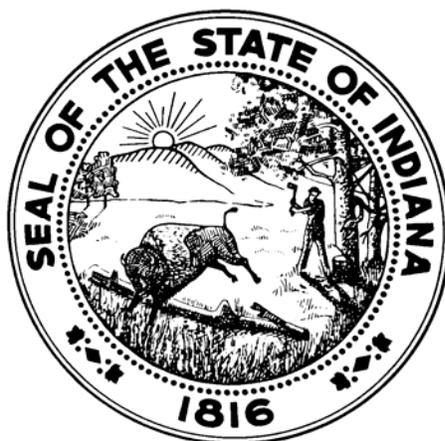


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2006

CITY OF GAS CITY MUNICIPAL UTILITIES  
GRANT COUNTY, INDIANA



**FILED**

05/23/2007



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Auditor's Report.....	3
Statement of Net Assets.....	4
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-16
Supplementary Information: Schedule of Funding Progress .....	17
Audit Result and Comment: Overpayment .....	18
Exit Conference.....	19
Official Response .....	20

OFFICIALS

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



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the City of Gas City Municipal Utilities (Utilities), departments of the City of Gas City, as of and for the year ended December 31, 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 Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Gas City as of December 31, 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 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.

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Utilities have not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

STATE BOARD OF ACCOUNTS

May 3, 2007

CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2006

<u>Assets</u>	Water Utility	Wastewater Utility	Electric Utility
<b>Current assets:</b>			
Cash and cash equivalents	\$ 222,618	\$ 700,804	\$ 427,213
Investments	-	72,500	-
Interest receivable	1,800	4,673	3,740
Accounts receivable (net of allowance)	43,279	119,810	255,910
Accounts receivable - other	2,958	-	1,436
Loan receivable	-	47,727	-
Inventories	24,120	1,095	158,834
Prepaid items	9,135	11,881	20,175
	<u>303,910</u>	<u>958,490</u>	<u>867,308</u>
<b>Total current assets</b>			
<b>Noncurrent assets:</b>			
<b>Restricted cash, cash equivalents and investments:</b>			
Depreciation cash and investments	9,693	190,619	204,394
Reserve cash and investments	103,512	-	143,704
Bond and interest cash and investments	62,877	-	199
Debt service reserve cash and investments	-	-	167,760
Construction cash and investments	-	-	15,310
Customer deposits	53,308	-	114,469
Gas pump cash and investments	-	3,228	9,491
Lease cash and investments	-	41,103	-
Tree cash and investments	-	-	69,319
Interest receivable	-	980	1,052
	<u>229,390</u>	<u>235,930</u>	<u>725,698</u>
<b>Total restricted assets</b>			
<b>Deferred charges:</b>			
Unamortized bond issuance costs	22,090	-	62,966
<b>Capital assets:</b>			
Land, improvements to land and construction in progress	51,353	438,044	-
Other capital assets (net of accumulated depreciation and amortization)	2,818,450	4,537,031	2,643,500
	<u>2,869,803</u>	<u>4,975,075</u>	<u>2,643,500</u>
<b>Total capital assets</b>			
<b>Total noncurrent assets</b>			
	<u>3,121,283</u>	<u>5,211,005</u>	<u>3,432,164</u>
<b>Total assets</b>			
	<u>3,425,193</u>	<u>6,169,495</u>	<u>4,299,472</u>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	21,877	39,011	253,973
Wages payable	3,179	5,690	5,820
Taxes payable	3,120	-	15,965
Compensated absences	7,647	5,413	3,830
Loan payable	47,727	-	-
Capital leases payable	3,511	3,511	3,511
Interest payable	9,807	3,617	864
<b>Current liabilities payable from restricted assets:</b>			
Accounts payable	-	-	666
Customer deposits	53,308	-	114,469
Capital leases payable	-	25,255	-
Loan payable	65,000	-	-
	<u>215,176</u>	<u>82,497</u>	<u>399,098</u>
<b>Total current liabilities</b>			
<b>Noncurrent liabilities:</b>			
Revenue bonds payable	-	-	2,030,000
Capital leases payable	31,018	57,730	31,018
Loans payable	1,154,940	-	-
	<u>1,185,958</u>	<u>57,730</u>	<u>2,061,018</u>
<b>Total noncurrent liabilities</b>			
<b>Total liabilities</b>			
	<u>1,401,134</u>	<u>140,227</u>	<u>2,460,116</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,615,334	4,888,579	578,971
Restricted for debt service	166,389	-	167,959
Restricted for construction	-	-	15,310
Restricted for customer deposits	53,308	-	114,469
Restricted for other	9,693	234,950	426,908
Unrestricted	179,335	905,739	535,739
	<u>\$ 2,024,059</u>	<u>\$ 6,029,268</u>	<u>\$ 1,839,356</u>
<b>Total net assets</b>			

