

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

ANNUAL FINANCIAL REPORT

2005

WATER, WASTEWATER, ELECTRIC AND GAS UTILITIES

CITY OF JASPER

DUBOIS COUNTY, INDIANA



FILED
11/27/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Juanita S. Boehm	01-01-04 to 12-31-07
Mayor	William J. Schmitt	01-01-04 to 12-31-07
Presiding Officer of the Board of Public Works and Safety	William J. Schmitt	01-01-04 to 12-31-07
Presiding Officer of the Common Council	William J. Schmitt	01-01-04 to 12-31-07
Utilities' General Manager	Gerald Bud Hauersperger	12-19-05 to 12-31-06
Water Utility Manager	Michael A. Oeding	01-01-05 to 12-31-06
Wastewater Utility Manager	Thomas Lents	01-01-05 to 12-31-06
Electric Utility Generation Manager	Windell Toby	01-01-05 to 12-31-06
Electric Utility Distribution Manager	Jerry Schitter	01-01-05 to 12-31-06
Gas Utility Manager	Michael A. Oeding	01-01-05 to 12-31-06
Utility Business Manager	Kenneth R. Schultz	01-01-05 to 05-26-06
Utility Office Manager/Controller	Linda K. McGovren	05-27-06 to 12-31-06
Chairman of the Utility Service Board	Greg Krodel	01-01-05 to 12-31-06



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER, WASTEWATER, ELECTRIC,
AND GAS UTILITIES, CITY OF JASPER, DUBOIS COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water, Wastewater, Electric, and Gas Utilities, departments of the City of Jasper, 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 Water, Wastewater, Electric, and Gas Utilities, City of Jasper, 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 Jasper 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 Water, Wastewater, Electric, and Gas 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

October 5, 2006

**Water, Wastewater, Electric and Gas Utilities
City of Jasper, Indiana
Management's Discussion and Analysis
December 31, 2005**

This discussion and analysis highlights the financial activities of the Water, Wastewater, Electric and Gas Utilities ("Utilities"), a department of the City of Jasper ("City"), for the year ended December 31, 2005. We hope you will find this discussion helpful in assessing the Utilities' financial condition and activities, which are funded primarily through user charges and fees for services. Please read it in conjunction with the Utilities' financial statements and accompanying notes, which follow this discussion and analysis.

Financial Highlights

- The total net assets of the Utilities at December 31, 2005 were \$60,508,665. Of this amount, \$9,826,555 is unrestricted and may be used to meet the Utilities' ongoing obligations to its customers and users.
- The Utilities' unrestricted cash and cash equivalents decreased by \$306,038, while restricted cash and cash equivalents increased by \$207,524, for a net cash decrease of \$98,514.
- The Utilities' total capital assets, net of accumulated depreciation, increased by \$525,610.
- The Utilities long-term debt decreased by \$1,805,000. This decrease represents the payment of principal on existing long-term debt; no new debt was incurred during 2005.

Basic Financial Statements

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

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

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

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

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

Condensed Financial Data

The table below provides a summary of the revenues, expenses and changes in net assets for the year ended December 31, 2005, along with comparative figures from 2004:

City of Jasper, Indiana
Water, Wastewater, Electric and Gas Utilities
Statement of Revenues, Expenses, and Other Changes in Fund Net Assets
(000's omitted)

	Water Utility		Wastewater Utility		Electric Utility		Gas Utility		Total Utilities	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Operating revenues	\$ 2,891	\$ 2,841	\$ 2,999	\$ 2,997	\$19,456	\$17,272	\$ 9,112	\$ 7,407	\$34,458	\$30,517
Operating expenses	1,919	1,990	2,708	2,623	18,085	16,670	9,926	7,777	32,638	29,060
Operating income (loss)	972	851	291	374	1,371	602	(814)	(370)	1,820	1,457
Non-operating revenues (expenses)	(379)	(1,072)	(120)	(15)	156	11	56	1	(287)	(1,075)
Income (loss) before contributions and transfers	593	(221)	171	359	1,527	613	(758)	(369)	1,533	382
Capital contributions	372	51	567	9	1	15	85	139	1,025	214
Transfers out	(139)	(131)	-	-	(119)	(117)	(30)	(30)	(288)	(278)
Change in net assets	826	(301)	738	368	1,409	511	(703)	(260)	2,270	318
Total net assets - begin	10,334	10,635	21,592	21,224	21,376	20,865	4,936	5,196	58,238	57,920
Total net assets - end	<u>\$11,160</u>	<u>\$10,334</u>	<u>\$22,330</u>	<u>\$21,592</u>	<u>\$22,785</u>	<u>\$21,376</u>	<u>\$ 4,233</u>	<u>\$ 4,936</u>	<u>\$60,508</u>	<u>\$58,238</u>

The following table outlines the composition of the Utilities' total net assets as of December 31, 2005, with comparative figures from 2004:

City of Jasper, Indiana
Water, Wastewater, Electric and Gas Utilities
Statement of Net Assets
(000's omitted)

