

B30059

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

ANNUAL FINANCIAL REPORT

2006

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
PERRY COUNTY, INDIANA



FILED
06/28/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Barbara L. Ewing	01-01-04 to 12-31-07
Mayor	Gayle A. Strassell	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Gayle A. Strassell	01-01-04 to 12-31-07
President of the Common Council	Gerald Yackle	01-01-06 to 12-31-07
Superintendent of the Water Utility	Terry L. Rogers	01-30-06 to 12-31-07
Superintendent of the Wastewater Utility	Bruce W. Badger	01-01-06 to 12-31-07
Superintendent of the Electric Utility	Marlow J. Smethurst	01-01-06 to 12-31-07
President of the Electric Utility Service Board	James Schmitt J.B. Land	01-01-06 to 12-31-06 01-01-07 to 12-31-07
Electric Utility Office Manager	Marcia F. Parker	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Water, Wastewater, and Electric Utilities, departments of the City of Tell City, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Utility's 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, and Electric Utilities, City of Tell City, 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 Tell 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 Water, Wastewater, and Electric 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.

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

STATE BOARD OF ACCOUNTS

May 30, 2007

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

<u>Assets</u>	Business-Type Activities			
	Water Utility	Wastewater Utility	Electric Utility	Total
Current assets:				
Cash and cash equivalents	\$ 475,210	\$ 254,668	\$ 2,216,672	\$ 2,946,550
Accounts receivable (net of allowance Water \$7,848, Wastewater \$500, and Electric \$12,825)	135,763	112,308	406,287	654,358
Other receivable	-	-	52,094	52,094
Loan receivable	-	-	125,000	125,000
Inventories	28,779	-	349,256	378,035
Prepaid items	24,940	28,889	91,575	145,404
Other assets	-	-	73,671	73,671
	<u>664,692</u>	<u>395,865</u>	<u>3,314,555</u>	<u>4,375,112</u>
Total current assets				
Noncurrent assets:				
Restricted cash and cash equivalents:				
Cash with fiscal agent	444	2,280	-	2,724
Depreciation	193,852	56,556	-	250,408
Bond and interest	28,263	100,194	-	128,457
Debt service reserve	526,607	241,099	-	767,706
Construction	3,252	42,604	99,451	145,307
Customer deposits	-	-	221,715	221,715
	<u>752,418</u>	<u>442,733</u>	<u>321,166</u>	<u>1,516,317</u>
Total restricted assets				
Deferred charges	91,410	69,904	-	161,314
	<u>91,410</u>	<u>69,904</u>	<u>-</u>	<u>161,314</u>
Capital assets:				
Land, improvements to land and construction in progress	11,724	796,929	697,278	1,505,931
Other capital assets (net of accumulated depreciation)	6,967,549	8,206,492	11,507,093	26,681,134
	<u>6,979,273</u>	<u>9,003,421</u>	<u>12,204,371</u>	<u>28,187,065</u>
Total capital assets				
Total noncurrent assets	<u>7,823,101</u>	<u>9,516,058</u>	<u>12,525,537</u>	<u>29,864,696</u>
Total assets	<u>8,487,793</u>	<u>9,911,923</u>	<u>15,840,092</u>	<u>34,239,808</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
STATEMENT OF NET ASSETS
December 31, 2006
(Continued)

<u>Liabilities</u>	Business-Type Activities			
	Water Utility	Wastewater Utility	Electric Utility	Total
Current liabilities:				
Accounts payable	10,498	16,396	853,227	880,121
Accrued wages payable	13,819	7,484	14,692	35,995
Contracts payable	-	144,713	-	144,713
Taxes payable	4,368	-	65,606	69,974
Payroll withholdings payable	-	-	6,930	6,930
Matured unpaid bonds and coupons	444	2,280	-	2,724
Compensated absences	2,205	1,659	38,460	42,324
Current liabilities payable from restricted assets:				
Customer deposits	-	-	221,715	221,715
Revenue bonds payable	-	145,000	-	145,000
Accrued interest payable	-	43,209	-	43,209
 Total current liabilities	 31,334	 360,741	 1,200,630	 1,592,705
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	3,791,327	1,362,456	-	5,153,783
State revolving loans payable	940,000	545,634	-	1,485,634
Compensated absences	19,849	14,934	-	34,783
Deferred credits	-	-	139,423	139,423
 Total noncurrent liabilities	 4,751,176	 1,923,024	 139,423	 6,813,623
 Total liabilities	 4,782,510	 2,283,765	 1,340,053	 8,406,328
 <u>Net Assets</u>				
Invested in capital assets, net of related debt	2,247,946	6,309,338	11,739,319	20,296,603
Restricted for debt service	554,870	153,084	-	707,954
Unrestricted	902,467	1,165,736	2,760,720	4,828,923
 Total net assets	 \$ 3,705,283	 \$ 7,628,158	 \$ 14,500,039	 \$ 25,833,480

