

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

ANNUAL FINANCIAL REPORT
2006

WATER, WASTEWATER, ELECTRIC
AND TRASH UTILITIES
CITY OF CANNELTON
PERRY COUNTY, INDIANA



FILED
03/28/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary Y. Snyder	01-01-04 to 12-31-07
Mayor	Melvin L. McBrayer	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Melvin L. McBrayer	01-01-06 to 12-31-07
President of the Common Council	Bruce A. Myers	01-01-06 to 12-31-07
General Manager of the Electric and Water Utilities	Phillip A. Ball	01-01-06 to 12-31-07
Superintendent of Wastewater Utility	Jerry A. Ball	01-01-06 to 12-31-07
President of the Utility Service Board	James Peters	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER, WASTEWATER, ELECTRIC, AND
TRASH UTILITIES, CITY OF CANNELTON, PERRY COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water, Wastewater, Electric and Trash Utilities, departments of the City of Cannelton, as of and for the year ended December 31, 2006. 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 Trash Utilities, City of Cannelton, 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 Cannelton as of December 31, 2006, 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 Trash Utilities, as of December 31, 2006, 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 Utilities have not presented the Management's Discussion and Analysis and Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

February 26, 2007

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES
CITY OF CANNELTON
STATEMENT OF NET ASSETS
December 31, 2006

<u>Assets</u>	Water Utility	Wastewater Utility	Electric Utility	Trash Utility	Total
Current assets:					
Cash	\$ 38,610	\$ 44,281	\$ 493,718	\$ 43,965	\$ 620,574
Accounts receivable	24,971	21,353	112,142	11,850	170,316
Interfund receivables:					
Interfund loans	-	11,000	38,009	-	49,009
Interfund services provided and used	71,393	-	83,083	-	154,476
Inventories	<u>28,276</u>	<u>-</u>	<u>46,508</u>	<u>-</u>	<u>74,784</u>
Total current assets	<u>163,250</u>	<u>76,634</u>	<u>773,460</u>	<u>55,815</u>	<u>1,069,159</u>
Noncurrent assets:					
Restricted cash:					
Depreciation cash	-	35,426	93,417	-	128,843
Bond and interest cash	5,329	17,525	-	-	22,854
Debt service reserve cash	69,721	25,000	-	-	94,721
Customer deposits	<u>7,247</u>	<u>-</u>	<u>36,818</u>	<u>-</u>	<u>44,065</u>
Total restricted assets:	<u>82,297</u>	<u>77,951</u>	<u>130,235</u>	<u>-</u>	<u>290,483</u>
Deferred charges	<u>4,936</u>	<u>14,496</u>	<u>-</u>	<u>-</u>	<u>19,432</u>
Capital assets:					
Land, improvements to land and construction in progress	6,901	3,050	10,500	-	20,451
Other capital assets (net of accumulated depreciation)	<u>1,683,298</u>	<u>1,046,961</u>	<u>1,054,567</u>	<u>30,946</u>	<u>3,815,772</u>
Total capital assets	<u>1,690,199</u>	<u>1,050,011</u>	<u>1,065,067</u>	<u>30,946</u>	<u>3,836,223</u>
Total noncurrent assets	<u>1,777,432</u>	<u>1,142,458</u>	<u>1,195,302</u>	<u>30,946</u>	<u>4,146,138</u>
Total assets	<u>1,940,682</u>	<u>1,219,092</u>	<u>1,968,762</u>	<u>86,761</u>	<u>5,215,297</u>
Liabilities					
Current liabilities:					
Accounts payable	1,043	1,064	3,669	40	5,816
Interfund payables:					
Interfund loans	2,009	-	-	-	2,009
Interfund services provided and used	1,559	85,641	2,017	65,259	154,476
Accrued payroll withholding payable	803	-	1,136	-	1,939
Taxes payable	1,791	-	5,483	-	7,274
Current liabilities payable from restricted assets:					
Customer deposits	7,247	-	36,818	-	44,065
Revenue bonds payable	-	14,000	-	-	14,000
Capital leases payable	-	-	-	10,015	10,015
Accrued interest payable	<u>-</u>	<u>3,774</u>	<u>-</u>	<u>348</u>	<u>4,122</u>
Total current liabilities	<u>14,452</u>	<u>104,479</u>	<u>49,123</u>	<u>75,662</u>	<u>243,716</u>
Noncurrent liabilities:					
Revenue bonds payable	150,000	185,000	-	-	335,000
State revolving loan	<u>349,315</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>349,315</u>
Total noncurrent liabilities	<u>499,315</u>	<u>185,000</u>	<u>-</u>	<u>-</u>	<u>684,315</u>
Total liabilities	<u>513,767</u>	<u>289,479</u>	<u>49,123</u>	<u>75,662</u>	<u>928,031</u>
Net Assets					
Invested in capital assets, net of related debt	1,188,875	851,011	1,065,067	20,931	3,125,884
Restricted for debt service	75,050	42,525	-	-	117,575
Unrestricted	<u>162,990</u>	<u>36,077</u>	<u>854,572</u>	<u>(9,832)</u>	<u>1,043,807</u>
Total net assets	<u>\$ 1,426,915</u>	<u>\$ 929,613</u>	<u>\$ 1,919,639</u>	<u>\$ 11,099</u>	<u>\$ 4,287,266</u>

