash and investments	66,155	691,206	307,980
Construction cash and investments	-	1,683,599	-
Customer deposits	60,140	66,350	109,015
I & M true up	<u>-</u>	<u>-</u>	<u>399</u>
Total restricted assets	<u>325,255</u>	<u>2,700,413</u>	<u>999,111</u>
Deferred outflows	<u>-</u>	<u>104,571</u>	<u>-</u>
Capital assets:			
Land and improvements to land	37,983	43,792	203,091
Other capital assets (net of accumulated depreciation)	<u>3,930,304</u>	<u>10,881,562</u>	<u>6,502,305</u>
Total capital assets	<u>3,968,287</u>	<u>10,925,354</u>	<u>6,705,396</u>
Total noncurrent assets	<u>4,293,542</u>	<u>13,730,338</u>	<u>7,704,507</u>
Total assets	<u>4,762,325</u>	<u>14,736,132</u>	<u>9,731,877</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	16,439	25,490	627,078
Accrued wages payable	7,475	8,235	13,983
Taxes payable	6,868	-	40,042
Compensated absences	4,799	13,175	9,412
Current liabilities payable from restricted assets:			
Customer deposits	60,140	66,350	109,015
Revenue bonds payable	<u>-</u>	<u>215,000</u>	<u>-</u>
Total current liabilities	<u>95,721</u>	<u>328,250</u>	<u>799,530</u>
Noncurrent liabilities:			
Unearned Revenue	-	-	122,426
Revenue bonds payable	<u>565,000</u>	<u>7,200,000</u>	<u>2,755,000</u>
Total noncurrent liabilities	<u>565,000</u>	<u>7,200,000</u>	<u>2,877,426</u>
Total liabilities	<u>660,721</u>	<u>7,528,250</u>	<u>3,676,956</u>
<u>Net Position</u>			
Net investments in capital assets	3,403,287	3,510,354	3,950,396
Restricted for debt service	74,080	705,611	352,255
Restricted for other purposes	191,035	1,928,452	537,841
Unrestricted	<u>433,202</u>	<u>1,063,465</u>	<u>1,214,429</u>
Total net position	<u>\$ 4,101,604</u>	<u>\$ 7,207,882</u>	<u>\$ 6,054,921</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF GARRETT
STATEMENT OF NET POSITION
December 31, 2014

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 407,187	\$ 960,119	\$ 265,960
Accounts receivable (net of allowance)	111,989	206,757	781,619
Accrued revenue	85,393	167,870	782,665
Inventories	59,176	-	517,809
Prepaid items	<u>33,762</u>	<u>32,176</u>	<u>45,174</u>
 Total current assets	 <u>697,507</u>	 <u>1,366,922</u>	 <u>2,393,227</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	173,725	254,557	411,691
Bond and interest cash and investments	7,224	14,852	44,198
Debt service reserve cash and investments	66,155	691,206	307,980
Construction cash and investments	-	315,580	-
Customer deposits	61,210	66,600	110,910
I & M true up	<u>-</u>	<u>-</u>	<u>60,399</u>
 Total restricted assets	 <u>308,314</u>	 <u>1,342,795</u>	 <u>935,178</u>
Deferred outflows	<u>-</u>	<u>94,114</u>	<u>-</u>
Capital assets:			
Land and improvements to land	37,983	43,792	203,091
Other capital assets (net of accumulated depreciation)	<u>3,884,770</u>	<u>11,838,694</u>	<u>6,113,552</u>
 Total capital assets	 <u>3,922,753</u>	 <u>11,882,486</u>	 <u>6,316,643</u>
 Total noncurrent assets	 <u>4,231,067</u>	 <u>13,319,395</u>	 <u>7,251,821</u>
 Total assets	 <u>4,928,574</u>	 <u>14,686,317</u>	 <u>9,645,048</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	17,631	13,216	572,160
Accrued wages payable	8,797	12,302	17,127
Taxes payable	6,733	-	45,251
Compensated absences	7,528	14,030	11,676
Current liabilities payable from restricted assets:			
Customer deposits	61,210	66,600	110,910
Revenue bonds payable	<u>-</u>	<u>235,000</u>	<u>-</u>
 Total current liabilities	 <u>101,899</u>	 <u>341,148</u>	 <u>757,124</u>
Noncurrent liabilities:			
Unearned Revenue	-	-	40,808
Revenue bonds payable	<u>530,000</u>	<u>6,735,000</u>	<u>2,575,000</u>
 Total noncurrent liabilities	 <u>530,000</u>	 <u>6,735,000</u>	 <u>2,615,808</u>
 Total liabilities	 <u>631,899</u>	 <u>7,076,148</u>	 <u>3,372,932</u>
<u>Net Position</u>			
Net investments in capital assets	3,392,753	4,912,486	3,741,643
Restricted for debt service	73,379	706,058	352,178
Restricted for other purposes	173,725	570,137	472,090
Unrestricted	<u>656,818</u>	<u>1,421,488</u>	<u>1,706,205</u>
 Total net position	 <u>\$ 4,296,675</u>	 <u>\$ 7,610,169</u>	 <u>\$ 6,272,116</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF GARRETT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As Of And For The Year Ended December 31, 2013