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

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

	Business-Type Activities			
	Water Utility	Wastewater Utility	Electric Utility	Total
Operating revenues:				
Metered water revenue:				
Residential and commercial	\$ 1,165,562	\$ -	\$ -	\$ 1,165,562
Industrial and municipal sales	127,966	-	-	127,966
Residential sales	-	-	2,352,765	2,352,765
Commercial and industrial sales	-	-	7,783,796	7,783,796
Public street and highway lighting	-	-	66,790	66,790
Penalties	5,206	9,151	13,720	28,077
Telecommunications revenue	-	-	106,894	106,894
Fuel cost adjustment	-	-	1,310,571	1,310,571
Other water revenue	65,577	-	-	65,577
Measured revenue:				
Residential and commercial	-	1,250,149	-	1,250,149
Other	-	40,694	242,085	282,779
Total operating revenues	<u>1,364,311</u>	<u>1,299,994</u>	<u>11,876,621</u>	<u>14,540,926</u>
Operating expenses:				
Transmission and distribution	-	-	178,932	178,932
Customer accounts	-	-	30,332	30,332
Administration and general	-	-	454,337	454,337
Salaries and wages	406,814	251,276	920,465	1,578,555
Employee pensions and benefits	107,802	67,742	382,336	557,880
Purchased power	97,958	93,379	9,066,978	9,258,315
Sludge removal	-	20,975	-	20,975
Chemicals	10,847	43,010	-	53,857
Materials and supplies	98,229	15,773	-	114,002
Contractual services	70,383	39,537	-	109,920
Repairs	-	127,917	-	127,917
Transportation expense	13,948	13,524	-	27,472
Insurance expense	60,571	91,211	103,929	255,711
Payments in lieu of taxes	44,577	52,104	68,541	165,222
Telecommunications expense	-	-	73,858	73,858
Bad debt expense	1,677	2,311	27,016	31,004
Depreciation and amortization	234,846	253,603	617,854	1,106,303
Miscellaneous expenses	73,076	143,350	-	216,426
Total operating expenses	<u>1,220,728</u>	<u>1,215,712</u>	<u>11,924,578</u>	<u>14,361,018</u>
Operating income (loss)	<u>143,583</u>	<u>84,282</u>	<u>(47,957)</u>	<u>179,908</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	53,888	21,706	131,064	206,658
Interest expense	(124,275)	(91,118)	(45,063)	(260,456)
Amortization expense	(30,554)	(18,030)	(26,215)	(74,799)
Total nonoperating revenues (expenses)	<u>(100,941)</u>	<u>(87,442)</u>	<u>59,786</u>	<u>(128,597)</u>
Income (loss) before early extinguishment of debt and contributions	42,642	(3,160)	11,829	51,311
Early extinguishment of debt - premium on principal	-	-	(21,700)	(21,700)
Capital contributions	210,549	403,793	-	614,342
Change in net assets	253,191	400,633	(9,871)	643,953
Total net assets - beginning	<u>3,452,092</u>	<u>7,227,525</u>	<u>14,509,910</u>	<u>25,189,527</u>
Total net assets - ending	<u>\$ 3,705,283</u>	<u>\$ 7,628,158</u>	<u>\$ 14,500,039</u>	<u>\$ 25,833,480</u>