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

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES
CITY OF CANNELTON
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Electric Utility	Trash Utility	Total
Operating revenues:					
Metered water revenue:					
Residential	\$ 164,008	\$ -	\$ -	\$ -	\$ 164,008
Commercial and industrial	57,050	-	-	-	57,050
Residential sales	-	-	535,466	-	535,466
Commercial and industrial sales	-	-	632,000	-	632,000
Public street and highway lighting	-	-	22,608	-	22,608
Fire protection revenue	40,648	-	-	-	40,648
Penalties	1,994	4,886	7,884	-	14,764
Other water revenue	805	-	-	2,662	3,467
Flat rate revenues	-	-	-	121,783	121,783
Measured revenue:					
Residential and commercial	-	224,189	-	-	224,189
Other	-	1,400	2,452	-	3,852
 Total operating revenues	 <u>264,505</u>	 <u>230,475</u>	 <u>1,200,410</u>	 <u>124,445</u>	 <u>1,819,835</u>
Operating expenses:					
Salaries and wages	62,542	69,917	176,415	55,208	364,082
Employee pensions and benefits	10,518	6,266	26,214	4,152	47,150
Purchased power	-	-	765,712	-	765,712
Purchased wastewater treatment	-	50,618	-	-	50,618
Trash disposal fees	-	-	-	21,652	21,652
Utilities	12,038	9,287	-	-	21,325
Chemicals	-	2,023	-	-	2,023
Materials and supplies	10,936	7,060	31,171	1,940	51,107
Contractual services	29,875	12,481	12,272	2,329	56,957
Transportation expenses	3,532	3,993	7,699	5,606	20,830
Insurance expense	39,127	13,400	69,118	11,477	133,122
Tax expense	12,065	-	29,224	1,765	43,054
Bad debt expense	1,596	113	4,298	186	6,193
Depreciation and amortization	104,380	54,199	93,544	8,839	260,962
Miscellaneous expenses	1,449	14,546	7,844	2,010	25,849
 Total operating expenses	 <u>288,058</u>	 <u>243,903</u>	 <u>1,223,511</u>	 <u>115,164</u>	 <u>1,870,636</u>
 Operating income (loss)	 <u>(23,553)</u>	 <u>(13,428)</u>	 <u>(23,101)</u>	 <u>9,281</u>	 <u>(50,801)</u>
Nonoperating revenues (expenses):					
Interest and investment revenue	2,653	1,818	10,652	508	15,631
Interest expense	(20,991)	(11,344)	(706)	(512)	(33,553)
Miscellaneous expense	(822)	(1,318)	-	-	(2,140)
 Total nonoperating revenues (expenses)	 <u>(19,160)</u>	 <u>(10,844)</u>	 <u>9,946</u>	 <u>(4)</u>	 <u>(20,062)</u>
 Change in net assets	 <u>(42,713)</u>	 <u>(24,272)</u>	 <u>(13,155)</u>	 <u>9,277</u>	 <u>(70,863)</u>
Total net assets - beginning	<u>1,469,628</u>	<u>953,885</u>	<u>1,932,794</u>	<u>1,822</u>	<u>4,358,129</u>
Total net assets - ending	<u>\$ 1,426,915</u>	<u>\$ 929,613</u>	<u>\$ 1,919,639</u>	<u>\$ 11,099</u>	<u>\$ 4,287,266</u>