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

CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2006

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Operating revenues:			
Metered water revenue:			
Residential	\$ 495,725	\$ -	\$ -
Commercial and industrial	175,142	-	-
Residential sales	-	772,812	2,129,323
Commercial and industrial sales	-	535,507	1,793,699
Public street and highway lighting	-	-	40,687
Fire protection revenue	75,636	-	-
Penalties	6,335	25,547	25,377
Other	<u>12,280</u>	<u>10,035</u>	<u>11,464</u>
 Total operating revenues	 <u>765,118</u>	 <u>1,343,901</u>	 <u>4,000,550</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	40,685	-	-
Water treatment expense - operations and maintenance	148,934	-	-
Power production	-	-	2,505,662
Transmission and distribution	139,904	-	440,457
Collection system - operations and maintenance	-	98,833	-
Treatment and disposal - operations and maintenance	-	336,177	-
Customer accounts	24,938	28,122	22,422
Administration and general	185,452	243,738	372,349
Bad debt expense	6,444	18,073	8,245
Depreciation and amortization	<u>82,302</u>	<u>168,696</u>	<u>224,665</u>
 Total operating expenses	 <u>628,659</u>	 <u>893,639</u>	 <u>3,573,800</u>
 Operating income	 <u>136,459</u>	 <u>450,262</u>	 <u>426,750</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	15,905	34,184	46,365
Interest expense	(36,993)	(4,266)	(96,589)
Amortization of debt issue costs	(1,550)	-	(3,314)
Miscellaneous expense	<u>(22,210)</u>	<u>(22,210)</u>	<u>(23,710)</u>
 Total nonoperating revenues (expenses)	 <u>(44,848)</u>	 <u>7,708</u>	 <u>(77,248)</u>
 Income before transfers	 91,611	 457,970	 349,502
Transfers out	<u>-</u>	<u>-</u>	<u>(144,000)</u>
 Change in net assets	 91,611	 457,970	 205,502
Total net assets - beginning	<u>1,932,448</u>	<u>5,571,298</u>	<u>1,633,854</u>
Total net assets - ending	<u>\$ 2,024,059</u>	<u>\$ 6,029,268</u>	<u>\$ 1,839,356</u>

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

CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 760,258	\$ 1,304,210	\$ 3,918,880
Payments to suppliers and contractors	(346,719)	(385,351)	(3,095,531)
Payments to employees	(179,423)	(315,866)	(351,065)
Other payments	(22,210)	(22,210)	(23,710)
Net cash provided by operating activities	<u>211,906</u>	<u>580,783</u>	<u>448,574</u>
Cash flows from noncapital financing activities:			
Transfer to other funds	-	-	(144,000)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(26,333)	(84,058)	(108,042)
Principal paid on capital debt	(73,002)	(31,886)	(78,005)
Interest paid on capital debt	(36,605)	(4,666)	(95,725)
Proceeds from sales of capital assets	-	-	900
Net cash used by capital and related financing activities	<u>(135,940)</u>	<u>(120,610)</u>	<u>(280,872)</u>
Cash flows from investing activities:			
Interest received	<u>14,764</u>	<u>29,958</u>	<u>44,804</u>
Net increase in cash and cash equivalents	90,730	490,131	68,506
Cash and cash equivalents, January 1	<u>361,278</u>	<u>445,623</u>	<u>1,083,353</u>
Cash and cash equivalents, December 31	<u>\$ 452,008</u>	<u>\$ 935,754</u>	<u>\$ 1,151,859</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 136,459</u>	<u>\$ 450,262</u>	<u>\$ 426,750</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense	82,302	168,696	224,665
Bad debt expense	6,444	18,073	8,245
Nonoperating expense	(22,210)	(22,210)	(23,710)
(Increase) decrease in assets:			
Accounts receivable - customer	(6,263)	(40,359)	(84,809)
Accounts receivable - other	1,403	668	3,139
Inventories	(659)	1,019	478
Prepaid items	(199)	(156)	(83)
Increase (decrease) in liabilities:			
Accounts payable	6,125	1,283	(116,884)
Wages payable	137	64	189
Taxes payable	268	-	1,675
Compensated absence payable	4,716	3,443	1,318
Customer deposits	3,383	-	7,601
Total adjustments	<u>75,447</u>	<u>130,521</u>	<u>21,824</u>
Net cash provided by operating activities	<u>\$ 211,906</u>	<u>\$ 580,783</u>	<u>\$ 448,574</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through capital leases payable	\$ 37,250	\$ 37,250	\$ 37,250
Capital assets acquired through accounts payable	2,913	20,710	-