	Water Utility		Wastewater Utility		Electric Utility		Gas Utility		Total Utilities	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 2,833	\$ 2,845	\$ 3,425	\$ 3,375	\$ 10,137	\$ 9,467	\$ 2,767	\$ 2,857	\$ 19,162	\$ 18,544
Capital assets	21,316	21,069	21,362	21,084	15,824	15,874	3,703	3,652	62,205	61,679
Total Assets	<u>24,149</u>	<u>23,914</u>	<u>24,787</u>	<u>24,459</u>	<u>25,961</u>	<u>25,341</u>	<u>6,470</u>	<u>6,509</u>	<u>81,367</u>	<u>80,223</u>
Long-term liabilities outstanding	12,625	13,255	1,896	2,339	1,016	1,689	-	-	15,537	17,283
Other liabilities	363	325	560	528	2,160	2,276	2,238	1,573	5,321	4,702
Total Liabilities	<u>12,988</u>	<u>13,580</u>	<u>2,456</u>	<u>2,867</u>	<u>3,176</u>	<u>3,965</u>	<u>2,238</u>	<u>1,573</u>	<u>20,858</u>	<u>21,985</u>
Net assets:										
Invested in capital assets net of related debt	8,891	7,814	19,132	18,384	14,364	13,709	3,703	3,652	45,890	43,559
Restricted	1,719	1,763	777	862	2,296	2,220	-	-	4,792	4,845
Unrestricted	750	757	2,421	2,348	6,125	5,447	530	1,284	9,826	9,834
Total Net Assets	<u>\$11,160</u>	<u>\$10,334</u>	<u>\$22,330</u>	<u>\$21,592</u>	<u>\$22,785</u>	<u>\$21,376</u>	<u>\$ 4,233</u>	<u>\$ 4,936</u>	<u>\$60,508</u>	<u>\$58,238</u>

Total net assets increased in the water, wastewater and electric utilities, but decreased in the gas utility during 2005, due to the following:

- Income or loss recorded by each utility (\$593,000 income in water, \$171,000 income in wastewater, \$1,527,000 income in electric, and \$758,000 loss in gas), and
- Contributions to capital made by customers, developers and others (\$372,000 in water, \$567,000 in wastewater, \$1,000 in electric, and \$85,000 in gas), and
- Transfers to the City for payments in lieu of taxes (\$139,000 from water, \$0 from wastewater, \$119,000 from electric, and \$30,000 from gas).

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

Fund Analysis

Water:

In total, the water utility's cash and cash equivalents increased by \$24,000 (1.0%) during the year.

- The operating and maintenance cash increased by \$23,000. The final phase of a three-year water rate increase became effective in January, 2006.
- The depreciation fund decreased by \$85,000 during 2005. Some of the larger expenditures made during 2005 were for the renovation of the Newton Street water tower and for costs associated with the meter replacement program.
- The debt service cash increased by \$41,000 during 2005. Of this, approximately \$33,000 is related to the 2000 state revolving loan that financed the City's new water treatment facility. The remaining \$8,000 is related to the 2003 state revolving loan used for improvements to the south water tower and the clearwell project. The debt service requirement for each of these loans is being funded over a period of five years. The 2000 debt service requirement became fully funded in February 2005, while the 2003 debt service will continue until early 2008.

Compared to the previous year, operating revenues in the water utility increased \$50,000, and operating expenses decreased \$71,000, for an increase in operating income of \$121,000 (14.2%). Water net assets increased by \$826,000 (8.0%).

The average number of water customers for 2005 was 5,915, an increase of 96 over the previous year's average.

Wastewater:

In total, the wastewater utility's cash and cash equivalents increased by \$106,000 (3.6%) during 2005.

- The plant expansion cash increased by \$133,000 during 2005. Connection fees which are assessed to new wastewater customers, along with interest earned on investments, accounted for the increase.
- Depreciation cash decreased by \$84,000 (14.4%) in 2005. Some of the larger expenditures made from this fund were for the sewer relining project and for the rebuilding of the sludge press.

Compared to the previous year, operating revenues in the wastewater utility increased \$2,000, while operating expenses increased \$85,000, for a decrease in operating income of \$83,000 (22.2%). Wastewater net assets increased by \$738,000 (3.4%).

The average number of wastewater customers for 2005 was 6,146, an increase of 119 over the previous year's average.

Electric:

Total cash and cash equivalents for the electric utility increased by \$531,000 (8.0%).

- The electric operating and maintenance cash increased by \$397,000. Two major factors contributing to this increase were: (a) net cash generated by operating activities (that is, the excess of receipts from the electric utility's customers and users over the payments made to its suppliers and employees) increased from the prior year, and (b) interest received on the utility's short-term investments increased because of higher interest rates.
- The electric utility's depreciation cash increased by \$75,000. The utility was billed \$109,000 for work completed on its new wire storage building during late 2005; however, payments to the general contractor were not made until early 2006.

Compared to the previous year, operating revenues in the electric utility increased \$2,184,000, while operating expenses increased \$1,415,000, for an increase in operating income of \$769,000 (127.7%). Electric net assets increased by \$1,409,000 (6.6%).

The average number of electric customers for 2005 was 6,732, an increase of 48 over the previous year's average.

Gas:

The gas utility's total cash and cash equivalents decreased by \$760,000, or 44.2%.

- The gas utility's operating and maintenance cash decreased by \$745,000. Cash flow was negatively impacted by the higher cost of natural gas during late 2005. The gas utility had paid its gas suppliers for much of this gas before the end of the year; however, due to the timing of customer billing cycles, a portion of this cost was not billed and/or collected until 2006.
- The gas utility's depreciation cash decreased by \$46,000. Major capital expenditures during 2005 included the installation of a high-pressure gas line in the southeast area of the city, as well as costs associated with the meter replacement program.