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Operating revenues:			
Metered revenue	\$ 1,087,958	\$ -	\$ 7,474,042
Fire protection revenue	60,108	-	-
Penalties	8,507	40,830	31,700
Measured revenue	-	1,917,982	-
Other	<u>13,981</u>	<u>13,500</u>	<u>13,600</u>
 Total operating revenues	 <u>1,170,554</u>	 <u>1,972,312</u>	 <u>7,519,342</u>
Operating expenses:			
Transmission and distribution	202,071	-	506,895
Pumping - operations and maintenance	-	129,874	-
Treatment and disposal - operations and maintenance	208,181	240,844	-
Customer accounts	43,457	46,550	81,538
Administration and general	329,158	689,397	793,064
Purchased power	-	-	6,332,941
Bad debt expense	168	290	1,250
Depreciation	<u>113,594</u>	<u>444,661</u>	<u>590,379</u>
 Total operating expenses	 <u>896,629</u>	 <u>1,551,616</u>	 <u>8,306,067</u>
 Operating income (loss)	 <u>273,925</u>	 <u>420,696</u>	 <u>(786,725)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	212	3,784	782
Miscellaneous revenue	-	40,120	146,438
Interest expense	<u>(30,386)</u>	<u>(165,116)</u>	<u>(123,598)</u>
 Total nonoperating revenues (expenses)	 <u>(30,174)</u>	 <u>(121,212)</u>	 <u>23,622</u>
 Income (loss) before contributions	 243,751	 299,484	 (763,103)
Capital contributions	<u>87,336</u>	<u>15,313</u>	<u>-</u>
 Change in net position	 331,087	 314,797	 (763,103)
Total net position - beginning	<u>3,770,517</u>	<u>6,893,085</u>	<u>6,818,024</u>
Total net position - ending	<u>\$ 4,101,604</u>	<u>\$ 7,207,882</u>	<u>\$ 6,054,921</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF GARRETT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As Of And For The Year Ended December 31, 2014

	Water Utility	Wastewater Utility	Electric Utility
Operating revenues:			
Metered revenue	\$ 1,069,457	\$ -	\$ 8,273,095
Fire protection revenue	60,108	-	-
Penalties	8,552	46,880	45,314
Measured revenue	-	2,012,541	-
Other	9,227	18,511	25,401
	<u>1,147,344</u>	<u>2,077,932</u>	<u>8,343,810</u>
Total operating revenues			
Operating expenses:			
Transmission and distribution	213,366	-	530,166
Pumping - operations and maintenance	-	125,451	-
Treatment and disposal - operations and maintenance	241,883	271,123	-
Customer accounts	28,081	27,450	77,172
Administration and general	326,881	582,390	829,956
Purchased power	-	-	6,119,357
Bad debt expense	1,437	3,205	5,436
Depreciation	113,594	444,661	590,379
	<u>925,242</u>	<u>1,454,280</u>	<u>8,152,466</u>
Total operating expenses			
Operating income	<u>222,102</u>	<u>623,652</u>	<u>191,344</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	346	1,562	693
Miscellaneous revenue	-	694	108,116
Interest expense	(27,377)	(223,621)	(116,833)
	<u>(27,031)</u>	<u>(221,365)</u>	<u>(8,024)</u>
Total nonoperating expenses			
Income before contributions	195,071	402,287	183,320
Capital contributions	-	-	33,875
Change in net position	195,071	402,287	217,195
Total net position - beginning	<u>4,101,604</u>	<u>7,207,882</u>	<u>6,054,921</u>
Total net position - ending	<u>\$ 4,296,675</u>	<u>\$ 7,610,169</u>	<u>\$ 6,272,116</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF GARRETT
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2013