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

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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

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

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.

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

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

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

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

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Composite	33 to 50 years
Improvements other than buildings	5,000	Composite	33 to 50 years
Machinery and equipment	5,000	Composite	10 years
Transportation equipment	5,000	Composite	10 years

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Utilities during the current year was \$137,848.

5. Compensated Absences

- a. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- b. Bonus Leave – Utility employees earn bonus leave at the rate of 5 days per year. Bonus leave may be used for sick, vacation or personal leave. Unused bonus leave may be accumulated indefinitely. Accumulated bonus leave up to 80 hours may be paid in December each year. Accumulated bonus leave is paid to employees upon separation of employment.

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

Bonus leave is accrued when incurred.

No liability is reported for vacation 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 and Investments

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 51,353	\$ -	\$ -	\$ 51,353
Capital assets, being depreciated:				
Buildings	581,874	-	-	581,874
Improvements other than buildings	3,265,560	-	-	3,265,560
Machinery and equipment	202,169	49,790	-	251,959
Transportation equipment	<u>53,539</u>	<u>16,706</u>	<u>-</u>	<u>70,245</u>
Totals	<u>4,103,142</u>	<u>66,496</u>	<u>-</u>	<u>4,169,638</u>
Less accumulated depreciation for:				
Buildings	(33,048)	(11,639)	-	(44,687)
Improvements other than buildings	(999,439)	(65,310)	-	(1,064,749)
Machinery and equipment	(202,170)	-	-	(202,170)
Transportation equipment	<u>(34,229)</u>	<u>(5,353)</u>	<u>-</u>	<u>(39,582)</u>
Totals	<u>(1,268,886)</u>	<u>(82,302)</u>	<u>-</u>	<u>(1,351,188)</u>
Total capital assets, being depreciated, net	<u>2,834,256</u>	<u>(15,806)</u>	<u>-</u>	<u>2,818,450</u>
Total Water Utility capital assets, net	<u>\$ 2,885,609</u>	<u>\$ (15,806)</u>	<u>\$ -</u>	<u>\$ 2,869,803</u>