Compared to the previous year, operating revenues in the gas utility increased \$1,705,000, while operating expenses increased \$2,149,000, for a decrease in operating income of \$444,000 (120.0%). Gas net assets decreased by \$703,000 (14.2%).

The average number of gas customers for 2005 was 4,018, an increase of 54 over the previous year's average.

Overall, total operating revenue for the Utilities increased \$3,941,000 (12.9%) from the previous year, while total operating expenses rose by \$3,578,000 (12.3%). Total net assets of the Utilities increased \$2,270,000 (3.9%), to \$60,508,000.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity:

As of December 31, 2005, the Utilities had \$88,296,000 invested in capital assets, such as land, buildings, improvements, equipment, and electric, water, sewer, and gas lines. Total accumulated depreciation at the end of 2005 was \$26,091,000, resulting in net capital assets of \$62,205,000. The total capital assets of the Utilities are summarized by category as follows:

	<u>(000's omitted)</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 615	\$ 615
Buildings	21,010	21,010
Improvements	47,407	45,601
Equipment	18,737	18,673
Construction in Progress	527	228
Total	<u>88,296</u>	<u>86,127</u>
Less: Accumulated depreciation	<u>(26,091)</u>	<u>(24,448)</u>
Total capital assets, net	<u>\$ 62,205</u>	<u>\$ 61,679</u>

The Utilities recorded approximately \$1,255,000 for additions and on-going improvements to their respective distribution systems, with \$986,000 of this amount being contributed by developers and customers. Some of this expenditure allowed the Utilities to expand its service area, while a portion of the expenditure was for improvements to, or relocation of, existing distribution systems.

Other major capital additions during 2005 include the following:

- \$113,000 for a wire storage building and \$25,000 for paving work for the electric utility.
- \$92,000 for upgrades to the electric utility's SCADA system, which is designed to monitor and control the City's electrical supply and distribution system.
- \$267,000 to replace older-style electric, water, and gas meters with meters that incorporate newer, more efficient technology. This multi-year project is continuing into 2006.
- \$96,000 for rebuilding the wastewater utility's sludge press.
- \$263,000 to refurbish the water utility's Newton Street's water tower.

See Note I.D.4, Note II.B. and Note II.C. in the attached financial statements for additional information.

Long-term Debt Activity:

As of December 31, 2005 and 2004 the Utilities' outstanding debt consisted of the following:

	<u>2005</u>	<u>2004</u>
• Water Utility	\$12,625,000	\$13,255,000
• Wastewater Utility	\$ 2,230,000	\$ 2,700,000
• Electric Utility	\$ 1,460,000	\$ 2,165,000

During 2005, the Utilities made principal payments of \$1,805,000 and interest payments of \$594,290.

See Note I.D.6 and Note II.E. in the attached financial statements for additional information.

Other Currently Known Facts

- Water rates increased by approximately 5% effective January 1, 2006.
- During 2006, the City, through its Utility Service Board, negotiated an agreement with NGM, LLC for the assignment of NGM's ETS Service Agreement and Gathering Agreement with ANR Pipeline Company to the City of Jasper for the City's gas transportation, effective September 1, 2006 to May 31, 2021. The gas utility purchased these contracts for \$1,359,375, which was funded by a five-year loan from the electric utility. The repayment of the loan, with interest, will be accomplished through a debt charge incorporated into the City's existing gas tracker system.
- In September, 2006 the City, through its Utility Service Board, voted to approve a one-year power sales agreement with Vectren for the City's 2007 supply of electric energy, subject to review by outside legal counsel.
- The City, through its Utility Service Board, is involved in a lawsuit with respect to construction of the Southwest Sewer Extension Project. A jury trial has been set for the week of February 26, 2007. See Note III.C. in the attached financial statements for additional information.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show accountability for the money the Utilities receive. If you have questions about this report or need additional financial information, please contact the City's Clerk-Treasurer Office at 610 Main Street, Jasper, Indiana.

CITY OF JASPER
WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
STATEMENT OF NET ASSETS
December 31, 2005