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

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES
CITY OF CANNELTON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Electric Utility	Trash Utility	Total
Cash flows from operating activities:					
Receipts from customers and users	\$ 263,961	\$ 231,375	\$ 1,205,092	\$ 125,068	\$ 1,825,496
Payments to suppliers and contractors	(112,535)	(112,650)	(927,017)	(47,192)	(1,199,394)
Payments to employees	(73,060)	(76,183)	(202,629)	(59,360)	(411,232)
Interfund services provided (used)	(497)	2,608	(2,701)	591	1
Other payments	(1,449)	-	(5,392)	(2,010)	(8,851)
Net cash provided by operating activities	<u>76,420</u>	<u>45,150</u>	<u>67,353</u>	<u>17,097</u>	<u>206,020</u>
Cash flows from noncapital financing activities:					
Interfund loans	-	12,000	10,500	-	22,500
Net cash provided by noncapital financing activities	<u>-</u>	<u>12,000</u>	<u>10,500</u>	<u>-</u>	<u>22,500</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	-	(5,642)	(28,595)	(3,500)	(37,737)
Principal paid on capital debt	(45,000)	(13,000)	(22,284)	(9,601)	(89,885)
Interest paid on capital debt	(20,991)	(11,514)	(1,308)	(845)	(34,658)
Net cash used by capital and related financing activities	<u>(65,991)</u>	<u>(30,156)</u>	<u>(52,187)</u>	<u>(13,946)</u>	<u>(162,280)</u>
Cash flows from investing activities:					
Interest received	2,653	1,818	10,652	508	15,631
Net cash provided by investing activities	<u>2,653</u>	<u>1,818</u>	<u>10,652</u>	<u>508</u>	<u>15,631</u>
Net increase in cash and cash equivalents	13,082	28,812	36,318	3,659	81,871
Cash and cash equivalents, January 1	<u>107,825</u>	<u>93,420</u>	<u>587,635</u>	<u>40,306</u>	<u>829,186</u>
Cash and cash equivalents, December 31	<u>\$ 120,907</u>	<u>\$ 122,232</u>	<u>\$ 623,953</u>	<u>\$ 43,965</u>	<u>\$ 911,057</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (23,553)	\$ (13,428)	\$ (23,101)	\$ 9,281	\$ (50,801)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	104,380	54,199	93,544	8,839	260,962
(Increase) decrease in assets:					
Accounts receivable	1,052	1,013	11,432	809	14,306
Interfund services provided or used	(580)	-	(2,232)	-	(2,812)
Inventories	(1,502)	-	9,199	-	7,697
Increase (decrease) in liabilities:					
Accounts payable	(52)	758	644	(2,423)	(1,073)
Interfund payables	83	2,608	(469)	591	2,813
Accrued payroll and withholding payable	(410)	-	(415)	-	(825)
Taxes payable	112	-	1,128	-	1,240
Customer deposits	(3,110)	-	(22,377)	-	(25,487)
Total adjustments	<u>99,973</u>	<u>58,578</u>	<u>90,454</u>	<u>7,816</u>	<u>256,821</u>
Net cash provided by operating activities	<u>\$ 76,420</u>	<u>\$ 45,150</u>	<u>\$ 67,353</u>	<u>\$ 17,097</u>	<u>\$ 206,020</u>

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

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

B. Fund Financial Statements

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

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

The accounts of the business-type 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.

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

2. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES
CITY OF CANNELTON
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 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	\$ 2,000	Composite	50 years
Improvements other than buildings	2,000	Composite	25 years
Equipment	2,000	Composite	10 years
Transportation equipment	2,000	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.

5. Compensated Absences

a. Sick Leave

Water and Electric Utilities

Union employees of the Water Utility and Electric Utility earn sick leave at the rate of ½ day per month. Union employees may accumulate sick leave to a maximum of 36 days. Nonunion employees of the Water Utility and Electric Utility earn sick leave at the rate of 1 day per month. Nonunion employees may accumulate sick leave to a maximum of 60 days. Union employees may be reimbursed yearly at their normal rate of pay for all unused days in excess of 30 days. Accumulated sick leave is not paid to union or nonunion employees upon termination or retirement.

