

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

CITY OF GAS CITY MUNICIPAL UTILITIES

GRANT COUNTY, INDIANA



FILED
10/25/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Auditor's Report.....	3
Statement of Net Assets.....	4-5
Statement of Revenues, Expenses and Changes in Fund Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8-17
Supplementary Information: Schedule of Funding Progress	18
Audit Results and Comments: Change Orders	19
Public Works Project.....	19
Exit Conference	20

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Julie L. Flores	01-01-04 to 12-31-07
Mayor	H. Larry Leach	01-01-04 to 12-31-07
President of the Board of Public Works	H. Larry Leach	01-01-04 to 12-31-07
President of the Common Council	Michael Planck Larry Terwillegar	01-01-05 to 12-31-05 01-01-06 to 12-31-06
Superintendent of Utilities	Raymond Smith	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF GAS CITY MUNICIPAL UTILITIES, GRANT COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the City of Gas City Municipal Utilities (Utilities), departments of the City of Gas City, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the 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 Gas City as of December 31, 2005, 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, 2005, 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 Utilities have not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

STATE BOARD OF ACCOUNTS

October 4, 2006

CITY OF GAS CITY MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2005

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 126,439	\$ 200,261	\$ 295,201
Investments	-	72,500	-
Interest receivable	659	1,427	3,231
Accounts receivable - customers (net of allowance)	43,460	97,524	179,346
Accounts receivable - other	4,361	668	4,575
Loan receivable	-	47,727	-
Inventories	23,461	2,114	159,312
Prepaid items	8,936	11,725	20,092
	<u>207,316</u>	<u>433,946</u>	<u>661,757</u>
Total current assets			
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	18,055	205,666	249,699
Reserve cash and investments	-	-	200,204
Bond and interest cash and investments	63,347	-	40
Debt service reserve cash and investments	103,512	-	167,760
Construction cash and investments	-	-	5,602
Customer deposits cash and investments	49,925	-	106,868
Gas pump cash and investments	-	1,162	6,994
Lease cash and investments	-	38,534	-
Tree cash and investments	-	-	50,985
	<u>234,839</u>	<u>245,362</u>	<u>788,152</u>
Total restricted assets			
Deferred charges:			
Unamortized bond issuance costs	<u>23,640</u>	-	<u>66,280</u>
Capital assets:			
Land and construction in progress	51,353	359,634	-
Other capital assets (net of accumulated depreciation)	<u>2,834,256</u>	<u>4,647,119</u>	<u>2,723,773</u>
Total capital assets			
	<u>2,885,609</u>	<u>5,006,753</u>	<u>2,723,773</u>
Total noncurrent assets			
	<u>3,144,088</u>	<u>5,252,115</u>	<u>3,578,205</u>
Total assets			
	<u>3,351,404</u>	<u>5,686,061</u>	<u>4,239,962</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	12,839	22,018	312,553
Wages payable	3,042	5,626	5,631
Taxes payable	2,852	-	14,290
Compensated absences	2,931	1,970	2,512
Loan payable	47,727	-	-
Capital leases payable	5,281	-	5,284

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

CITY OF GAS CITY MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2005

<u>Liabilities (continued)</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current liabilities payable from restricted assets:			
Accounts payable	-	-	58,970
Customer deposits	49,925	-	106,868
Capital leases payable	-	29,160	-
Loans payable	65,000	-	-
Accrued interest payable	<u>9,419</u>	<u>4,017</u>	<u>-</u>
Total current liabilities	<u>199,016</u>	<u>62,791</u>	<u>506,108</u>
Noncurrent liabilities:			
Loans payable	1,219,940	-	-
Capital leases payable	-	51,972	-
Revenue bonds payable	<u>-</u>	<u>-</u>	<u>2,100,000</u>
Total noncurrent liabilities	<u>1,219,940</u>	<u>51,972</u>	<u>2,100,000</u>
Total liabilities	<u>1,418,956</u>	<u>114,763</u>	<u>2,606,108</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,595,388	4,925,621	618,489
Restricted for debt service	166,859	-	167,800
Restricted for construction	-	-	5,602
Restricted for customer deposits	49,925	-	106,868
Restricted for other purposes	18,055	245,362	507,882
Unrestricted	<u>102,221</u>	<u>400,315</u>	<u>227,213</u>
Total net assets	<u>\$ 1,932,448</u>	<u>\$ 5,571,298</u>	<u>\$ 1,633,854</u>