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,163,844	\$ 1,864,758	\$ 7,272,408
Payments to suppliers and contractors	(480,109)	(797,938)	(7,087,116)
Payments to employees	(297,797)	(318,037)	(494,901)
Other receipts (disbursements)	(201)	40,120	64,820
	<u> </u>	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	385,737	788,903	(244,789)
Cash flows from noncapital financing activities:			
Interfund loans	(90,000)	90,000	-
	<u> </u>	<u> </u>	<u> </u>
Net cash provided (used) by noncapital financing activities	(90,000)	90,000	-
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(100,089)	(2,288,123)	(63,713)
Proceeds from long-term debt	-	4,170,000	-
Capital contributions	87,336	15,313	-
Principal paid on capital debt	(35,000)	(365,000)	(170,000)
Interest paid on capital debt	(30,386)	(154,659)	(123,598)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided (used) by capital and related financing activities	(78,139)	1,377,531	(357,311)
Cash flows from investing activities:			
Interest received	212	3,784	782
	<u> </u>	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	217,810	2,260,218	(601,318)
Cash and cash equivalents, January 1	<u>269,754</u>	<u>1,053,694</u>	<u>1,713,845</u>
Cash and cash equivalents, December 31	<u>\$ 487,564</u>	<u>\$ 3,313,912</u>	<u>\$ 1,112,527</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	<u>\$ 273,925</u>	<u>\$ 420,696</u>	<u>\$ (786,725)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	113,594	444,661	590,379
Nonoperating revenues (expenses)	-	40,120	64,820
(Increase) decrease in assets:			
Accounts receivable	441	(61,301)	(55,849)
Accrued revenue	(7,151)	(54,015)	(191,085)
Prepaid items	2,516	7,762	(5,157)
Increase (decrease) in liabilities:			
Accounts payable	2,839	(6,015)	135,014
Wages payable	(247)	(260)	2,970
Taxes payable	(201)	-	4,000
Compensated absences	(1,389)	(2,408)	(731)
Customer deposits	1,410	(337)	(2,425)
	<u> </u>	<u> </u>	<u> </u>
Total adjustments	111,812	368,207	541,936
Net cash provided (used) by operating activities	<u>\$ 385,737</u>	<u>\$ 788,903</u>	<u>\$ (244,789)</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF GARRETT
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2014

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,163,691	\$ 2,077,067	\$ 8,190,619
Payments to suppliers and contractors	(511,680)	(711,820)	(7,114,352)
Payments to employees	(293,848)	(318,544)	(541,959)
Other receipts (disbursements)	(135)	694	26,498
	<u>358,028</u>	<u>1,047,397</u>	<u>560,806</u>
Net cash provided by operating activities			
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(68,060)	(1,401,793)	(209,930)
Capital contributions	-	-	33,875
Principal paid on capital debt	(35,000)	(445,000)	(180,000)
Interest paid on capital debt	(27,377)	(213,164)	(116,833)
	<u>(130,437)</u>	<u>(2,059,957)</u>	<u>(472,888)</u>
Net cash used by capital and related financing activities			
Cash flows from investing activities:			
Interest received	346	1,562	693
	<u>227,937</u>	<u>(1,010,998)</u>	<u>88,611</u>
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents, January 1	487,564	3,313,912	1,112,527
	<u>\$ 715,501</u>	<u>\$ 2,302,914</u>	<u>\$ 1,201,138</u>
Cash and cash equivalents, December 31			
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 222,102	\$ 623,652	\$ 191,344
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	113,594	444,661	590,379
Nonoperating revenues (expenses)	-	694	26,498
(Increase) decrease in assets:			
Accounts receivable	4,211	(1,346)	(123,704)
Accrued revenue	12,136	481	(29,487)
Inventories	12,112	-	(45,024)
Prepaid items	(12,305)	(13,643)	(15,098)
Increase (decrease) in liabilities:			
Accounts payable	1,192	(12,274)	(46,614)
Wages payable	1,322	4,067	3,144
Taxes payable	(135)	-	5,209
Compensated absences	2,729	855	2,264
Customer deposits	1,070	250	1,895
	<u>135,926</u>	<u>423,745</u>	<u>369,462</u>
Total adjustments			
Net cash provided by operating activities	<u>\$ 358,028</u>	<u>\$ 1,047,397</u>	<u>\$ 560,806</u>