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

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

	Business-Type Activities			
	Water Utility	Wastewater Utility	Electric Utility	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 1,364,458	\$ 1,303,818	\$ 11,790,544	\$ 14,458,820
Payments to suppliers and contractors	(464,071)	(633,501)	(9,980,553)	(11,078,125)
Payments to employees	(513,128)	(316,296)	(1,297,989)	(2,127,413)
Net cash provided by operating activities	<u>387,259</u>	<u>354,021</u>	<u>512,002</u>	<u>1,253,282</u>
Cash flows from noncapital financing activities:				
Loan made to the joint venture	-	-	(64,323)	(64,323)
Net cash used by noncapital financing activities	<u>-</u>	<u>-</u>	<u>(64,323)</u>	<u>(64,323)</u>
Cash flows from capital and related financing activities:				
Capital contributions	210,549	403,793	-	614,342
Acquisition and construction of capital assets	(50,308)	(148,786)	(1,436,116)	(1,635,210)
Principal paid on capital debt	(287,005)	(414,000)	(1,085,000)	(1,786,005)
Interest paid on capital debt	(238,926)	(96,066)	(45,063)	(380,055)
Early extinguishment of debt - premium on principal	-	-	(21,700)	(21,700)
Interest subsidy from Waupaca	114,651	16,700	-	131,351
Net cash used by capital and related financing activities	<u>(251,039)</u>	<u>(238,359)</u>	<u>(2,587,879)</u>	<u>(3,077,277)</u>
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	-	-	500,000	500,000
Interest received	53,888	21,706	131,561	207,155
Net cash provided by investing activities	<u>53,888</u>	<u>21,706</u>	<u>631,561</u>	<u>707,155</u>
Net increase (decrease) in cash and cash equivalents	190,108	137,368	(1,508,639)	(1,181,163)
Cash and cash equivalents, January 1 (Including \$721,557, \$406,757 and \$1,570,002 for the Water, Wastewater, and Electric Utilities, respectively, reported in restricted accounts)	<u>1,037,520</u>	<u>560,033</u>	<u>4,046,477</u>	<u>5,644,030</u>
Cash and cash equivalents, December 31 (Including \$752,418, \$442,733 and \$321,166 for the Water, Wastewater, and Electric Utilities, respectively, reported in restricted accounts)	<u>\$ 1,227,628</u>	<u>\$ 697,401</u>	<u>\$ 2,537,838</u>	<u>\$ 4,462,867</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	<u>\$ 143,583</u>	<u>\$ 84,282</u>	<u>\$ (47,957)</u>	<u>\$ 179,908</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	234,846	253,603	617,854	1,106,303
(Increase) decrease in assets:				
Accounts receivable	1,824	6,134	(12,301)	(4,343)
Allowance for uncollectible accounts	-	-	5,334	5,334
Other receivable	-	-	(52,094)	(52,094)
Inventories	(3,271)	-	18,593	15,322
Prepaid items	1,457	(1,779)	(3,676)	(3,998)
Increase (decrease) in liabilities:				
Accounts payable	7,602	9,059	84,443	101,104
Accrued wages payable	429	512	2,172	3,113
Accrued payroll withholdings payable	-	-	(1,228)	(1,228)
Contracts payable	-	-	(66,323)	(66,323)
Taxes payable	(270)	-	(2,468)	(2,738)
Compensated absence payable	1,059	2,210	2,640	5,909
Customer deposits	-	-	4,858	4,858
Deferred credits	-	-	(37,845)	(37,845)
Total adjustments	<u>243,676</u>	<u>269,739</u>	<u>559,959</u>	<u>1,073,374</u>
Net cash provided by operating activities	<u>\$ 387,259</u>	<u>\$ 354,021</u>	<u>\$ 512,002</u>	<u>\$ 1,253,282</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
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 Tell City (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.

Joint Venture

The Electric Utility is a participant with Perry-Spencer Communications, Inc., in a joint venture to operate Riverside Communications which was created to provide certain information and telecommunications services. On September 8, 2005, the Tell City Electric Utility advanced funds in the amount of \$125,000 to Riverside Communications. No repayments have been made to the Electric Utility as of December 31, 2006. All proceeds or losses realized shall be borne equally by the two parties in the joint venture. The Tell City Electric Utility and Perry-Spencer Communications will share equally in any debts Riverside Communications may incur. Complete financial statements for the Riverside Communications can be obtained from Perry-Spencer Communications, Inc., at 11877 E. State Road 62, St. Meinrad, IN 47577.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other 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 activities are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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.