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

CITY OF GAS CITY MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Operating revenues:			
Metered water revenue:			
Residential	\$ 472,318	\$ -	\$ -
Commercial and industrial	155,040	-	-
Residential sales	-	629,415	2,023,253
Commercial and industrial sales	-	452,215	1,757,830
Public street and highway lighting	-	-	39,862
Fire protection revenue	70,250	-	-
Penalties	5,984	20,452	22,373
Other	9,000	5,383	9,700
	<u>712,592</u>	<u>1,107,465</u>	<u>3,853,018</u>
Total operating revenues			
Operating expenses:			
Source of supply and expense - operations and maintenance	42,999	-	-
Water treatment expense - operations and maintenance	161,324	-	-
Power production	-	-	2,781,110
Transmission and distribution	139,735	-	470,456
Collection system - operations and maintenance	-	119,638	-
Treatment and disposal - operations and maintenance	-	374,970	-
Customer accounts	28,068	31,627	30,953
Administration and general	145,331	176,101	362,704
Bad debt expense	1,417	335	7,960
Depreciation and amortization	81,348	167,960	152,095
	<u>600,222</u>	<u>870,631</u>	<u>3,805,278</u>
Total operating expenses			
Operating income	<u>112,370</u>	<u>236,834</u>	<u>47,740</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	6,128	10,264	22,513
Miscellaneous revenue	2,254	134	-
Interest expense	(38,247)	(5,044)	(554)
Amortization of debt issue costs	(1,550)	-	(2,692)
Miscellaneous expense	(6,996)	(16,625)	(16,024)
	<u>(38,411)</u>	<u>(11,271)</u>	<u>3,243</u>
Total nonoperating revenues (expenses)			
Income before transfers	73,959	225,563	50,983
Transfers out	-	-	(136,000)
Change in net assets	73,959	225,563	(85,017)
Total net assets - beginning	<u>1,858,489</u>	<u>5,345,735</u>	<u>1,718,871</u>
Total net assets - ending	<u>\$ 1,932,448</u>	<u>\$ 5,571,298</u>	<u>\$ 1,633,854</u>

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

CITY OF GAS CITY MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 707,858	\$ 1,088,766	\$ 3,863,737
Payments to suppliers and contractors	(346,388)	(393,595)	(3,288,552)
Payments to employees	(187,097)	(315,579)	(330,056)
Other payments	(4,742)	(16,491)	(16,024)
Net cash provided by operating activities	<u>169,631</u>	<u>363,101</u>	<u>229,105</u>
Cash flows from noncapital financing activities:			
Transfer to other funds	-	-	(136,000)
Water Utility capital asset addition paid by Wastewater Utility	-	(47,727)	-
Net cash used by noncapital financing activities	<u>-</u>	<u>(47,727)</u>	<u>(136,000)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	-	(143,456)	(2,052,766)
Principal paid on capital debt	(65,015)	(27,584)	(5,012)
Interest paid on capital debt	(38,687)	(6,243)	(95,995)
Bond issue costs paid	-	-	(12,442)
Net cash used by capital and related financing activities	<u>(103,702)</u>	<u>(177,283)</u>	<u>(2,166,215)</u>
Cash flows from investing activities:			
Interest received	<u>5,756</u>	<u>9,754</u>	<u>57,885</u>
Net increase (decrease) in cash and cash equivalents	71,685	147,845	(2,015,225)
Cash and cash equivalents, January 1	<u>289,593</u>	<u>297,778</u>	<u>3,098,578</u>
Cash and cash equivalents, December 31	<u>\$ 361,278</u>	<u>\$ 445,623</u>	<u>\$ 1,083,353</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 112,370	\$ 236,834	\$ 47,740
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	81,348	167,960	152,095
Bad debt expense	1,417	335	7,960
Nonoperating revenue/expense	(4,742)	(16,491)	(16,024)
(Increase) decrease in assets:			
Accounts receivable - customer	(4,834)	(18,195)	11,176
Accounts receivable - other	100	(504)	(457)
Inventories	(895)	(421)	(1,173)
Prepaid items	(67)	(76)	(114)
Increase (decrease) in liabilities:			
Accounts payable	(15,000)	(1,903)	27,652
Wages payables	(497)	(1,247)	(1,650)
Taxes payable	62	-	74
Compensated absences payable	(2,070)	(3,191)	(1,251)
Customer deposits	2,439	-	3,077
Total adjustments	<u>57,261</u>	<u>126,267</u>	<u>181,365</u>
Net cash provided by operating activities	<u>\$ 169,631</u>	<u>\$ 363,101</u>	<u>\$ 229,105</u>
Noncash investing, capital and financing activities:			
Capital asset addition paid by Wastewater Utility	\$ 47,727	\$ -	\$ -
Capital assets acquired through accounts payable	-	5,000	58,970

