

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

ANNUAL FINANCIAL REPORT  
2007

WATER, WASTEWATER, ELECTRIC,  
AND TRASH UTILITIES

CITY OF CANNELTON  
PERRY COUNTY, INDIANA



**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



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the City of Cannelton Municipal Utilities (Utilities), departments of the City of Cannelton, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utilities' management. 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.

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 Cannelton as of December 31, 2007, 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 financial position of the business-type activities of the Utilities as of December 31, 2007, 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 Utilities have not presented Management Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

August 28, 2008

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES  
CITY OF CANNELTON  
STATEMENT OF NET ASSETS  
December 31, 2007

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Trash</u>	<u>Totals</u>
<b>Current assets:</b>					
Cash	\$ 60,738	\$ 63,914	\$ 531,142	\$ 52,241	\$ 708,035
Accounts receivable	25,106	21,595	113,014	11,846	171,561
<b>Interfund receivables:</b>					
Interfund loans	-	-	25,500	-	25,500
Interfund services provided and used	67,706	-	79,732	-	147,438
Inventories	30,930	-	55,653	-	86,583
Prepaid items	483	531	648	52	1,714
<b>Total current assets</b>	<b>184,963</b>	<b>86,040</b>	<b>805,689</b>	<b>64,139</b>	<b>1,140,831</b>
<b>Noncurrent assets:</b>					
<b>Restricted cash:</b>					
Depreciation cash	-	33,442	82,057	-	115,499
Bond and interest cash	5,574	18,208	-	-	23,782
Debt service reserve cash	70,254	25,000	-	-	95,254
Customer deposits cash	8,082	-	39,070	-	47,152
<b>Total restricted assets:</b>	<b>83,910</b>	<b>76,650</b>	<b>121,127</b>	<b>-</b>	<b>281,687</b>
Deferred charges	4,113	13,178	-	-	17,291
<b>Capital assets:</b>					
Land and improvements to land	6,901	3,050	10,500	-	20,451
Other capital assets (net of accumulated depreciation)	1,581,214	1,013,231	1,007,369	21,756	3,623,570
<b>Total capital assets</b>	<b>1,588,115</b>	<b>1,016,281</b>	<b>1,017,869</b>	<b>21,756</b>	<b>3,644,021</b>
<b>Total noncurrent assets</b>	<b>1,676,138</b>	<b>1,106,109</b>	<b>1,138,996</b>	<b>21,756</b>	<b>3,942,999</b>
<b>Total assets</b>	<b>1,861,101</b>	<b>1,192,149</b>	<b>1,944,685</b>	<b>85,895</b>	<b>5,083,830</b>
<b>Liabilities</b>					
<b>Current liabilities:</b>					
Accounts payable	-	-	307	1,970	2,277
<b>Interfund payables:</b>					
Interfund services provided and used	-	84,427	1,038	61,973	147,438
Taxes payable	1,978	-	5,718	-	7,696
Payroll withholding payable	818	-	970	-	1,788
<b>Current liabilities payable from restricted assets:</b>					
Customer deposits	8,082	-	39,070	-	47,152
Revenue bonds payable	-	15,000	-	-	15,000
Accrued interest payable	-	3,586	-	-	3,586
<b>Total current liabilities</b>	<b>10,878</b>	<b>103,013</b>	<b>47,103</b>	<b>63,943</b>	<b>224,937</b>
<b>Noncurrent liabilities:</b>					
Revenue bonds payable	125,000	170,000	-	-	295,000
State revolving loans	329,315	-	-	-	329,315
<b>Total noncurrent liabilities</b>	<b>454,315</b>	<b>170,000</b>	<b>-</b>	<b>-</b>	<b>624,315</b>
<b>Total liabilities</b>	<b>465,193</b>	<b>273,013</b>	<b>47,103</b>	<b>63,943</b>	<b>849,252</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	1,133,801	831,282	1,017,869	21,756	3,004,708
Restricted for debt service	75,828	43,208	-	-	119,036
Unrestricted	186,279	44,646	879,713	196	1,110,834
<b>Total net assets</b>	<b>\$ 1,395,908</b>	<b>\$ 919,136</b>	<b>\$ 1,897,582</b>	<b>\$ 21,952</b>	<b>\$ 4,234,578</b>

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

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES  
CITY OF CANNELTON  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2007