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

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 last in/first out (LIFO) 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 both government-wide and fund 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
Water and Wastewater Utilities:			
Buildings	\$ 5,000	Composite	50 years
Improvements other than buildings	5,000	Composite	50 years
Machinery and equipment	5,000	Composite	10 years
Transportation equipment	5,000	Composite	10 years
Electric Utility:			
Buildings	\$ 5,000	Composite	33 years
Improvements other than buildings	0 or 5,000	Composite	33 years
Machinery and equipment	5,000	Composite	10 or 33 years
Transportation equipment	5,000	Composite	10 years

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

5. Compensated Absences

- a. Sick Leave – Water and Wastewater Utility employees earn sick leave at the rate of 5 days per year. Unused sick leave for Water and Wastewater Utility employees may be accumulated to a maximum of 45 days. Accumulated sick leave is paid to employees through cash payments upon termination. Electric Utility employees earn sick leave at a rate of 7 days per year. Each January, Electric Utility employees are paid through cash payments for any unused sick leave from the prior year.
- b. Vacation Leave – Water and Wastewater 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. Electric Utility employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Each January, Electric Utility employees are paid through cash payments for any unused vacation leave from the prior year.
- c. Personal Leave – Water and Wastewater Utility employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year. Electric Utility employees earn personal leave at the rate of 1 day per year. Each January, Electric Utility employees are paid through cash payments for any unused personal leave from the prior year.

Sick leave is accrued when incurred in the Water, Wastewater, and Electric Utilities.

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.

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

B. Capital Assets

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

<u>Water Utility</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 11,724	\$ -	\$ -	\$ 11,724
Capital assets, being depreciated:				
Buildings	27,313	16,501	-	43,814
Improvements other than buildings	8,928,151	-	-	8,928,151
Machinery and equipment	511,667	33,807	-	545,474
Transportation equipment	45,700	-	-	45,700
Totals	<u>9,512,831</u>	<u>50,308</u>	<u>-</u>	<u>9,563,139</u>
Less accumulated depreciation for:				
Buildings	23,167	546	-	23,713
Improvements other than buildings	1,928,265	178,563	-	2,106,828
Machinery and equipment	391,907	51,167	-	443,074
Transportation equipment	17,405	4,570	-	21,975
Totals	<u>2,360,744</u>	<u>234,846</u>	<u>-</u>	<u>2,595,590</u>
Total capital assets, being depreciated, net	<u>7,152,087</u>	<u>(184,538)</u>	<u>-</u>	<u>6,967,549</u>
Total capital assets, net	<u>\$ 7,163,811</u>	<u>\$ (184,538)</u>	<u>\$ -</u>	<u>\$ 6,979,273</u>
 <u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 10,936	\$ -	\$ -	\$ 10,936
Construction in progress	25,096	760,897	-	785,993
Total capital assets, not being depreciated	<u>36,032</u>	<u>760,897</u>	<u>-</u>	<u>796,929</u>
Capital assets, being depreciated:				
Buildings	321,260	21,410	-	342,670
Improvements other than buildings	11,573,159	41,687	-	11,614,846
Machinery and equipment	470,898	12,502	-	483,400
Transportation equipment	157,149	-	-	157,149
Totals	<u>12,522,466</u>	<u>75,599</u>	<u>-</u>	<u>12,598,065</u>

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
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, being depreciate (continued):				
Less accumulated depreciation for:				
Buildings	190,064	6,425	-	196,489
Improvements other than buildings	3,359,537	231,463	-	3,591,000
Machinery and equipment	470,898	-	-	470,898
Transportation equipment	117,471	15,715	-	133,186
	<u>4,137,970</u>	<u>253,603</u>	<u>-</u>	<u>4,391,573</u>
Totals				
Total capital assets, being depreciated, net	<u>8,384,496</u>	<u>(178,004)</u>	<u>-</u>	<u>8,206,492</u>
Total capital assets, net	<u>\$ 8,420,528</u>	<u>\$ 582,893</u>	<u>\$ -</u>	<u>\$ 9,003,421</u>
 <u>Electric Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 214,211	\$ 18,015	\$ -	\$ 232,226
Construction in progress	514,401	1,434,347	1,483,696	465,052
				-
Total capital assets, not being depreciated	<u>728,612</u>	<u>1,452,362</u>	<u>1,483,696</u>	<u>697,278</u>
Capital assets, being depreciated:				
Buildings	350,665	-	-	350,665
Improvements other than buildings	11,729,153	1,397,597	10,317	13,116,433
Machinery and equipment	4,643,155	45,225	-	4,688,380
Transportation equipment	682,460	24,628	19,046	688,042
	<u>17,405,433</u>	<u>1,467,450</u>	<u>29,363</u>	<u>18,843,520</u>
Totals				
Less accumulated depreciation for:				
Buildings	83,650	10,520	-	94,170
Improvements other than buildings	4,206,324	351,874	10,317	4,547,881
Machinery and equipment	1,826,396	187,214	-	2,013,610
Transportation equipment	631,566	68,246	19,046	680,766
	<u>6,747,936</u>	<u>617,854</u>	<u>29,363</u>	<u>7,336,427</u>
Totals				
Total capital assets, being depreciated, net	<u>10,657,497</u>	<u>849,596</u>	<u>-</u>	<u>11,507,093</u>
Total capital assets, net	<u>\$ 11,386,109</u>	<u>\$ 2,301,958</u>	<u>\$ 1,483,696</u>	<u>\$ 12,204,371</u>