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

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activities of the City of Garrett Municipal Utilities (Utilities) and the results of its operations and cash flows of its enterprise funds and are not intended to present fairly the position of the City of Garrett (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 Position; Statement of Revenues, Expenses, and Changes in Net Position; 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.

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 Position 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.

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

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

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 Position because they are maintained in separate funds and/or bank accounts and their use is limited by applicable bond covenants.

At December 31, 2013 and 2014, the financial statements report Water Utility restricted net assets of \$265,115 and \$247,104 of which \$265,115 and \$247,104 is restricted by enabling legislation; Wastewater Utility restricted net assets of \$2,634,063 and \$1,276,195 of which \$2,634,063 and \$1,276,195 is restricted by enabling legislation; and Electric Utility restricted net assets of \$890,096 and \$824,268 of which \$890,096 and \$824,268 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

WATER, WASTEWATER, AND ELECTRIC 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. Total interest expense incurred by the Water Utility for the years ended December 31, 2013 and 2014 was \$30,386 and 27,377, respectively. Total interest expense incurred by the Wastewater Utility for the years ended December 31, 2013 and 2014 was \$165,116 and \$223,621, respectively. Total interest expense incurred by the Electric Utility for the years ended December 31, 2013 and 2014 was \$123,598 and \$116,833, respectively. Of these amounts, nothing was included as part of the cost of capital assets under construction.

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 is accrued when incurred.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts 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.

7. Change in Accounting Principle

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The implementation of GASB 65 resulted in the write-off of bond issuance costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$100,840 for the Electric Utility, \$35,277 for the Water Utility, and \$70,500 for the Wastewater Utility.

II. Detailed Notes on All Funds

A. 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

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political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2013, the Water, Wastewater, and Electric Utilities had deposit balances in the amount of \$487,564, \$3,313,912, and \$1,122,527, respectively. At December 31, 2014, the Water, Wastewater, and Electric Utilities had deposit balances in the amount of \$715,501, \$2,302,914, and \$1,201,138, 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.

B. Capital Assets

Capital asset activity for the years ended December 31, 2013 and 2014, were as follows:

<u>2013</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 37,983	\$ -	\$ -	\$ 37,983
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	5,093,512	100,089	-	5,193,601
Machinery and equipment	299,043	-	-	299,043
Transportation equipment	60,504	-	-	60,504
Less accumulated depreciation	<u>(1,799,407)</u>	<u>(113,594)</u>	<u>-</u>	<u>(1,913,001)</u>
Total capital assets, being depreciated, net	<u>3,943,809</u>	<u>(13,505)</u>	<u>-</u>	<u>3,930,304</u>
Total Water Utility capital assets, net	<u>\$3,981,792</u>	<u>\$ (13,505)</u>	<u>\$ -</u>	<u>\$ 3,968,287</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 43,792	\$ -	\$ -	\$ 43,792
Capital assets, being depreciated:				
Buildings	1,286,532	-	-	1,286,532
Improvements other than buildings	9,310,258	2,288,123	-	11,598,381
Machinery and equipment	5,245,433	-	-	5,245,433
Distribution and collection systems	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Totals	<u>15,852,223</u>	<u>2,288,123</u>	<u>-</u>	<u>18,140,346</u>
Less accumulated depreciation for:				
Buildings	(615,455)	(25,730)	-	(641,185)
Improvements other than buildings	(3,410,233)	(197,650)	-	(3,607,883)
Machinery and equipment	(2,341,230)	(1,667)	-	(2,342,897)
Transportation equipment	<u>(447,205)</u>	<u>(219,614)</u>	<u>-</u>	<u>(666,819)</u>
Totals	<u>(6,814,123)</u>	<u>(444,661)</u>	<u>-</u>	<u>(7,258,784)</u>
Total capital assets, being depreciated, net	<u>9,038,100</u>	<u>1,843,462</u>	<u>-</u>	<u>10,881,562</u>
Total Wastewater Utility capital assets, net	<u>\$9,081,892</u>	<u>\$ 1,843,462</u>	<u>\$ -</u>	<u>\$ 10,925,354</u>