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

Wastewater and Trash Utilities

Wastewater Utility and Trash Utility employees earn sick/personal leave at rates from 1 day to 5 days per year based upon the number of years of service. Any unused sick/personal leave days are converted to the employee's sick leave balance at year end. Unused sick leave may be accumulated to a maximum of 45 days. Personal leave does not accumulate from year to year. Accumulated sick leave is not paid to employees upon termination or retirement.

b. Vacation Leave

Water and Electric Utilities

All Water Utility and Electric 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. Union employees of the Water and Electric Utilities are paid for any year end unused vacation leave up to 10 days. This payment is included in the first pay period of the subsequent year.

Wastewater and Trash Utilities

Wastewater Utility and Trash Utility employees earn vacation leave at rates from 5 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

No liability is reported for vacation and sick leave.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits

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, 2006, was as follows:

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES
CITY OF CANNELTON
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, not being depreciated:				
Land	\$ 6,901	\$ -	\$ -	\$ 6,901
Capital assets, being depreciated:				
Improvements other than buildings	2,359,530	-	-	2,359,530
Buildings	40,204	-	-	40,204
Machinery and equipment	<u>107,700</u>	<u>-</u>	<u>-</u>	<u>107,700</u>
Totals	<u>2,507,434</u>	<u>-</u>	<u>-</u>	<u>2,507,434</u>
Less accumulated depreciation for:				
Improvements other than buildings	624,285	92,806	-	717,091
Buildings	18,480	804	-	19,284
Machinery and equipment	<u>76,991</u>	<u>10,770</u>	<u>-</u>	<u>87,761</u>
Totals	<u>719,756</u>	<u>104,380</u>	<u>-</u>	<u>824,136</u>
Total capital assets, being depreciated, net	<u>1,787,678</u>	<u>(104,380)</u>	<u>-</u>	<u>1,683,298</u>
Total capital assets, net	<u>\$ 1,794,579</u>	<u>\$ (104,380)</u>	<u>\$ -</u>	<u>\$ 1,690,199</u>
 <u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 3,050	\$ -	\$ -	\$ 3,050
Capital assets, being depreciated:				
Improvements other than buildings	951,229	5,642	-	956,871
Buildings	595,675	-	-	595,675
Transportation equipment	24,352	-	-	24,352
Machinery and equipment	<u>107,987</u>	<u>-</u>	<u>-</u>	<u>107,987</u>
Totals	<u>1,679,243</u>	<u>5,642</u>	<u>-</u>	<u>1,684,885</u>

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

<u>Wastewater Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Improvements other than buildings	194,591	38,049	-	232,640
Buildings	280,514	11,913	-	292,427
Transportation equipment	2,435	2,435	-	4,870
Machinery and equipment	<u>106,185</u>	<u>1,802</u>	<u>-</u>	<u>107,987</u>
 Totals	 <u>583,725</u>	 <u>54,199</u>	 <u>-</u>	 <u>637,924</u>
 Total capital assets, being depreciated, net	 <u>1,095,518</u>	 <u>(48,557)</u>	 <u>-</u>	 <u>1,046,961</u>
 Total capital assets, net	 <u>\$ 1,098,568</u>	 <u>\$ (48,557)</u>	 <u>\$ -</u>	 <u>\$ 1,050,011</u>
 <u>Electric Utility</u>				
Capital assets, not being depreciated:				
Land	<u>\$ 10,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,500</u>
Capital assets, being depreciated:				
Improvements other than buildings	1,930,943	25,310	-	1,956,253
Buildings	195,995	-	-	195,995
Machinery and equipment	100,725	3,285	-	104,010
Transportation equipment	<u>210,427</u>	<u>-</u>	<u>-</u>	<u>210,427</u>
 Totals	 <u>2,438,090</u>	 <u>28,595</u>	 <u>-</u>	 <u>2,466,685</u>
Less accumulated depreciation for:				
Improvements other than buildings	948,374	76,237	-	1,024,611
Buildings	72,435	3,920	-	76,355
Machinery and equipment	100,725	-	-	100,725
Transportation equipment	<u>197,040</u>	<u>13,387</u>	<u>-</u>	<u>210,427</u>
 Totals	 <u>1,318,574</u>	 <u>93,544</u>	 <u>-</u>	 <u>1,412,118</u>
 Total capital assets, being depreciated, net	 <u>1,119,516</u>	 <u>(64,949)</u>	 <u>-</u>	 <u>1,054,567</u>
 Total capital assets, net	 <u>\$ 1,130,016</u>	 <u>\$ (64,949)</u>	 <u>\$ -</u>	 <u>\$ 1,065,067</u>