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

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
Wastewater Utility - sewer line extension	\$ 1,471,225	\$ 785,993	\$ 685,232	\$ -
Electric Utility - various projects	<u>500,000</u>	<u>465,052</u>	<u>34,948</u>	<u>-</u>
Totals	<u>\$ 1,971,225</u>	<u>\$ 1,251,045</u>	<u>\$ 720,180</u>	<u>\$ -</u>

D. 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:

Purpose	Interest Rates	Amount
2005 Waterworks refunding revenue bonds	3% to 6%	\$ 2,345,000
1999 Waterworks improvement revenue bonds	5%	1,670,000
1999 Wastewater utility refunding revenue bonds	4% to 5%	1,435,000
1996 Wastewater utility improvement revenue bonds	8%	<u>180,000</u>
Total		<u>\$ 5,630,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2007	\$ -	\$ 100,576	\$ 145,000	\$ 81,045
2008	280,000	194,996	155,000	73,710
2009	290,000	182,403	165,000	65,628
2010	305,000	169,069	175,000	56,855
2011	300,000	154,492	180,000	47,440
2012-2016	1,790,000	449,144	795,000	117,760
2017-2021	<u>1,050,000</u>	<u>72,975</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 4,015,000</u>	<u>\$ 1,323,655</u>	<u>\$ 1,615,000</u>	<u>\$ 442,438</u>

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

2. State Revolving Loans Payable

The Water and Wastewater Utilities have entered into state revolving loans. Under the terms of the State Revolving Loan Fund, revenue bonds are purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of the water and wastewater plant expansions. Funds are loaned to the Utilities as construction costs are accrued to the maximum allowed. At completion of construction on the 2000 Water Utility loan the principal balance was \$1,040,000. At December 31, 2006, the outstanding principal balance on the Water Utility loan was \$940,000. The 2006 Wastewater Utility loan established a maximum draw of \$1,425,000. As of December 31, 2006, the loan principal balance was \$545,634. Annual debt service requirements for the 2006 Wastewater Utility loan will not be determined until the planned construction project is completed. Annual debt service requirements to maturity for the Water Utility state revolving loan, including interest of \$301,455, are as follows:

2007	\$	13,630
2008		42,042
2009		46,535
2010		41,028
2011		60,302
2012-2016		272,230
2017-2021		<u>765,688</u>
Total	\$	<u>1,241,455</u>

3. Advance Refunding

In prior years, the Water and Wastewater 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, 2006, were considered defeased:

	<u>Amount</u>
Water Utility	\$ 2,360,000
Wastewater Utility	1,185,000

4. Early Extinguishment of Debt – 1997 Electric Utility Revenue Bonds

The Tell City Electric Utility issued revenue bonds in 1997 to construct improvements to the Utility. On December 31, 2005, the amount of principal outstanding on the 1997 revenue bonds was \$1,085,000.

On June 19, 2006, the Electric Utility paid off the remaining debt on the 1997 bond issue. The final payment of \$1,152,138 included the following: (1) \$1,085,000 in principal, (2) \$45,063 in interest, (3) \$21,700 as a 2% premium on principal, and (4) \$375 as a final trust fee.

