

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

EXAMINATION REPORT
OF
CITY OF CANNELTON
PERRY COUNTY, INDIANA
January 1, 2007 to December 31, 2007



FILED
10/16/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary Y. Snyder Arvina Bozarth	01-01-04 to 12-31-07 01-01-08 to 12-31-11
Mayor	Melvin L. McBrayer Morris Graves	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Melvin L. McBrayer Morris Graves	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the Common Council	Bruce A. Myers Adam Goffinet	01-01-07 to 12-31-07 01-01-08 to 12-31-08
General Manager of the Electric and Water Utilities	Phillip A. Ball	01-01-07 to 12-31-08
Superintendent of the Wastewater Utility	Jerry A. Ball	01-01-07 to 12-31-08
President of the Utility Service Board	James Peters	01-01-07 to 12-31-08



OF INDIANA

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF CANNELTON, PERRY COUNTY, INDIANA

We have examined the financial information presented herein of the City of Cannelton (City), for the period of January 1, 2007 to December 31, 2007. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

August 28, 2008

CITY OF CANNELTON
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2007

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 255,883	\$ 562,723	\$ 639,908	\$ 178,698
Motor Vehicle Highway	13,140	54,271	54,171	13,240
Local Road and Street	34,891	6,741	9,923	31,709
Law Enforcement Continuing Education	425	1,294	490	1,229
Riverboat	12,031	7,624	6,173	13,482
Economic Development Commission				
Revolving Loan	43,870	46,469	10,026	80,313
Donations	1,116	22,173	19,642	3,647
Hafele Riverside Park	1,415	-	-	1,415
Gym Donation	13,157	50	3,270	9,937
Fire Truck	2,500	20,500	23,000	-
Grant Fund	-	33,150	32,470	680
Economic Development Income Tax	150,938	93,748	82,988	161,698
Cumulative Capital Improvement	8,176	4,246	-	12,422
Police Pension	49,002	21,405	15,533	54,874
Cemetery Perpetuity Trust	11,655	475	470	11,660
Proprietary Funds:				
Water Utility - Operating	38,610	298,496	276,328	60,778
Water Utility - Bond and Interest	5,329	64,188	63,943	5,574
Water Utility - Debt Service Reserve	69,721	533	-	70,254
Water Utility - Customer Deposit	7,247	3,862	3,067	8,042
Wastewater Utility - Operating	44,281	235,359	215,726	63,914
Wastewater Utility - Depreciation	35,426	12,456	14,440	33,442
Wastewater Utility - Bond and Interest	17,525	25,663	24,980	18,208
Wastewater Utility - Debt Service Reserve	25,000	-	-	25,000
Electric Utility - Operating	493,718	1,302,947	1,265,523	531,142
Electric Utility - Depreciation	93,417	-	11,360	82,057
Electric Utility - Customer Deposit	36,818	17,030	14,778	39,070
Trash Utility - Operating	43,965	128,011	119,736	52,240
Fiduciary Funds:				
Payroll	2,195	347,268	347,367	2,096
Levy Excess	4,879	51,234	4,879	51,234
Totals	<u>\$ 1,516,330</u>	<u>\$ 3,361,916</u>	<u>\$ 3,260,191</u>	<u>\$ 1,618,055</u>

The accompanying notes are an integral part of the financial information.

CITY OF CANNELTON
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, culture and recreation, and general administrative services.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

Note 5. 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.

State statute (IC 5-13-9) authorizes the City 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.

CITY OF CANNELTON
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plans

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

1. 1925 Police Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

2. Electric and Water Utilities Union Employees Pension Plan

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

CITY OF CANNELTON
NOTES TO FINANCIAL INFORMATION
(Continued)

Funding Policy and Annual Pension Cost

Plan members contributions are required by written plan agreement. Employer's contributions are \$1.79 per hour of annual covered payroll. Employer and employee contributions to the plan for the year ended December 31, 2007 were \$7,616 and \$4,969, respectively

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

B. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

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

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

Funding Policy and Annual Pension Cost

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2007, 2006, and 2005, were \$11,896, \$8,504, and \$13,683, respectively, equal to the required contributions for each year.

CITY OF CANNELTON
NOTES TO FINANCIAL INFORMATION
(Continued)

C. Defined Contribution Pension Plans

1. Electric and Water Utilities Nonunion 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 ten years of service and the first anniversary date on or after each participant's sixty-fifth 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:

Capital Bank and Trust
P.O. Box 6164
Indianapolis, IN 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 \$5,963, and \$2,473, respectively.

2. Other City Employees and Wastewater and Trash Utilities Employees Pension

Plan Description

Other City employees and 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 City and 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:

CITY OF CANNELTON
NOTES TO FINANCIAL INFORMATION
(Continued)

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 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 Oppenheimer Funds in which they want their contributions to be invested. Employer and employee contributions to the plan were \$1,112, and \$795, respectively.

Note 7. Holding Corporation

The City has entered into a capital lease with Cannelton Municipal Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing a community center for lease to the government. Lease payments during the year totaled \$52,000.