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

<u>Trash Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 88,396	\$ 3,500	\$ -	\$ 91,896
Less accumulated depreciation for:				
Machinery and equipment	52,111	8,839	-	60,950
Total capital assets, being depreciated, net	36,285	(5,339)	-	30,946
Total capital assets, net	<u>\$ 36,285</u>	<u>\$ (5,339)</u>	<u>\$ -</u>	<u>\$ 30,946</u>

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

Water	\$ 104,380
Wastewater	54,199
Electric	93,544
Trash	<u>8,839</u>
Total depreciation expense	<u>\$ 260,962</u>

C. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2006, is as follows:

<u>Due To</u>	<u>General Fund</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>Trash Utility</u>	<u>Total</u>
Water Utility	\$ -	\$ -	\$ 39,497	\$ 2,017	\$ 29,879	\$ 71,393
Wastewater Utility	11,000	-	-	-	-	11,000
Electric Utility	<u>36,000</u>	<u>3,568</u>	<u>46,144</u>	<u>-</u>	<u>35,380</u>	<u>121,092</u>
Totals	<u>\$ 47,000</u>	<u>\$ 3,568</u>	<u>\$ 85,641</u>	<u>\$ 2,017</u>	<u>\$ 65,259</u>	<u>\$ 203,485</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.

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES
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NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Capital Leases

The Trash Utility has entered into a capital lease for a trash compactor. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2006, are as follows:

2007	<u>\$</u>	10,446
Total minimum lease payments		10,446
Less amount representing interest		<u>431</u>
Present value of net minimum lease payments	<u>\$</u>	<u>10,015</u>

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities issues 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
1996 Waterworks improvement bonds	6%	\$ 150,000
2002 Wastewater refunding revenue bonds	3.9% to 7.0%	<u>199,000</u>
Total		<u>\$ 349,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2007	\$ -	\$ 4,406	\$ 14,000	\$ 10,980
2008	25,000	8,078	15,000	10,378
2009	30,000	6,463	15,000	9,710
2010	30,000	4,700	16,000	8,973
2011	30,000	2,938	17,000	8,139
2012-2016	35,000	1,028	98,000	24,820
2017	<u>-</u>	<u>-</u>	<u>24,000</u>	<u>840</u>
Totals	<u>\$ 150,000</u>	<u>\$ 27,613</u>	<u>\$ 199,000</u>	<u>\$ 73,840</u>

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

2. Notes and Loans Payable

The Water Utility has entered into a state revolving loan. Annual debt service requirements to maturity for the loan, including interest of \$80,516, are as follows:

2007	\$ 5,065
2008	29,840
2009	29,260
2010	28,680
2011	33,028
2012-2016	154,263
2017-2021	<u>149,695</u>
 Total	 <u>\$ 429,831</u>

3. Advance Refunding

In prior years, the Wastewater Utility 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 District's financial statements. The following outstanding bonds, at December 31, 2006, were considered defeased:

	<u>Amount</u>
Wastewater Utility	<u>\$ 64,000</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, 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:					
Water Utility	\$ 175,000	\$ -	\$ 25,000	\$ 150,000	\$ -
Wastewater Utility	<u>212,000</u>	<u>-</u>	<u>13,000</u>	<u>199,000</u>	<u>14,000</u>
Total revenue bonds payable	387,000	-	38,000	349,000	14,000
Loans payable					
Water Utility					
State revolving loan	<u>369,315</u>	<u>-</u>	<u>20,000</u>	<u>349,315</u>	<u>-</u>
Total long-term liabilities	<u>\$ 756,315</u>	<u>\$ -</u>	<u>\$ 58,000</u>	<u>\$ 698,315</u>	<u>\$ 14,000</u>

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

F. Restricted Assets

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

	Water Utility	Wastewater Utility	Electric Utility
Customer deposits	\$ 7,247	\$ -	\$ 36,818
Revenue bond and interest account	5,329	17,525	-
Debt service reserve	69,721	25,000	-
Depreciation account	-	35,426	93,417
 Total restricted assets	 \$ 82,297	 \$ 77,951	 \$ 130,235

III. Other Information

A. Risk Management

The Utility is 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, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, and dependents (excluding post-employment benefits); 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.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on March 8, 2004. The Utility has 714 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on March 25, 2002. The Utility has 609 customers.