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

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 4,240,000	\$ -	\$ 225,000	\$ 4,015,000	\$ -
Less unamortized bond discount	(59,557)		(5,100)	(54,457)	
Less deferred amount on refunding	(186,138)	-	(16,922)	(169,216)	-
Total revenue bonds payable (net)	3,994,305	-	202,978	3,791,327	-
IDOC loan payable	57,005	-	57,005	-	-
State revolving loan payable	945,000	-	5,000	940,000	-
Compensated absences	20,995	1,059	-	22,054	2,205
Total long-term liabilities, Water Utility	5,017,305	1,059	264,983	4,753,381	2,205
Wastewater Utility:					
Revenue bonds payable	1,760,000	-	145,000	1,615,000	145,000
Less deferred amount on refunding	(118,299)	-	(10,755)	(107,544)	-
Total revenue bonds payable (net)	1,641,701	-	134,245	1,507,456	145,000
IDOC loan payable	269,000	-	269,000	-	-
State revolving loan payable	-	545,634	-	545,634	-
Compensated absences	14,636	1,957	-	16,593	1,659
Total long-term liabilities, Wastewater Utility	1,925,337	547,591	403,245	2,069,683	146,659
Electric Utility:					
Revenue bonds payable	1,085,000	-	1,085,000	-	-
Less unamortized bond discount	(9,250)	-	(9,250)	-	-
Total revenue bonds payable (net)	1,075,750	-	1,075,750	-	-
Total long-term liabilities, Electric Utility	1,075,750	-	1,075,750	-	-
Total long-term liabilities	<u>\$ 8,018,392</u>	<u>\$ 548,650</u>	<u>\$ 1,743,978</u>	<u>\$ 6,823,064</u>	<u>\$ 148,864</u>

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

E. Restricted Assets

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

<u>Restricted Assets Accounts</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Cash with fiscal agent	\$ 444	\$ 2,280	\$ -
Depreciation account	193,852	56,556	-
Bond and interest account	28,263	100,194	-
Debt service reserve account	526,607	241,099	-
Construction account	3,252	42,604	99,451
Customer deposits	-	-	221,715
	<u> </u>	<u> </u>	<u> </u>
Total restricted assets	<u>\$ 752,418</u>	<u>\$ 442,733</u>	<u>\$ 321,166</u>

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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; job related illnesses or injuries to employees; 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 health and life insurance claims. 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 \$20,000 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 insured funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based primarily upon each fund's number of employees and are reported as quasi-external interfund transactions.

However, claim liabilities cannot be reasonably estimated.

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

B. Rate Structure

1. Water Utility

On May 20, 1996, the Common Council adopted Ordinance No. 780 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on June 28, 2004. The Utility has 3,431 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on June 28, 2004. A separate rate structure exists for the Branchville Wastewater Line and the Waupaca Foundry. The current rate structures for the both the Branchville Wastewater Line and the Waupaca Foundry were approved by the Common Council on June 28, 2004. The Utility has 3,237 customers.

3. Electric Utility

On February 2, 1998, the Common Council adopted Ordinance No. 801 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on February 3, 2003. The Utility has 4,199 customers.

C. Pension Plans

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

1. Public Employees' Retirement Fund

Plan Description

The City, including the Utility, 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.

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

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

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.

2. Electric Utility Pension

Plan Description

The Electric Utility contributes to the IUE-CWA Pension Fund, 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 the written plan agreement. Employer's contributions are \$0.94 per hour of annual covered payroll.

Information is not available to provide additional disclosures required by GASB Statement No. 27.

Actuarial Information for the Public Employees' Retirement Plan

		PERF
Annual required contribution	\$	87,685
Interest on net pension obligation		(6,698)
Adjustment to annual required contribution		7,633
Annual pension cost		88,620
Contributions made		86,975
Increase in net pension obligation		1,645
Net pension obligation, beginning of year		(92,393)
Net pension obligation, end of year	\$	(90,748)

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

	PERF
Contribution rates:	
Water and Wastewater Utilities	5.75%
Plan members	3%
Actuarial valuation date	07-01-06
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	75% of expected actuarial value plus 25% of market value

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	06-30-04	\$ 70,292	128%	\$ (62,042)
	06-30-05	60,159	150%	(92,393)
	06-30-06	88,620	145%	(90,748)