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<u>2013</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 203,091	\$ -	\$ -	\$ 203,091
Capital assets, being depreciated:				
Buildings	145,515	-	-	145,515
Improvements other than buildings	13,756,871	63,713	-	13,820,584
Machinery and equipment	428,700	-	-	428,700
Transportation equipment	440,721	-	-	440,721
Less accumulated depreciation	<u>(7,742,836)</u>	<u>(590,379)</u>	<u>-</u>	<u>(8,333,215)</u>
Total capital assets, being depreciated, net	<u>7,028,971</u>	<u>(526,666)</u>	<u>-</u>	<u>6,502,305</u>
Total Electric Utility capital assets, net	<u>\$ 7,232,062</u>	<u>\$ (526,666)</u>	<u>\$ -</u>	<u>\$ 6,705,396</u>
<u>2014</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 37,983	\$ -	\$ -	\$ 37,983
Capital assets, being depreciated:				
Buildings	290,157	-	-	290,157
Improvements other than buildings	5,193,601	68,060	-	5,261,661
Machinery and equipment	299,043	-	-	299,043
Transportation equipment	60,504	-	-	60,504
Less accumulated depreciation	<u>(1,913,001)</u>	<u>(113,594)</u>	<u>-</u>	<u>(2,026,595)</u>
Total capital assets, being depreciated, net	<u>3,930,304</u>	<u>(45,534)</u>	<u>-</u>	<u>3,884,770</u>
Total Water Utility capital assets, net	<u>\$ 3,968,287</u>	<u>\$ (45,534)</u>	<u>\$ -</u>	<u>\$ 3,922,753</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 43,792	\$ -	\$ -	\$ 43,792
Capital assets, being depreciated:				
Buildings	1,286,532	-	-	1,286,532
Improvements other than buildings	11,598,381	1,395,393	-	12,993,774
Machinery and equipment	5,245,433	6,400	-	5,251,833
Distribution and collection systems	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Totals	<u>18,140,346</u>	<u>1,401,793</u>	<u>-</u>	<u>19,542,139</u>
Less accumulated depreciation for:				
Buildings	(641,185)	(25,730)	-	(666,915)
Improvements other than buildings	(3,607,883)	(197,650)	-	(3,805,533)
Machinery and equipment	(2,342,897)	(1,667)	-	(2,344,564)
Transportation equipment	<u>(666,819)</u>	<u>(219,614)</u>	<u>-</u>	<u>(886,433)</u>
Totals	<u>(7,258,784)</u>	<u>(444,661)</u>	<u>-</u>	<u>(7,703,445)</u>
Total capital assets, being depreciated, net	<u>10,881,562</u>	<u>957,132</u>	<u>-</u>	<u>11,838,694</u>
Total Wastewater Utility capital assets, net	<u>\$ 10,925,354</u>	<u>\$ 957,132</u>	<u>\$ -</u>	<u>\$ 11,882,486</u>