Assets	2005			
	Water	Wastewater	Electric	Gas
Current assets:				
Cash and cash equivalents	\$ 224,945	\$ 309,228	\$ 3,471,379	\$ 10,484
Accounts receivable (net of allowance)	186,230	186,211	1,406,490	1,500,387
Accounts receivable - other	1,242	5,306	42,377	61,258
Interfund receivables:				
Interfund services provided and used	34,858	-	3,303	-
Inventories	192,634	147,839	1,316,414	240,376
Prepaid items	31,788	29,598	168,559	6,646
Total current assets	671,697	678,182	6,408,522	1,819,151
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Debt service reserve cash and cash equivalents	1,080,750	275,567	352,000	-
Depreciation cash and cash equivalents	638,832	501,419	1,943,675	664,868
Computer cash and cash equivalents	22,482	20,743	19,715	22,925
Customer deposits cash and cash equivalents	44,214	77,374	264,549	71,941
In lieu of taxes cash and cash equivalents	227,793	-	183,390	41,992
Self-insurance cash and cash equivalents	147,000	141,750	945,548	147,000
Industrial pretreatment cash and cash equivalents	-	17,856	-	-
Plant expansion cash and cash equivalents	-	1,287,614	-	-
Interceptor improvement cash and cash equivalents	-	409,003	-	-
Total restricted assets:	2,161,071	2,731,326	3,708,877	948,726
Deferred charges	-	15,180	19,199	-
Capital assets:				
Land, improvements to land and construction in progress	292,314	610,053	223,148	16,904
Other capital assets (net of accumulated depreciation)	21,023,520	20,751,847	15,601,348	3,685,733
Total capital assets	21,315,834	21,361,900	15,824,496	3,702,637
Total noncurrent assets	23,476,905	24,108,406	19,552,572	4,651,363
Total assets	24,148,602	24,786,588	25,961,094	6,470,514
Liabilities				
Current liabilities:				
Accounts payable	285,555	120,134	1,374,339	2,087,126
Interfund payables:				
Interfund services provided and used	1,046	35,998	-	1,117
Contracts payable	24,852	86,838	108,600	-
Taxes payable	7,688	-	52,528	71,253
Current liabilities payable from restricted assets:				
Customer deposits	44,214	77,374	264,549	71,941
Performance deposits	-	-	-	6,250
Revenue bonds payable	-	220,000	360,000	-
Loans payable	-	20,000	-	-
Total current liabilities	363,355	560,344	2,160,016	2,237,687
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	-	1,040,885	1,015,846	-
Loans payable	12,625,000	855,000	-	-
Total noncurrent liabilities	12,625,000	1,895,885	1,015,846	-
Total liabilities	12,988,355	2,456,229	3,175,862	2,237,687
Net Assets				
Invested in capital assets, net of related debt	8,690,834	19,131,900	14,364,496	3,702,637
Restricted for debt service	1,719,582	776,986	2,295,675	-
Unrestricted	749,831	2,421,473	6,125,061	530,190
Total net assets	\$ 11,160,247	\$ 22,330,359	\$ 22,785,232	\$ 4,232,827

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

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

	2005			
	Water	Wastewater	Electric	Gas
Operating revenues:				
Metered water revenue:				
Residential	\$ 1,422,087	\$ -	\$ -	\$ -
Residential sales	-	-	4,213,970	2,541,301
Commercial and industrial sales	1,299,559	-	15,015,540	6,550,252
Public street and highway lighting	-	-	171,088	-
Fire protection revenue	125,472	-	-	-
Penalties	7,363	21,506	25,391	11,962
Measured revenue:				
Residential	-	1,535,921	-	-
Commercial	-	1,164,763	-	-
Other	37,168	276,779	30,481	8,255
Total operating revenues	<u>2,891,649</u>	<u>2,998,969</u>	<u>19,456,470</u>	<u>9,111,770</u>
Operating expenses:				
Source of supply and expense - operations and maintenance	93,435	-	-	-
Water treatment expense - operations and maintenance	326,825	-	-	-
Production and supply	-	-	-	8,990,375
Power production	-	-	14,673,587	-
Transmission and distribution	260,018	-	683,768	252,806
Collection system - operations and maintenance	-	213,467	-	-
Pumping - operations and maintenance	-	172,210	-	-
Treatment and disposal - operations and maintenance	-	620,080	-	-
Customer accounts	33,153	64,333	78,928	58,261
Administration and general	755,634	978,338	1,885,379	494,540
Depreciation and amortization	450,233	659,114	764,070	129,985
Total operating expenses	<u>1,919,298</u>	<u>2,707,542</u>	<u>18,085,732</u>	<u>9,925,967</u>
Operating income (loss)	<u>972,351</u>	<u>291,427</u>	<u>1,370,738</u>	<u>(814,197)</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	81,805	98,213	209,703	40,984
Miscellaneous revenue	19,371	5,213	59,398	15,970
Interest expense	(466,375)	(108,874)	(92,489)	-
Miscellaneous expense	(14,099)	(114,676)	(20,110)	(1,020)
Total nonoperating revenues (expenses)	<u>(379,298)</u>	<u>(120,124)</u>	<u>156,502</u>	<u>55,934</u>
Income (loss) before contributions and transfers	593,053	171,303	1,527,240	(758,263)
Capital contributions	372,644	567,550	779	85,306
Transfers out	(138,871)	-	(119,244)	(30,605)
Change in net assets	826,826	738,853	1,408,775	(703,562)
Total net assets - beginning	<u>10,333,421</u>	<u>21,591,506</u>	<u>21,376,457</u>	<u>4,936,389</u>
Total net assets - ending	<u>\$ 11,160,247</u>	<u>\$ 22,330,359</u>	<u>\$ 22,785,232</u>	<u>\$ 4,232,827</u>