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

CITY OF GAS CITY MUNICIPAL UTILITIES
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 Gas City (City), and the results of its operations and cash flows of its enterprise funds. 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.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The 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.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

CITY OF GAS CITY MUNICIPAL UTILITIES
 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 in the 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 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
Buildings	\$ 1,000	Composite	33 to 50 years
Improvements other than buildings	1,000	Composite	33 to 50 years
Machinery and equipment	1,000	Composite	10 years
Transportation equipment	1,000	Composite	10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Utility during the current year was \$95,441. Of the amount, \$57,984 was included as part of the cost of capital assets (net of interest income \$37,457) under construction in connection with the electric substation.

5. Compensated Absences

- a. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

CITY OF GAS CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

- b. Bonus Leave – Utility employees earn bonus leave at the rate of 5 days per year. Bonus leave may be used for sick, vacation or personal leave. Unused bonus leave may be accumulated to a maximum of 10 days. Accumulated bonus leave is paid to employees through cash payments upon termination. Employees may also be paid for unused bonus leave at year-end rather than carrying it over to the next calendar year.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 51,353	\$ -	\$ -	\$ 51,353
Capital assets, being depreciated:				
Buildings	581,874	-	-	581,874
Improvements other than buildings	3,217,833	47,727	-	3,265,560
Machinery and equipment	202,169	-	-	202,169
Transportation equipment	53,539	-	-	53,539
Totals	<u>4,055,415</u>	<u>47,727</u>	<u>-</u>	<u>4,103,142</u>

CITY OF GAS CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	(21,411)	(11,637)	-	(33,048)
Improvements other than buildings	(935,082)	(64,357)	-	(999,439)
Machinery and equipment	(202,170)	-	-	(202,170)
Transportation equipment	(28,875)	(5,354)	-	(34,229)
	<u>(1,187,538)</u>	<u>(81,348)</u>	<u>-</u>	<u>(1,268,886)</u>
Totals				
Total capital assets, being depreciated, net	<u>2,867,877</u>	<u>(33,621)</u>	<u>-</u>	<u>2,834,256</u>
Total Water Utility capital assets, net	<u>\$ 2,919,230</u>	<u>\$ (33,621)</u>	<u>\$ -</u>	<u>\$ 2,885,609</u>
 <u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 125,689	\$ -	\$ -	\$ 125,689
Construction in progress	125,007	108,938	-	233,945
	<u>250,696</u>	<u>108,938</u>	<u>-</u>	<u>359,634</u>
Total capital assets, not being depreciated				
Total capital assets, not being depreciated	<u>250,696</u>	<u>108,938</u>	<u>-</u>	<u>359,634</u>
Capital assets, being depreciated:				
Buildings	28,485	-	-	28,485
Improvements other than buildings	7,015,416	18,328	-	7,033,744
Machinery and equipment	270,819	3,690	-	274,509
Transportation equipment	87,312	-	-	87,312
	<u>7,402,032</u>	<u>22,018</u>	<u>-</u>	<u>7,424,050</u>
Totals				
Total capital assets, being depreciated, net	<u>7,402,032</u>	<u>22,018</u>	<u>-</u>	<u>7,424,050</u>
Less accumulated depreciation for:				
Buildings	(19,284)	(570)	-	(19,854)
Improvements other than buildings	(2,410,256)	(140,308)	-	(2,550,564)
Machinery and equipment	(92,120)	(27,082)	-	(119,202)
Transportation equipment	(87,311)	-	-	(87,311)
	<u>(2,608,971)</u>	<u>(167,960)</u>	<u>-</u>	<u>(2,776,931)</u>
Totals				
Total capital assets, being depreciated, net	<u>4,793,061</u>	<u>(145,942)</u>	<u>-</u>	<u>4,647,119</u>
Total Wastewater Utility capital assets, net	<u>\$ 5,043,757</u>	<u>\$ (37,004)</u>	<u>\$ -</u>	<u>\$ 5,006,753</u>