Note 8. Loans Payable

The City has entered into a flood control loan and a state revolving loan. Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of waterworks improvements and extensions. Funds were loaned to the City as construction costs accrued to the maximum allowed. The 2001 loan established a maximum draw of \$455,000. At the completion of construction, the outstanding principal balance of \$449,315 was amortized over a period of 18 years. Annual debt service requirements to maturity for these loans, including interest of \$1,450, and \$70,386, respectively, as of December 31, 2007, for the years ended December 31, are as follows:

	City EDIT Fund Flood Control Loan	Water Utility State Revolving Loan	
2008	\$ 15,900	\$ 4,775	
2009	15,450	29,260	
2010	-	28,680	
2011	-	33,028	
2012	-	32,303	
Thereafter	-	271,655	
Totals	\$ 31,350	\$ 399,701	

CITY OF CANNELTON
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 9. Loans Receivable – Indiana Department of Commerce

The City of Cannelton makes low interest loans to local businesses for economic development from an economic development revolving loan fund. The balances of the remaining outstanding loans as of December 31, 2007, are as follows:

Borrower	Date of Loan	Amount	Rate	Required Annual Payment	Balance December 31, 2007
County-Wide Animal Clinic	08-01-93	\$ 30,000	5.00%	\$ 3,818	\$ 12,409
C & J Trucking	08-21-03	15,000	5.00%	1,909	9,407
Young's Used Cars	11-23-98	16,000	6.00%	1,622	8,621
T's Car Care (DAT, Inc.)	09-11-00	15,000	6.00%	1,519	3,243
Fitness Factor	02-08-00	14,000	6.00%	1,468	2,663
Fitness Factor	04-18-05	9,000	6.75%	1,459	6,517
Basket, Bears, Bunnies and More	03-01-00	5,000	6.00%	667	1,359
Susann's Gallery and Studio	07-15-02	5,000	6.00%	877	949
Flowers and More	11-05-03	5,000	5.00%	1,132	1,905
Tindle and Clem	11-14-03	18,500	5.00%	4,189	3,356
Walker Dentist Building	06-30-06	3,500	9.00%	872	2,918
Matt Anderson	03-14-07	10,000	9.25%	1,946	9,489

CITY OF CANNELTON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2007

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.

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>City of Cannelton</u>	<u>Ending Balance</u>
Governmental funds:	
Capital assets, not being depreciated:	
Land	\$ 48,986
Infrastructure	428,413
Buildings	2,417,750
Improvements other than buildings	2,271,893
Machinery and equipment	254,771
Transportation equipment	<u>535,378</u>
 Total governmental fund capital assets	 <u>\$ 5,957,191</u>

<u>Cannelton Water, Wastewater, Electric, and Trash Utilities</u>	<u>Ending Balance</u>
Proprietary funds:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 6,901
Capital assets, being depreciated:	
Buildings	40,204
Improvements other than buildings	2,359,530
Machinery and equipment	<u>107,700</u>
 Total Water Utility capital assets	 <u>2,514,335</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	3,050
Capital assets, being depreciated:	
Buildings	595,675
Improvements other than buildings	956,871
Machinery and equipment	126,881
Transportation equipment	<u>24,352</u>
 Total Wastewater Utility capital assets	 <u>1,706,829</u>
Electric Utility:	
Capital assets, not being depreciated:	
Land	10,500
Capital assets, being depreciated:	
Buildings	198,668
Improvements other than buildings	1,990,836
Machinery and equipment	104,010
Transportation equipment	<u>210,427</u>
 Total Electric Utility capital assets	 <u>2,514,441</u>
Trash Utility:	
Capital assets, being depreciated:	
Machinery and equipment	<u>83,896</u>
 Total proprietary funds capital assets	 <u>\$ 6,819,501</u>

CITY OF CANNELTON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Funds:		
Capital leases:		
Community center building	\$ 375,000	\$ 50,000
Loans payable:		
Flood control loan	30,000	15,900
Interfund loan - due to Electric Utility	<u>25,500</u>	<u>25,500</u>
Total governmental funds long-term debt	<u>\$ 430,500</u>	<u>\$ 91,400</u>
Proprietary Funds:		
Water Utility		
State revolving loans:		
2000 SRF loan	\$ 329,315	\$ 4,775
Revenue bonds:		
1996 revenue bonds	<u>125,000</u>	<u>3,672</u>
Total Water Utility	<u>454,315</u>	<u>8,447</u>
Wastewater Utility		
Revenue bonds:		
2002 refunding revenue bonds	<u>185,000</u>	<u>25,377</u>
Total Wastewater Utility	<u>185,000</u>	<u>25,377</u>
Total proprietary funds long-term debt	<u>\$ 639,315</u>	<u>\$ 33,824</u>

CITY OF CANNELTON
EXAMINATION RESULT AND COMMENT

LOAN FROM ELECTRIC UTILITY IN ANTICIPATION OF TAXES TO BE COLLECTED

A loan of \$30,000 was made in 2005 from the Electric Utility to the City in anticipation of taxes to be levied and collected and was not repaid on or before 30 days after the last day for the payment of the anticipated taxes.

Indiana Code 8-1.5-3-12 states:

"(a) A municipality may, by ordinance of its legislative body, borrow money from a utility owned by the municipality for current purposes in anticipation of taxes levied and to be collected during the current or following year.

(b) The board may by resolution lend money to the municipality if the utility has on hand:

(1) A surplus of cash exceeding by at least the amount loaned the sum of all amounts required to pay the indebtedness of the utility falling due during the current calendar year and the following year;

(2) The amount necessary to meet current expenses during the year; and

(3) The amount necessary to pay for improvements contemplated to be made during the current calendar year minus the estimated receipts during the calendar year.

(c) A loan may not be made for a sum in excess of fifty percent (50%) of the amount estimated to be collected from anticipated taxes. The loan:

(1) Must be evidenced by an obligation of the municipality;

(2) Must be signed by the executive;

(3) Is due on or before thirty (30) days after the last day for the payment of anticipated taxes; and

(4) May bear interest at any rate as determined by the board, payable at maturity."

CITY OF CANNELTON
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2008, with Morris Graves, Mayor; Arvina Bozarth, Clerk-Treasurer; Melvin L. McBrayer, former Mayor; and Mary Y. Snyder, former Clerk-Treasurer; and on September 2, 2008, with Adam Goffinet, President of the Common Council. The officials concurred with our finding.