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

CITY OF JASPER
WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2005

	2005			
	Water	Wastewater	Electric	Gas
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,889,363	\$ 3,001,095	\$ 19,266,489	\$ 8,353,953
Payments to suppliers and contractors	(660,247)	(610,446)	(16,166,439)	(8,740,458)
Payments to employees	(734,023)	(1,341,248)	(1,236,579)	(330,894)
Interfund services provided (used)	2,356	(20,237)	(3,303)	21,184
Other receipts	19,371	5,213	59,398	15,970
Net cash provided (used) by operating activities	<u>1,516,820</u>	<u>1,034,377</u>	<u>1,919,566</u>	<u>(680,245)</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(138,871)	-	(119,244)	(30,605)
Cash flows from capital and related financing activities:				
Capital contributions	372,644	567,550	779	85,306
Acquisition and construction of capital assets	(723,890)	(1,107,823)	(785,453)	(175,082)
Principal paid on capital debt	(630,000)	(470,000)	(705,000)	-
Interest paid on capital debt	(466,375)	(77,503)	(50,412)	-
Proceeds from sales of capital assets	12,353	61,279	60,610	-
Net cash used by capital and related financing activities	<u>(1,435,268)</u>	<u>(1,026,497)</u>	<u>(1,479,476)</u>	<u>(89,776)</u>
Cash flows from investing activities:				
Interest received	81,805	98,213	209,703	40,984
Net increase in cash and cash equivalents	24,486	106,093	530,549	(759,642)
Cash and cash equivalents, January 1	<u>2,361,530</u>	<u>2,934,461</u>	<u>6,649,707</u>	<u>1,718,852</u>
Cash and cash equivalents, December 31	<u>\$ 2,386,016</u>	<u>\$ 3,040,554</u>	<u>\$ 7,180,256</u>	<u>\$ 959,210</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 972,351	\$ 291,427	\$ 1,370,738	\$ (814,197)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	450,233	659,114	764,070	129,985
Bad debt expense	4,968	627	46,110	39,727
Nonoperating revenue and expense	19,371	5,213	59,398	15,970
(Increase) decrease in assets:				
Accounts receivable	(2,286)	2,126	(189,981)	(757,817)
Interfund services provided or used	2,356	(20,237)	(3,303)	21,184
Inventories	(6,295)	(2,856)	(23,257)	19,252
Prepaid items	26,212	50,702	21,922	7,937
Increase (decrease) in liabilities:				
Accounts payable	21,941	44,393	(268,825)	612,550
Contracts payable	24,852	-	108,600	-
Taxes payable	(307)	-	11,532	38,840
Customer deposits	3,424	3,868	22,562	6,324
Total adjustments	<u>544,469</u>	<u>742,950</u>	<u>548,828</u>	<u>133,952</u>
Net cash provided (used) by operating activities	<u>\$ 1,516,820</u>	<u>\$ 1,034,377</u>	<u>\$ 1,919,566</u>	<u>\$ (680,245)</u>

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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF JASPER
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 Jasper (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represent a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

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

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

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

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

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 average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

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

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 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 1,000	Straight-line	67 years
Improvements other than building	1,000	Straight-line	20 to 99 years
Machinery and equipment	1,000	Straight-line	5 to 30 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 Water, Wastewater, Electric, and Gas Utilities during the current year was \$466,375, \$108,874, \$92,489, and \$0, respectively. None of the interest expense incurred was included as part of the cost of capital assets under construction.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 10 days per year. Unused sick leave may be accumulated to a maximum of 120 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utility employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick, and personal leave.