3. Electric Utility

The current rate structure was approved by the Utility on June 23, 1998. The Utility has 1,071 customers.

4. Trash Utility

The current rate structure was approved by the Utility on March 1, 2004. The Utility has 615 customers.

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

C. Pension Plans

1. Defined Benefit Pension Plan

Electric and Water Utilities Union Employees Pension

Plan Description

The Electric and Water Utilities have a defined benefit pension plan covering eligible employees. An employee becomes a participant upon employment. Benefits are based upon continuous credited service and the monthly benefit rate in effect on the date actual employment is terminated. Contributions are intended to provide not only for benefits attributed to service to date but also of those expected to be earned in the future.

The IUE-CWA Pension Fund does not issue a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and its participants. Additional information may be obtained by contacting:

IUE-CWA Pension Fund
1460 Broad Street
Bloomfield, New Jersey 07003-3073
Ph. (973) 893-0333

Funding Policy and Annual Pension Cost

Plan members contributions are required by written plan agreement. Employer's contributions are \$1.71 per hour of annual covered payroll.

No actuarial information was available for the Electric and Water Utilities' Employees Union Pension Plan.

2. Defined Contribution Pension Plans

a. Electric and Water Utilities Union Employees Pension

Plan Description

The Electric and Water Utilities nonunion employees have a defined contribution pension plan administered by Capital Bank and Trust as authorized by Indiana Code 8-1.5-3-7. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Utilities and the Plan Administrator. The assets of the plan consist of individual mutual fund investments as reported by the trustee and are valued at market. Contributions were made in accordance with defined contribution requirements. Employees are entitled to receive benefits after 10 years of service and the first anniversary date on or after each participant's 65th birthday. Benefits are based solely upon contributions plus net earnings; therefore, there is no unfunded past service cost. Employees who leave employment before qualifying for benefits receive the accumulated contributions plus the invested earnings for each contract. Additional information may be obtained by contacting:

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES
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NOTES TO FINANCIAL STATEMENTS
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Capital Bank and Trust
P O Box 6164
Indianapolis, Indiana 46206
Ph. (800) 421-0180

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Utilities and the plan administrator. Plan members are required to contribute 3% of the annual covered salary. The Utilities are required to contribute at an actuarially determined rate. The current rate is 7% of annual covered payroll. Employer and employee contributions to the plan were \$5,844 and \$2,512, respectively.

b. Wastewater and Trash Utilities Union Employees Pension

Plan Description

Wastewater and Trash Utilities employees have a defined contribution pension plan administered by Capital Select Investments Corporation as authorized by Indiana Code 8-1.5-3-7. This SIMPLE IRA plan provides retirement benefits to plan members and beneficiaries. The plan was established by written agreement between the Wastewater and Trash Utilities and the Plan Administrator in July 1997. All assets of the plan are held by and invested by Oppenheimer Pension Fund. The assets of the plan consist of individual mutual fund investments as reported by the trustee. All full-time employees are eligible to participate after one year of continuous employment. Benefits are based solely upon contributions plus net earnings. Additional information may be obtained by contacting:

Oppenheimer Funds ATTN Retirement Plan
P O Box 5390
Denver, CO 80217-5390
Ph. (800) 835-7305

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the City and the Plan Administrator. Each individual employee is given the choice of a salary deduction to be withheld each pay period and contributed to the plan. The employer has elected to contribute up to 3% of each employee's compensation for each year. Each employee may choose the Oppenheimer Funds in which they want their contributions to be invested. Employer and employee contributions to the plan were \$1,000 and \$705, respectively.

An actuarial valuation was not available.

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES
CITY OF CANNELTON
EXIT CONFERENCE

The contents of this report were discussed on February 26, 2007, with Melvin L. McBrayer, Mayor; Mary Y. Snyder, Clerk-Treasurer; and Phillip A. Ball, General Manager of the Electric and Water Utilities. Our audit disclosed no material items that warrant comment at this time.