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Pension Plan

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)
07-01-04	\$ 1,406,063	\$ 1,472,486	\$ (66,423)	95%	\$ 1,195,591	(6%)
07-01-05	1,477,609	1,703,463	(225,854)	87%	1,438,773	(16%)
07-01-06	1,571,917	1,773,575	(201,658)	89%	1,416,232	(14%)

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
AUDIT RESULTS AND COMMENTS

EXPENDITURES OF UTILITY FUNDS (Applies to the Electric and Wastewater Utilities)

A two year membership at Windward Heights Country Club was purchased from the Electric Utility operating fund. Funeral flowers totaling \$138.50 were purchased from the Electric Utility operating fund. The Electric Utility paid \$93.00 for the purchase of flowers to recognize the grand opening of several local businesses.

The officials of the Wastewater Utility used operating funds to pay for expenses related to the City. A flagpole erected on the grounds of the City Hall was purchased for \$830.39. Flowers for landscaping in Roy Fenn Park were purchased for \$22.20.

Expenses paid from utility funds should be directly related to the operation of the municipally-owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONTRACTS (Applies to the Electric Utility)

Payments totaling \$1,765.00 were made in 2006 to Windward Heights Country Club without a contract. A lease agreement between the golf course and Riverside Communications Inc., (a joint venture of Tell City Electric Utility and Perry Spencer Communications) was submitted for audit. However, no agreement between Riverside Communications and the Tell City Electric Utility was submitted.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FEES (Applies to the Electric Utility)

The following unauthorized fees were collected: The Tell City Electric Utility is charging a fee to Riverside Communications, Inc., (a joint venture of Tell City Electric Department and Perry Spencer Communications) for the installation of equipment which provides for high speed internet service. The Tell City Electric Utility is also charging a fee to Riverside Communications, Inc., for the use of a communications tower at Windward Heights Country Club.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPENSATION AND BENEFITS (Applies to the Electric Utility)

Five Electric Utility employees received salaries or wages in 2006 which were not included on the salary schedule approved by the Electric Utility Service Board.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES (Applies to the Electric Utility)

Penalties and interest totaling \$337.69 were paid to the Indiana Department of Revenue on July 19, 2006, for the period ending December 31, 2005.

Officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS (Applies to the Wastewater Utility)

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) a description of the premises, as shown by the records of the county auditor; and
 - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . ."

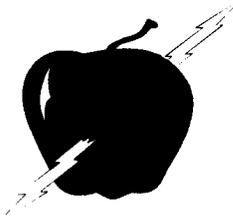
"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
EXIT CONFERENCE

The contents of this report were discussed on May 30, 2007, with Gayle A. Strassell, Mayor; Barbara L. Ewing, Clerk-Treasurer; Marlow J. Smethurst, Superintendent of the Electric Utility; Bruce W. Badger, Superintendent of the Wastewater Utility; J.B. Land, President of the Electric Utility Service Board; James Schmitt, Electric Utility Service Board member; Marcia F. Parker, Electric Utility Office Manager; and Gerald Yackle, President of the Common Council.

Marlow J. Smethurst, Superintendent of the Electric Utility, indicated that he wanted to make an official response. His official response has been made a part of this report and may be found on pages 24 through 26.

TELL CITY ELECTRIC DEPARTMENT



June 8, 2007

Official Response
State Board of Accounts
302 W. Washington St., Room E418
Indianapolis, IN 46204-2765

Re: Official Response to Audit of Tell City Water, Wastewater and Electric Utilities for 2006.

OFFICIAL RESPONSE FROM TELL CITY ELECTRIC DEPARTMENT (TCED)

Item 1: EXPENDITURES OF UTILITY FUNDS (applies to the Electric Utility)
Mentioned in audit: A two year membership at Windward Heights Country Club was purchased from the Electric Utility operating Fund. RESPONSE: During March, 2006 I (Marlow Smethurst) was trying to locate a site in Hancock County, Kentucky for installation of a communications tower. I had been directed to the Country Club by Hancock County officials.

I met with the Country Club Board of Directors to make a proposal for a tower site. I met again with the Country Club Manager. They were willing to accept my offer. They also requested that Tell City Electric take a club membership for two years.