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

<u>Wastewater Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 125,689	\$ -	\$ -	\$ 125,689
Construction in progress	<u>233,945</u>	<u>78,410</u>	<u>-</u>	<u>312,355</u>
 Total capital assets, not being depreciated	 <u>359,634</u>	 <u>78,410</u>	 <u>-</u>	 <u>438,044</u>
Capital assets, being depreciated:				
Buildings	28,485	-	-	28,485
Improvements other than buildings	7,033,744	19,474	-	7,053,218
Machinery and equipment	274,509	39,134	-	313,643
Transportation equipment	<u>87,312</u>	<u>-</u>	<u>-</u>	<u>87,312</u>
 Totals	 <u>7,424,050</u>	 <u>58,608</u>	 <u>-</u>	 <u>7,482,658</u>
Less accumulated depreciation for:				
Buildings	(19,854)	(570)	-	(20,424)
Improvements other than buildings	(2,550,564)	(140,675)	-	(2,691,239)
Machinery and equipment	(119,202)	(27,451)	-	(146,653)
Transportation equipment	<u>(87,311)</u>	<u>-</u>	<u>-</u>	<u>(87,311)</u>
 Totals	 <u>(2,776,931)</u>	 <u>(168,696)</u>	 <u>-</u>	 <u>(2,945,627)</u>
 Total capital assets, being depreciated, net	 <u>4,647,119</u>	 <u>(110,088)</u>	 <u>-</u>	 <u>4,537,031</u>
 Total Wastewater Utility capital assets, net	 <u>\$ 5,006,753</u>	 <u>\$ (31,678)</u>	 <u>\$ -</u>	 <u>\$ 4,975,075</u>
 <u>Electric Utility</u>				
Capital assets, being depreciated:				
Buildings	\$ 232,025	\$ 1,451	\$ -	\$ 233,476
Improvements other than buildings	3,684,499	80,257	-	3,764,756
Machinery and equipment	682,954	40,924	7,000	716,878
Transportation equipment	<u>388,155</u>	<u>22,660</u>	<u>10,350</u>	<u>400,465</u>
 Totals	 <u>4,987,633</u>	 <u>145,292</u>	 <u>17,350</u>	 <u>5,115,575</u>
Less accumulated depreciation for:				
Buildings	(102,134)	(7,020)	-	(109,154)
Improvements other than buildings	(1,232,544)	(110,535)	-	(1,343,079)
Machinery and equipment	(586,358)	(68,295)	(6,100)	(648,553)
Transportation equipment	<u>(342,824)</u>	<u>(38,815)</u>	<u>(10,350)</u>	<u>(371,289)</u>
 Totals	 <u>(2,263,860)</u>	 <u>(224,665)</u>	 <u>(16,450)</u>	 <u>(2,472,075)</u>
 Total Electric Utility capital assets, net	 <u>\$ 2,723,773</u>	 <u>\$ (79,373)</u>	 <u>\$ 900</u>	 <u>\$ 2,643,500</u>

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

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

Water	\$ 82,302
Wastewater	168,696
Electric	<u>224,665</u>
 Total depreciation expense	 <u>\$ 475,663</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Engineering for wastewater treatment plant renovation and expansion	<u>\$ 345,417</u>	<u>\$ 312,355</u>	<u>\$ 33,062</u>	<u>\$ -</u>

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

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

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

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

2. Interfund Transfers

Interfund transfers at December 31, 2006, were as follows:

Transfer From	Transfer To General Fund
Electric Utility	<u>\$ 144,000</u>

The Utility typically uses transfers to fund ongoing operating subsidies.

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

E. Leases

Capital Leases

The Utilities have entered into various capital leases for a jetvac, skidsteer and dozer. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2006, are as follows:

2007	\$	44,586
2008		44,587
2009		16,328
2010		16,329
2011		16,328
2012-2016		40,821
2017		<u>8,165</u>
Total minimum lease payments		187,144
Less amount representing interest		<u>31,590</u>
Present value of net minimum lease payments		<u>\$ 155,554</u>

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

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Machinery and equipment	<u>\$ 37,250</u>	<u>\$ 226,250</u>	<u>\$ 37,250</u>

F. Long-Term Liabilities

1. Revenue Bonds

The Utility issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
\$2,100,000 Electric Utility substation revenue bonds of 2004	4.25% to 4.85%	<u>\$ 2,030,000</u>

Revenue bonds debt service requirements to maturity are as follows:

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

Year Ended December 31	Electric Utility	
	Principal	Interest
2007	\$ -	\$ 46,233
2008	70,000	90,979
2009	75,000	87,898
2010	75,000	84,709
2011	80,000	81,416
2012-2016	455,000	351,697
2017-2021	555,000	241,280
2022-2026	<u>720,000</u>	<u>90,873</u>
Totals	<u>\$ 2,030,000</u>	<u>\$ 1,075,085</u>