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

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

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. At December 31, 2005, 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 year ended December 31, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 292,314	\$ -	\$ -	\$ 292,314
Construction in progress	8,066	386,255	394,321	-
Total capital assets, not being depreciated	<u>300,380</u>	<u>386,255</u>	<u>394,321</u>	<u>292,314</u>
Capital assets, being depreciated:				
Buildings	10,428,503	-	1,251	10,427,252
Improvements other than buildings	9,484,565	723,007	36,154	10,171,418
Machinery and equipment	4,114,484	8,948	4,808	4,118,624
Totals	<u>24,027,552</u>	<u>731,955</u>	<u>42,213</u>	<u>24,717,294</u>
Less accumulated depreciation for:				
Buildings	476,691	157,800	721	633,770
Improvements other than buildings	2,237,227	173,099	11,634	2,398,692
Machinery and equipment	545,385	119,335	3,408	661,312
Totals	<u>3,259,303</u>	<u>450,234</u>	<u>15,763</u>	<u>3,693,774</u>
Total capital assets, being depreciated, net	<u>20,768,249</u>	<u>281,721</u>	<u>26,450</u>	<u>21,023,520</u>
Total Water Utility capital assets, net	<u>\$ 21,068,629</u>	<u>\$ 667,976</u>	<u>\$ 420,771</u>	<u>\$ 21,315,834</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 195,639	\$ -	\$ -	\$ 195,639
Construction in progress	<u>220,283</u>	<u>444,442</u>	<u>250,311</u>	<u>414,414</u>
Total capital assets, not being depreciated	<u>415,922</u>	<u>444,442</u>	<u>250,311</u>	<u>610,053</u>
Capital assets, being depreciated:				
Buildings	6,898,962	-	-	6,898,962
Improvements other than buildings	14,724,755	731,733	103,616	15,352,872
Machinery and equipment	<u>7,176,381</u>	<u>181,959</u>	<u>265,537</u>	<u>7,092,803</u>
Totals	<u>28,800,098</u>	<u>913,692</u>	<u>369,153</u>	<u>29,344,637</u>
Less accumulated depreciation for:				
Buildings	1,291,525	92,078	-	1,383,603
Improvements other than buildings	2,646,425	255,142	14,215	2,887,352
Machinery and equipment	<u>4,193,985</u>	<u>311,894</u>	<u>184,044</u>	<u>4,321,835</u>
Totals	<u>8,131,935</u>	<u>659,114</u>	<u>198,259</u>	<u>8,592,790</u>
Total capital assets, being depreciated, net	<u>20,668,163</u>	<u>254,578</u>	<u>170,894</u>	<u>20,751,847</u>
Total Wastewater Utilities capital assets, net	<u>\$ 21,084,085</u>	<u>\$ 699,020</u>	<u>\$ 421,205</u>	<u>\$ 21,361,900</u>
Electric:				
Capital assets, not being depreciated:				
Land	\$ 110,050	\$ -	\$ -	\$ 110,050
Construction in progress	<u>-</u>	<u>468,579</u>	<u>355,481</u>	<u>113,098</u>
Total capital assets, not being depreciated	<u>110,050</u>	<u>468,579</u>	<u>355,481</u>	<u>223,148</u>
Capital assets, being depreciated:				
Buildings	3,672,068	40,260	39,658	3,672,670
Improvements other than buildings	16,746,763	403,183	70,734	17,079,212
Machinery and equipment	<u>6,674,887</u>	<u>228,912</u>	<u>83,766</u>	<u>6,820,033</u>
Totals	<u>27,093,718</u>	<u>672,355</u>	<u>194,158</u>	<u>27,571,915</u>
Less accumulated depreciation for:				
Buildings	1,939,848	63,608	32,990	1,970,466
Improvements other than buildings	6,718,184	442,237	69,703	7,090,718
Machinery and equipment	<u>2,671,503</u>	<u>258,226</u>	<u>20,346</u>	<u>2,909,383</u>
Totals	<u>11,329,535</u>	<u>764,071</u>	<u>123,039</u>	<u>11,970,567</u>
Total capital assets, being depreciated, net	<u>15,764,183</u>	<u>(91,716)</u>	<u>71,119</u>	<u>15,601,348</u>
Total Electric Utility capital assets, net	<u>\$ 15,874,233</u>	<u>\$ 376,863</u>	<u>\$ 426,600</u>	<u>\$ 15,824,496</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Gas Utility:				
Capital assets, not being depreciated:				
Land	\$ 16,904	\$ -	\$ -	\$ 16,904
Construction in progress	<u>-</u>	<u>114,078</u>	<u>114,078</u>	<u>-</u>
Total capital assets, not being depreciated	<u>16,904</u>	<u>114,078</u>	<u>114,078</u>	<u>16,904</u>
Capital assets, being depreciated:				
Buildings	10,926	-	-	10,926
Improvements other than buildings	4,644,441	208,050	48,910	4,803,581
Machinery and equipment	<u>706,933</u>	<u>2,750</u>	<u>4,171</u>	<u>705,512</u>
Totals	<u>5,362,300</u>	<u>210,800</u>	<u>53,081</u>	<u>5,520,019</u>
Less accumulated depreciation for:				
Buildings	4,632	181	-	4,813
Improvements other than buildings	1,414,803	85,638	20,352	1,480,089
Machinery and equipment	<u>307,459</u>	<u>44,372</u>	<u>2,447</u>	<u>349,384</u>
Totals	<u>1,726,894</u>	<u>130,191</u>	<u>22,799</u>	<u>1,834,286</u>
Total capital assets, being depreciated, net	<u>3,635,406</u>	<u>80,609</u>	<u>30,282</u>	<u>3,685,733</u>
Total Gas Utility capital assets, net	<u>\$ 3,652,310</u>	<u>\$ 194,687</u>	<u>\$ 144,360</u>	<u>\$ 3,702,637</u>

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

Water	\$ 450,233
Wastewater	659,114
Electric	764,070
Gas	<u>129,985</u>
Total depreciation expense	<u>\$ 2,003,402</u>

C. Construction Commitments

Construction work in progress is composed of the following:

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

Project	Total Project Authorized	Expended to December 31, 2005	Committed	Required Future Funding
Wastewater Utility:				
Eastown/SW Sewer (Titan Default)	\$ 344,917	\$ 344,917	\$ -	\$ -
Northwood Lift Station Upgrade	24,289	24,289	-	-
Portersville Lift Station Upgrade	23,716	23,716	-	-
Drying Beds	21,492	21,492	-	-
Electric Utility:				
Wire Storage Building	113,098	113,098	-	-
Totals	<u>\$ 527,512</u>	<u>\$ 527,512</u>	<u>\$ -</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:

Due To	Due From			Total
	Water Utility	Wastewater Utility	Gas Utility	
Water Utility	\$ -	\$ 34,569	\$ 289	\$ 34,858
Electric Utility	1,046	1,429	828	3,303
Totals	<u>\$ 1,046</u>	<u>\$ 35,998</u>	<u>\$ 1,117</u>	<u>\$ 38,161</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
Water Utility	\$ 138,871
Electric Utility	119,244
Gas Utility	30,605
Total	<u>\$ 288,720</u>

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

The Utilities typically uses 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	Amount
2003 Wastewater refunding bonds (wastewater additions, extensions, and improvements)	2.25% to 3.35%	\$ 1,355,000
2003 Electric refunding bonds (power plant renovations)	2.25% to 3.15%	<u>1,460,000</u>
Total		<u>\$ 2,815,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility		Electric Utility	
	Principal	Interest	Principal	Interest
2006	\$ 220,000	\$ 19,474	\$ 360,000	\$ 19,550
2007	445,000	31,083	730,000	26,164
2008	455,000	18,661	370,000	5,827
2009	<u>235,000</u>	<u>3,936</u>	-	-
Totals	<u>\$ 1,355,000</u>	<u>\$ 73,154</u>	<u>\$ 1,460,000</u>	<u>\$ 51,541</u>