I contacted the TCED Board of Directors Chairman, Jim Schmitt. After I explained the situation to him, he gave approval for the membership. He also directed me to contact either the Vice-Chairman or Secretary of the Board to seek their approval. The Vice-Chairman was not available. I contacted the Secretary and he gave approval for the Club membership. At the next TCED Board of Directors meeting I informed the Board members that we had paid for a Club membership.

After inquiry I am not aware of anyone from TCED who used this membership to play golf at the Club. After notification by Tom Alles, during this Audit, that he did

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PHONE: (812)547-3411 • FAX: (812)547-9557 Email 'MarlowS@psci.net'

not approve of the Club membership; I sent a letter to the Club Manager on April 3, 2007 canceling the membership without refund.

Item 2: Funeral flowers totaling \$138.50 were purchased from the Electric Utility Operating Fund. RESPONSE: The funeral flowers purchased were for the funerals of a former City employee, a former Electric Department Board of Directors member and a current Board member's Mother. This has been done for other years and no mention of this was ever made in previous audits.

Item 3: The Electric Utility paid \$93.00 for the purchase of flowers to recognize the grand opening of several local businesses. RESPONSE: I (Electric Department Superintendent, Marlow Smethurst) was responsible for ordering the purchase of these flowers. The Electric Department policy is to encourage residential, commercial and industrial development in Tell City. When a business or industry spends thousands or several million dollars to open a new facility in Tell City, it is only courteous and encouraging to recognize and show appreciation for this expenditure. Tell City Electric did this by sending flowers when these customers opened for operation. We have done this in previous years and it was never mentioned in any audit.

Item 4: Payments totaling \$1,765.00 were made to Windward Heights Country Club without a contract. RESPONSE: Tell City Electric developed an agreement with the Country Club for an easement which allowed TCED to install a communications tower at the site. TCED owns the tower, paid for the installation and will continue to own the tower.

When I (Marlow Smethurst) wrote the easement lease agreement, I made the agreement between the Country Club and Riverside Communications. I should have made it between the Country Club and Tell City Electric.

So, TCED owns the tower and will continue to make the annual payment for the easement. The Riverside Communications Board of Directors approved a monthly lease payment of \$200.00 to TCED for use of the tower. A letter was sent by Marlow Smethurst to Paul Dauby of PSC on May 31, 2007. This letter stated the current internet tower lease rates that TCED is charging Riverside Communications.

In July, 2007 an Ordinance will be presented to the Tell City City Council for approval. This Ordinance concerns all the fees or charges that TCED currently bills to Riverside Communications.

ITEM 5: The following unauthorized fees were collected: Tell City Electric is charging a fee to Riverside Communications for installation of internet service equipment. TCED is charging Riverside a fee for use of the Windward Heights Communications Tower.

RESPONSE: Tell City Electric is currently involved in a Joint Venture Agreement with PSC (Perry-Spencer Communications). The name of the joint venture organization is Riverside Communications. This Joint Venture Agreement was signed by both partners on April 15, 2005.

The Joint Venture Agreement states that Tell City Electric will be paid a fee for labor for installation of customer service equipment. The initial fee was \$220.00 per installation. It was later lowered to \$200.00. It was lowered again to \$180.00 by approval of the TCED Board of Directors on February 20, 2007.

The Joint Venture Agreement also states that both partners will provide certain structures for use to provide internet service. Both parties have done this and developed monthly lease fees for use of the structures. However, Tell City Electric's lease fees were never approved by the City Council.

Ordinance No. 904 was approved by the City Council, December 1, 2003. This ordinance included rates and charges for internet service. It did not include internet service installation fees and communication tower lease fees.

An ordinance will be presented to the City Council during the July, 2007 meeting for approval. This ordinance will include the fees and charges for internet service installations and provide for communications tower leases.

Item 6: COMPENSATION AND BENEFITS. Five Electric Utility employees received salaries or wages in 2006 which were not on the salary schedule approved by the Electric Utility Service Board.

RESPONSE: Over the last few years these employees were given merit raises above the annual pay increases. Or, several employees were assigned additional duties and were given additional compensation for this. This placed them between pay grades.

In the future all compensation levels and weekly wages will be included in the salary ordinance adopted by the Board of Directors.

If you should have any questions, please contact me.

Sincerely,



Marlow J. Smethurst, Superintendent

MJS/vlj

Cc: Mayor Gayle Strassell; Barbara Ewing, Clerk-Treasurer