WATER, WASTEWATER, AND ELECTRIC UTILITIES
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<u>2014</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings	(641,185)	(25,730)	-	(666,915)
Improvements other than buildings	(3,607,883)	(197,650)	-	(3,805,533)
Machinery and equipment	(2,342,897)	(1,667)	-	(2,344,564)
Transportation equipment	<u>(666,819)</u>	<u>(219,614)</u>	<u>-</u>	<u>(886,433)</u>
 Totals	 <u>(7,258,784)</u>	 <u>(444,661)</u>	 <u>-</u>	 <u>(7,703,445)</u>
 Total capital assets, being depreciated, net	 <u>10,881,562</u>	 <u>957,132</u>	 <u>-</u>	 <u>11,838,694</u>
 Total Wastewater Utility capital assets, net	 <u>\$ 10,925,354</u>	 <u>\$ 957,132</u>	 <u>\$ -</u>	 <u>\$ 11,882,486</u>
 Electric Utility:				
Capital assets, not being depreciated:				
Land	<u>\$ 203,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,091</u>
 Capital assets, being depreciated:				
Buildings	145,515	-	-	145,515
Improvements other than buildings	13,820,584	75,497	-	13,896,081
Machinery and equipment	428,700	134,433	8,304	554,829
Transportation equipment	440,721	-	-	440,721
Less accumulated depreciation	<u>(8,333,215)</u>	<u>(590,379)</u>	<u>-</u>	<u>(8,923,594)</u>
 Total capital assets, being depreciated, net	 <u>6,502,305</u>	 <u>(380,449)</u>	 <u>8,304</u>	 <u>6,113,552</u>
 Total Electric Utility capital assets, net	 <u>\$ 6,705,396</u>	 <u>\$(380,449)</u>	 <u>\$ 8,304</u>	 <u>\$ 6,316,643</u>

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

	<u>2013</u>	<u>2014</u>
Water	\$ 113,594	\$ 113,594
Wastewater	444,661	444,661
Electric	<u>590,379</u>	<u>590,379</u>
 Total depreciation expense	 <u>\$ 1,148,634</u>	 <u>\$ 1,148,634</u>

C. 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:

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Purpose	Interest Rates	Balance at December 31, 2013	Balance at December 31, 2014
2004 Waterworks improvement	4.30% to 4.85%	\$ 565,000	\$ 530,000
2012 Sewage Works refunding revenue bonds	2.42%	3,305,000	2,995,000
2013 Sewage Works revenue bonds 2013	1.50% to 4.30%	4,110,000	3,975,000
2005 Electric Utility improvements and extension	4.00% to 4.40%	<u>2,755,000</u>	<u>2,575,000</u>
Total		<u>\$ 10,735,000</u>	<u>\$ 10,075,000</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility		Electric Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ -	\$ 12,570	\$ 235,000	\$ 103,056	\$ -	\$ 54,624
2016	35,000	24,388	480,000	198,524	185,000	105,548
2017	40,000	22,746	495,000	187,681	195,000	97,948
2018	40,000	20,936	505,000	176,275	200,000	90,048
2019	45,000	18,958	520,000	164,110	210,000	81,585
2020-2024	250,000	60,846	2,430,000	616,646	1,210,000	261,739
2025-2029	120,000	5,820	1,155,000	363,183	575,000	25,630
2030-2034	-	-	1,150,000	112,856	-	-
Totals	<u>\$ 530,000</u>	<u>\$ 166,264</u>	<u>\$ 6,970,000</u>	<u>\$ 1,922,331</u>	<u>\$ 2,575,000</u>	<u>\$ 717,122</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2013 and 2014, were as follows:

<u>2013</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 600,000	\$ -	\$ 35,000	\$ 565,000	\$ -
Wastewater Utility	3,610,000	4,170,000	365,000	7,415,000	215,000
Electric Utility	<u>2,925,000</u>	<u>-</u>	<u>170,000</u>	<u>2,755,000</u>	<u>-</u>
Total long-term liabilities	<u>\$ 7,135,000</u>	<u>\$ 4,170,000</u>	<u>\$ 570,000</u>	<u>\$ 10,735,000</u>	<u>\$ 215,000</u>
<u>2014</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 565,000	\$ -	\$ 35,000	\$ 530,000	\$ -
Wastewater Utility	7,415,000	-	445,000	6,970,000	235,000
Electric Utility	<u>2,755,000</u>	<u>-</u>	<u>180,000</u>	<u>2,575,000</u>	<u>-</u>
Total long-term liabilities	<u>\$ 10,735,000</u>	<u>\$ -</u>	<u>\$ 660,000</u>	<u>\$ 10,075,000</u>	<u>\$ 235,000</u>