CITY OF GAS CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Electric Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 121,328	\$ 1,880,917	\$ 2,002,245	\$ -
Capital assets, being depreciated:				
Buildings	232,025	-	-	232,025
Improvements other than buildings	1,454,760	2,229,739	-	3,684,499
Machinery and equipment	627,345	55,609	-	682,954
Transportation equipment	388,155	-	-	388,155
Totals	<u>2,702,285</u>	<u>2,285,348</u>	<u>-</u>	<u>4,987,633</u>
Less accumulated depreciation for:				
Buildings	(95,232)	(6,902)	-	(102,134)
Improvements other than buildings	(1,188,901)	(43,643)	-	(1,232,544)
Machinery and equipment	(523,624)	(62,734)	-	(586,358)
Transportation equipment	(304,008)	(38,816)	-	(342,824)
Totals	<u>(2,111,765)</u>	<u>(152,095)</u>	<u>-</u>	<u>(2,263,860)</u>
Total capital assets, being depreciated, net	<u>590,520</u>	<u>2,133,253</u>	<u>-</u>	<u>2,723,773</u>
Total Electric Utility capital assets, net	<u>\$ 711,848</u>	<u>\$ 4,014,170</u>	<u>\$ 2,002,245</u>	<u>\$ 2,723,773</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
Engineering for wastewater treatment plant renovation and expansion	<u>\$ 281,400</u>	<u>\$ 233,945</u>	<u>\$ 47,455</u>	<u>\$ -</u>

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2005, is as follows:

CITY OF GAS CITY MUNICIPAL UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Due To	Due From Water Utility
Wastewater Utility	\$ <u>47,727</u>

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

2. Interfund Transfers

Interfund transfers at December 31, 2005, were as follows:

Transfer From	Transfer To General Fund
Electric Utility	\$ <u>136,000</u>

The Utility typically uses transfers to fund ongoing operating subsidies.

E. Leases

Capital Leases

The Utilities have entered into capital leases for a backhoe and a jetvac. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2005, are as follows:

	Water Utility	Wastewater Utility	Electric Utility
2006	\$ 5,568	\$ 33,826	\$ 5,568
2007	-	28,258	-
2008	-	<u>28,258</u>	-
Total minimum lease payments	5,568	90,342	5,568
Less amount representing interest	<u>287</u>	<u>9,210</u>	<u>284</u>
Present value of net minimum lease payments	<u>\$ 5,281</u>	<u>\$ 81,132</u>	<u>\$ 5,284</u>

CITY OF GAS CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Assets acquired through capital leases still in effect are as follows:

	Water Utility	Wastewater Utility	Electric Utility
Machinery and equipment	\$ 25,133	\$ 214,133	\$ 25,134

F. 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	Amount
\$2,100,000 Electric Utility substation revenue bonds of 2004	4.25% to 4.85%	\$ 2,100,000

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Electric Utility	
	Principal	Interest
2006	\$ -	\$ 95,441
2007	70,000	93,954
2008	70,000	90,979
2009	75,000	87,898
2010	75,000	84,709
2011-2015	435,000	370,790
2016-2020	530,000	265,844
2021-2025	685,000	124,752
2026-2027	160,000	3,880
Totals	\$ 2,100,000	\$ 1,218,247

2. State Revolving Fund Loan Payable

In 2000, the Water Utility entered into a State Revolving Fund Loan. Under terms of the loan, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the water treatment plant expansion. Funds were loaned to the Water Utility as construction costs accrued to the maximum amount allowed of \$1,415,000. At the completion of construction, the outstanding principal balance of \$1,414,940 was amortized over a period of twenty years. Annual debt service requirements to maturity for the loan, including interest of \$320,640, are as follows:

CITY OF GAS CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

2006	\$ 101,321
2007	99,436
2008	102,478
2009	100,448
2010	98,418
2011-2015	504,104
2016-2020	497,986
2021	<u>101,389</u>
 Total	 <u>\$ 1,605,580</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable:					
Electric Utility	\$ 2,100,000	\$ -	\$ -	\$ 2,100,000	\$ -
Loan payable:					
Water Utility	<u>1,344,940</u>	<u>-</u>	<u>60,000</u>	<u>1,284,940</u>	<u>65,000</u>
Capital leases payable:					
Water Utility	10,296	-	5,015	5,281	5,281
Wastewater Utility	108,716	-	27,584	81,132	29,160
Electric Utility	<u>10,296</u>	<u>-</u>	<u>5,012</u>	<u>5,284</u>	<u>5,284</u>
 Totals	 <u>129,308</u>	 <u>-</u>	 <u>37,611</u>	 <u>91,697</u>	 <u>39,725</u>
 Total long-term liabilities	 <u>\$ 3,574,248</u>	 <u>\$ -</u>	 <u>\$ 97,611</u>	 <u>\$ 3,476,637</u>	 <u>\$ 104,725</u>

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.

CITY OF GAS CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Job Related Illnesses or Injuries to Employees

During 1997, the Utilities joined the Indiana Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 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 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. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City and Utilities contribute 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 and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City and Utilities' annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the 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.

CITY OF GAS CITY MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 51,028
Interest on net pension obligation	(6,548)
Adjustment to annual required contribution	7,462
Annual pension cost	51,942
Contributions made	57,695
Decrease in net pension obligation	(5,753)
Net pension obligation, beginning of year	(90,321)
Net pension obligation, end of year	\$ (96,074)

Contribution rates:	
Utilities	4.50%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 54,318	150%	\$ (71,075)
	06-30-04	50,962	138%	(90,321)
	06-30-05	51,942	113%	(96,074)

CITY OF GAS 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)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,023,318	\$ 989,882	\$ 33,436	103%	\$ 1,145,299	3%
07-01-04	1,052,622	1,019,418	33,204	103%	1,134,026	3%
07-01-05	1,098,120	1,282,946	(184,826)	86%	1,197,311	(15%)

CITY OF GAS CITY MUNICIPAL UTILITIES
AUDIT RESULTS AND COMMENTS

CHANGE ORDERS

The Electric Utility entered in a contract for \$207,000 for installation services on the electric substation construction project. Change orders to the contract totaled \$128,993 which is an increase of sixty-two percent (62%).

The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PUBLIC WORKS PROJECT

During 2005, the Electric Utility contracted for the construction of overhead and underground devices. The total amount paid was \$97,197. There was no evidence presented for audit that sealed bids were requested or received.

Indiana Code 36-1-12-4(a) states, in part: "This section applies whenever the cost of a public work project will be: (1) at least seventy-five thousand dollars (\$75,000) in: (A) a consolidated city or second class city; (B) a county containing a consolidated city or second class city; or (C) a regional water or sewage district established under IC 13-26; (2) at least fifty thousand dollars (\$50,000) in: (A) a third class city or town with a population of more than five thousand (5,000), or (B) a county containing a third class city or town with a population of more than five thousand (5,000); or (3) at least twenty-five thousand dollars (\$25,000) in a political subdivision or an agency not described in subdivision (1) or (2)."

Indiana Code 36-1-12-4(b) states in part: "The board must comply with the following procedure: (1) The board shall prepare general plans and specifications describing the kind of public work required, but shall avoid specifications which might unduly limit competition (2) The board shall file the plans and specifications in a place reasonably accessible to the public, which shall be specified in the notice required by subdivision (3). (3) Upon the filing of the plans and specifications, the board shall publish notice in accordance with IC 5-3-1 calling for sealed proposals for the public work needed"

CITY OF GAS CITY MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on October 4, 2006, with Julie L. Flores, Clerk-Treasurer; and H. Larry Leach, Mayor.