2. State Revolving Loan Fund

Wastewater Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of sewer lines to Whoderville/Eastown and the Southwest area of the City. Funds were loaned to the City as construction costs accrued to the maximum allowed. The 2001 loan established a maximum draw of \$1,010,000. At the completion of construction, the outstanding principal balance of \$1,010,000 was amortized over a period of 20 years. Annual debt service requirements to maturity for this loan, including interest of \$274,837, are as follows:

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

2006	\$	35,312
2007		69,575
2008		73,087
2009		71,512
2010		74,938
2011-2015		358,088
2016-2020		358,650
2021-2022		<u>108,675</u>
 Total	 \$	 <u>1,149,837</u>

Water Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of a water treatment plant and transmission mains. Funds were loaned to the City as construction costs accrued to the maximum allowed. The 1999 loan established a maximum draw of \$15,000,000. At the completion of construction, the outstanding principal balance of \$15,000,000 was amortized over a period of 20 years. Annual debt service requirements to maturity for this loan, including interest of \$3,675,700, are as follows:

2006	\$	212,713
2007		1,044,400
2008		1,042,000
2009		1,043,812
2010		1,044,750
2011-2015		5,207,888
2016-2020		5,197,287
2021		<u>1,037,850</u>
 Total	 \$	 <u>15,830,700</u>

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance improvements to the south water tower and clearwell conversion. Funds were loaned to the City as construction costs accrued to the maximum allowed. The 2003 loan established a maximum draw of \$600,000. At the completion of construction, the outstanding principal balance of \$530,763 was amortized over a period of 20 years. Annual debt service requirements to maturity for this loan, including interest of \$184,440, are as follows:

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

2006	\$ 9,400
2007	39,380
2008	39,520
2009	38,640
2010	37,760
2011-2015	193,260
2016-2020	186,120
2021-2023	<u>110,360</u>
 Total	 <u>\$ 654,440</u>

3. Advance Refunding

In prior years, the Wastewater and Electric Utilities defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utilities' financial statements. The following outstanding bonds, at December 31, 2005, were considered defeased:

	<u>Amount</u>
Wastewater Utility	\$ 1,750,000
Electric Utility	2,090,000

4. 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>
Water Utility:					
Loans payable	<u>\$ 13,255,000</u>	<u>-</u>	<u>\$ 630,000</u>	<u>\$ 12,625,000</u>	<u>\$ -</u>
Wastewater Utility:					
Revenue bonds payable	\$ 1,785,000	\$ -	\$ 430,000	\$ 1,355,000	\$ 220,000
Less unamortized discount	15,057	-	3,764	11,293	-
Less deferred amount on refunding	<u>110,430</u>	<u>-</u>	<u>27,608</u>	<u>82,822</u>	<u>-</u>
Total revenue bonds payable	1,659,513	-	398,628	1,260,885	220,000
Loans payable	<u>915,000</u>	<u>-</u>	<u>40,000</u>	<u>875,000</u>	<u>20,000</u>
Total long-term liabilities	<u>\$ 2,574,513</u>	<u>-</u>	<u>\$ 438,628</u>	<u>\$ 2,135,885</u>	<u>\$ 240,000</u>

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Electric Utility:					
Revenue bonds payable	\$ 2,165,000	-	\$ 705,000	\$ 1,460,000	\$ 360,000
Less unamortized discount	18,104	-	6,035	12,069	-
Less deferred amount on refunding	108,127	-	36,042	72,085	-
Total revenue bonds payable	<u>\$ 2,038,769</u>	<u>\$ -</u>	<u>\$ 662,923</u>	<u>\$ 1,375,846</u>	<u>\$ 360,000</u>

F. Restricted Assets

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

Water Utility:	
Debt service reserve account	\$ 1,080,750
Depreciation account	638,832
Computer account	22,482
Customer deposit account	44,214
In lieu of taxes reserve account	227,793
Self-insurance liability reserve account	<u>147,000</u>
Total restricted assets	<u>\$ 2,161,071</u>
Wastewater Utility:	
Debt service reserve account	\$ 275,567
Depreciation account	501,419
Computer account	20,743
Customer deposit account	77,374
Self-insurance liability reserve account	141,750
Industrial pretreatment account	17,856
Plant expansion account	1,287,614
Interceptor improvement account	<u>409,003</u>
Total restricted assets	<u>\$ 2,731,326</u>
Electric Utility:	
Debt service reserve account	\$ 352,000
Depreciation account	1,943,675
Computer account	19,715
Customer deposit account	264,549
In lieu of taxes reserve account	183,390
Self-insurance liability reserve account	<u>945,548</u>
Total restricted assets	<u>\$ 3,708,877</u>

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

Gas Utility:	
Depreciation account	\$ 664,868
Computer account	22,925
Customer deposit account	71,941
In lieu of taxes reserve account	41,992
Self-insurance liability reserve account	147,000
Total restricted assets	\$ 948,726

III. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$70,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon the percentage of each fund's current year number of employees as it relates to the total number of full-time employees, and are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

Job Related Illnesses and Injuries to Employees

During 1995, the Utilities joined together with other governmental entities in the Indiana Public Employer's Plan Inc., 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 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses and injuries to employees. The Utilities pay an annual premium to the risk pool for its job related illnesses and injuries to employees. 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.