2. State Revolving Fund Loan Payable

In 2000, the Water Utility entered into a State Revolving Fund Loan. Under terms of the loan, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the water treatment plant expansion. Funds were loaned to the Water Utility as construction costs accrued to the maximum amount allowed of \$1,415,000. At the completion of construction, the outstanding principal balance of \$1,414,940 was amortized over a period of 20 years. Annual debt service requirements to maturity for the loan, including interest of \$284,320, are as follows:

2007	\$ 99,436
2008	102,478
2009	100,448
2010	98,418
2011	101,316
2012-2016	502,504
2017-2021	<u>499,660</u>
Total	<u>\$ 1,504,260</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Electric Utility	\$ 2,100,000	\$ -	\$ 70,000	\$ 2,030,000	\$ -
Loan payable:					
Water Utility	1,284,940	-	65,000	1,219,940	65,000
Capital lease payable:					
Water Utility	5,281	37,250	8,002	34,529	3,511
Wastewater Utility	81,132	37,250	31,886	86,496	28,766
Electric Utility	5,284	37,250	8,005	34,529	3,511
Totals	91,697	111,750	47,893	155,554	35,788
Total long-term liabilities	\$ 3,476,637	\$ 111,750	\$ 182,893	\$ 3,405,494	\$ 100,788

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

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

Job Related Illnesses or Injuries to Employees

During 1997, the Utilities joined the Indiana Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers compensation claims. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on July 20, 2004. The Utility has 2,545 customers.

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

2. Wastewater Utility

The current rate structure was approved by the Utility on July 20, 2004. The Utility has 2,495 customers.

3. Electric Utility

The current rate structure was approved by the Utility on January 15, 2002. The Utility has 3,103 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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

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

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

Actuarial Information for the Above Plan

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

Contribution rates:

Utilities	4.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

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

Three Year Trend Information

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

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

Public Employees' Retirement Fund

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

CITY OF GAS CITY MUNICIPAL UTILITIES  
AUDIT RESULT AND COMMENT

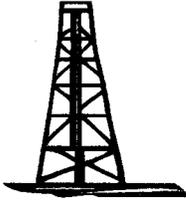
OVERPAYMENT

In October of 2004, a bid was accepted for \$1,102,711 to furnish the equipment for the Electric Substation Project, which was completed in 2006. One change order of \$13,000 was received and approved. Payments applied to this contract totaled \$1,129,039. The unidentified variance between the contract, including the change order, and the total payments was \$13,328. Utility officials were instructed to investigate this possible overpayment and to pursue a refund if necessary.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF GAS CITY MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on May 3, 2007, with Julie L. Flores, Clerk-Treasurer; Larry Terwillegar, President of the Common Council; and H. Larry Leach, Mayor. The official response has been made a part of this report and may be found on page 20.



## Gas City "The City With A Future"

Mayor H. Larry Leach

211 E. Main Street • Gas City, Indiana 46933

Ph: 765-677-3080 • Fax: 765-677-4761 • Email: gascity1@indy.rr.com

Mr. Gary DeWitt  
11768 North Roanoke Road  
Roanoke, Indiana 46783

May 11, 2007

Mr. DeWitt,

In response to issues brought to us as a result of the audit of Gas City's 2006 books, I would like to comment.

### "POOL RECEIPTS"

I do not contest these comments in any way. I fully intended to sit down with the pool manager and try to right this situation again, but I was informed yesterday that she would not be managing the pool this year. Therefore, when a new manager is put into place, the Park Board and I will make sure that he or she understands what is expected.

### "BOARD MINUTES – PARK AND RECREATION AND THREE-WAY MINUTES"

The Secretary of the Park Board resigned, as of the end of May. A new member will be appointed to the Board at our May 15, 2007 City Council meeting who will begin serving as of June 1. A new Secretary will be elected and the duties will be explained as to minutes and the proper keeping of the same.

I have personally conversed with the President of the Three-Way Board and he understands that minutes must be signed and approved. I am confident that they will be correct for the year of 2007.

### "OVERPAYMENT"

I am 100% sure that there is a "lost" change order that was made on the Electric Substation Project. I have informed our Utilities Superintendent that we need to find it. He has contacted the Engineer for this job and we are awaiting a response.

Sincerely,

H. Larry Leach