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D. Restricted Assets

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

<u>2013</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Depreciation	\$ 191,035	\$ 244,853	\$ 537,442
Bond and interest	7,925	14,405	44,275
Debt service reserve	66,155	691,206	307,980
Construction	-	1,683,599	-
Customer deposits	60,140	66,350	109,015
I & M true up	-	-	399
	<u> </u>	<u> </u>	<u> </u>
Total restricted assets	<u>\$ 325,255</u>	<u>\$ 2,700,413</u>	<u>\$ 999,111</u>
<u>2014</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Depreciation	\$ 173,725	\$ 254,557	\$ 411,691
Bond and interest	7,224	14,852	44,198
Debt service reserve	66,155	691,206	307,980
Construction	-	315,580	-
Customer deposits	61,210	66,600	110,910
I & M true up	-	-	60,399
	<u> </u>	<u> </u>	<u> </u>
Total restricted assets	<u>\$ 308,314</u>	<u>\$ 1,342,795</u>	<u>\$ 935,178</u>

E. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2004. Proceeds from the bonds provided financing for improvements and extensions to the Waterworks Utility. The bonds are payable solely from water net revenues and are payable through 2026. Annual principal and interest on the bonds are expected to require less than 6 percent of net revenues. The total principal and interest remaining to be paid at December 31, 2014 on the bonds is \$696,264. Principal and interest paid for the years ended December 31, 2013 and 2014 was \$63,135 and \$62,378, respectively. The total net revenues for the years ended December 31, 2013 and 2014 were \$1,170,554 and \$1,147,344, respectively.

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Wastewater Utility Revenues Pledged

The Utility has pledged future wastewater revenues, net of specified operating expenditures, to repay revenue bonds issued in 2012 and 2013. Proceeds from the bonds provided financing for wastewater expansion. The bonds are payable solely from wastewater net revenues and are payable through 2033. Annual principal and interest on the bonds are expected to require less than 32 percent of net revenues. The total principal and interest remaining to be paid at December 31, 2014 on the bonds is \$8,892,331. Principal and interest paid for the years ended December 31, 2013 and 2014 was \$519,659 and \$658,164, respectively. The total net revenues for the years ended December 31, 2013 and 2014 were \$1,972,312 and \$2,077,932, respectively.

Electric Utility Revenues Pledged

The Utility has pledged future electric revenues, net of specified operating expenditures, to repay revenue bonds issued in 2005. Proceeds from the bonds provided financing for electric improvements and extensions. The bonds are payable solely from electric net revenues and are payable through 2026. Annual principal and interest on the bonds are expected to require 4 percent of less of net revenues. The total principal and interest remaining to be paid on the bonds at December 31, 2014 is \$3,292,122. Principal and interest paid for the years ended December 31, 2013 and 2014 was \$293,598 and \$296,833, respectively. The total net revenues for the years ended December 31, 2013 and 2014 were \$7,519,342 and \$8,343,810, respectively.

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; 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.

Workers' Compensation

During 1993, the Utilities joined together with other governmental entities in the Indiana Public Employers' Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for 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.

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B. Rate Structure

1. 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 August 21, 2012. The Utility had 2,169 customers at December 31, 2014.

2. Wastewater Utility

The current rate structure was approved by the Common Council on May 7, 2013. The Utility had 2,223 customers at December 31, 2014.

3. 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 21, 2014. The Utility had 3,184 customers at December 31, 2014.

C. 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. On July 1, 2013, PERF changed from an agent multiple-employer to a cost-sharing multiple-employer retirement plan. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) 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 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.

INPRS 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:

Indiana Public Retirement System
1 North Capitol Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees in INPRS.

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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 not presented as an asset/liability of the proprietary funds.

D. Subsequent Event

Electric Utility Bond Refinance

During 2015, the City issued Electric Utility Refunding Revenue Bonds of 2015 with an interest rate of 2.32% replacing Electric Utility Revenue Bonds of 2005 with interest rates ranging from 4.00% to 4.40%.

OTHER REPORTS

In addition to this report, other reports may have been issued for the Utilities. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.