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

B. Subsequent Events

Gas Transportation Agreement

In 2006, the City, through the Utility Service Board, negotiated an agreement with NGM, LLC for the assignment of NGM's ETS Service Agreement and Gathering Agreement with ANR Pipeline Company to the City of Jasper for the City's gas transportation, effective September 1, 2006 to May 31, 2021. The Gas Utility purchased these agreements at a cost of \$1,359,375, which was funded by a five-year loan from the Electric Utility. The repayment of the loan, with interest, will be made with revenue generated through a debt tracker fee associated with the existing gas tracker system.

C. Contingent Liabilities

USEPA Claim

The United States Environmental Protection Agency (USEPA) has filed a claim against the City of Jasper for activities of PCB Treatment, Inc., during or about the 1980's involving the improper and illegal disposal of PCB materials. The USEPA has alleged that the City of Jasper was a potentially responsible party ("PRP") because of PCB contaminated materials allegedly contributed by the City of Jasper, through the Jasper Municipal Utilities, to the sites. The Jasper Municipal Utilities had, in fact, contracted with PCB Treatment, Inc., during or about the 1980's to properly and legally dispose of Jasper's PCB contaminated materials. There are approximately 1500 PRP's in addition to the City of Jasper.

The City of Jasper received a letter from the USEPA in June 2001 advising them that they could enter into a de minimis settlement in this matter. The City had two choices of a premium: I) a 100% premium with no cost reopener and II) a 50% premium with a reopener if there are cost overruns that exceed the estimated removal action costs of \$34,752,000 and reach \$60,000,000. Option I would cost the City \$85,707 and option II would cost \$64,280. The Utility Service Board entered into an Administrative Order of Consent on July 16, 2001, and chose Option II. The amount of \$64,280 was paid on October 19, 2001, to the USEPA's special account. Because the City chose Option II, the reopener could be triggered at a later date and more money could be owed. If the reopener is triggered, the parties who selected Option II will owe their individual percentage share of the allocated weight, multiplied by the amount of removal costs incurred that exceed the \$60,000,000. The City of Jasper's individual percentage share is .12%.

Southwest Sewer Extension Lawsuit

A lawsuit was filed in Federal Court on October 6, 2004, by the Cincinnati Insurance Company against the Jasper City Utility Service Board. The case is with respect to construction of a sewer project known as the Southwest Sewer Extension Project. The City of Jasper entered into a contract with Titan Contracting, Inc., to complete the project. The contract required Titan to provide Jasper with a performance bond and payment bond, which were written by Cincinnati Insurance. Titan failed to complete the project and Cincinnati Insurance and the City entered into a takeover agreement for completion of the project. The project was completed 500 days later than the original contract required. In addition, the contract set forth liquidated damages in the amount of \$500/day. Cincinnati Insurance alleges wrongful termination of the Titan contract by Jasper, impairment of surety's collateral, breach of contract, waiver and penalty.

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

The Jasper City Utility Service Board filed its answer to complaint, crossclaim against Titan Contracting, Inc., and its counterclaim against the Cincinnati Insurance Company on October 29, 2004. A jury trial has been set for the week of February 26, 2007.

D. Rate Structure

Water Utility

On September 24, 1984, the City Council adopted Ordinance 1156 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on January 21, 2004.

Wastewater Utility

The current rate structure was approved by the City Council on December 17, 1997, and amended on May 22, 2002, and April 19, 2006.

Electric Utility

On June 12, 1991, the City Council adopted Ordinance 1991-15 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on May 22, 1996, and amended on August 17, 2005.

Gas Utility

On June 12, 1991, the City Council adopted Ordinance 1991-14 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on December 17, 2003.

E. Pension Plan

Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

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

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole.

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	424,994
Interest on net pension obligation		(13,326)
Adjustment to annual required contribution		15,186
Annual pension cost		426,854
Contributions made		472,619
Decrease in net pension obligation		(45,765)
Net pension obligation, beginning of year		(183,806)
Net pension obligation, end of year	\$	(229,571)
Contribution rates:		
Utilities		7.25%
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

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

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 453,797	92%	\$ (109,245)
	06-30-04	387,626	119%	(183,806)
	06-30-05	426,854	122%	(229,571)

CITY OF JASPER
WATER, WASTEWATER, ELECTRIC, AND GAS 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)
07-01-03	\$ 6,990,691	\$ 8,536,393	\$ (1,545,702)	82%	\$ 5,983,993	(26%)
07-01-04	7,176,693	8,961,627	(1,784,934)	80%	6,224,567	(29%)
07-01-05	7,551,061	10,250,137	(2,699,076)	74%	6,497,215	(42%)

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF JASPER
EXIT CONFERENCE

The contents of this report were discussed on October 11, 2006, with Juanita S. Boehm, Clerk-Treasurer; William J. Schmitt, Mayor; Gerald Bud Hauersperger, Utilities' General Manager; and Linda K. McGovren, Utility Office Manager. Our audit disclosed no material items that warrant comment at this time.