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Trash</u>	<u>Totals</u>
Operating revenues:					
Metered water revenue:					
Residential	\$ 164,877	\$ -	\$ -	\$ -	\$ 164,877
Commercial	60,727	-	-	-	60,727
Residential sales	-	-	574,861	-	574,861
Commercial and industrial sales	-	-	599,033	-	599,033
Public street and highway lighting	-	-	22,521	-	22,521
Fire protection revenue	40,648	-	-	-	40,648
Penalties	2,065	5,036	7,879	2,702	17,682
Other water revenue	90	-	-	-	90
Flat rate revenues	-	-	-	122,247	122,247
Measured revenue:					
Residential and commercial	-	226,615	-	-	226,615
Other	-	992	4,301	660	5,953
<b>Total operating revenues</b>	<u>268,407</u>	<u>232,643</u>	<u>1,208,595</u>	<u>125,609</u>	<u>1,835,254</u>
Operating expenses:					
Treatment and disposal	-	46,852	-	26,179	73,031
Salaries and wages	65,415	66,989	186,490	50,086	368,980
Employee pensions and benefits	11,404	5,931	28,878	3,769	49,982
Purchased power	-	-	800,964	-	800,964
Chemicals	-	205	-	-	205
Materials and supplies	7,782	12,593	20,713	3,500	44,588
Contractual services	29,795	13,217	11,534	1,351	55,897
Taxes	3,392	-	17,808	1,714	22,914
Transportation expenses	4,306	4,597	7,105	9,257	25,265
Insurance expense	45,629	17,023	71,248	11,222	145,122
Payment in lieu of taxes	8,958	-	14,456	-	23,414
Bad debt expense	185	447	2,640	61	3,333
Depreciation and amortization	102,084	52,624	84,454	9,190	248,352
Miscellaneous expenses	7,112	15,372	9,132	-	31,616
<b>Total operating expenses</b>	<u>286,062</u>	<u>235,850</u>	<u>1,255,422</u>	<u>116,329</u>	<u>1,893,663</u>
<b>Operating income (loss)</b>	<u>(17,655)</u>	<u>(3,207)</u>	<u>(46,827)</u>	<u>9,280</u>	<u>(58,409)</u>
Nonoperating revenues (expenses):					
Interest and investment revenue	6,414	4,840	24,770	1,657	37,681
Interest expense	(18,943)	(10,792)	-	(84)	(29,819)
Amortization of bond issuance costs	(823)	(1,318)	-	-	(2,141)
<b>Total nonoperating revenues (expenses)</b>	<u>(13,352)</u>	<u>(7,270)</u>	<u>24,770</u>	<u>1,573</u>	<u>5,721</u>
<b>Change in net assets</b>	<u>(31,007)</u>	<u>(10,477)</u>	<u>(22,057)</u>	<u>10,853</u>	<u>(52,688)</u>
<b>Total net assets - beginning</b>	<u>1,426,915</u>	<u>929,613</u>	<u>1,919,639</u>	<u>11,099</u>	<u>4,287,266</u>
<b>Total net assets - ending</b>	<u>\$ 1,395,908</u>	<u>\$ 919,136</u>	<u>\$ 1,897,582</u>	<u>\$ 21,952</u>	<u>\$ 4,234,578</u>

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

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES  
CITY OF CANNELTON  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2007

	Water	Wastewater	Electric	Trash	Totals
Cash flows from operating activities:					
Receipts from customers and users	\$ 268,087	\$ 231,954	\$ 1,205,083	\$ 125,552	\$ 1,830,676
Payments to suppliers and contractors	(110,117)	(111,454)	(963,794)	(51,345)	(1,236,710)
Payments to employees	(76,819)	(72,920)	(215,368)	(53,855)	(418,962)
Interfund services provided (used)	2,128	(1,214)	2,372	(3,286)	-
Net cash provided by operating activities	<u>83,279</u>	<u>46,366</u>	<u>28,293</u>	<u>17,066</u>	<u>175,004</u>
Cash flows from noncapital financing activities:					
Interfund loans	(2,009)	11,000	12,509	-	21,500
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	-	(18,894)	(37,256)	-	(56,150)
Principal paid on capital debt	(45,000)	(14,000)	-	(10,015)	(69,015)
Interest paid on capital debt	(18,943)	(10,980)	-	(432)	(30,355)
Net cash used by capital and related financing activities	<u>(63,943)</u>	<u>(43,874)</u>	<u>(37,256)</u>	<u>(10,447)</u>	<u>(155,520)</u>
Cash flows from investing activities:					
Interest received	6,414	4,840	24,770	1,657	37,681
Net increase in cash and cash equivalents	23,741	18,332	28,316	8,276	78,665
Cash and cash equivalents, January 1	<u>120,907</u>	<u>122,232</u>	<u>623,953</u>	<u>43,965</u>	<u>911,057</u>
Cash and cash equivalents, December 31	<u>\$ 144,648</u>	<u>\$ 140,564</u>	<u>\$ 652,269</u>	<u>\$ 52,241</u>	<u>\$ 989,722</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (17,655)	\$ (3,207)	\$ (46,827)	\$ 9,280	(58,409)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	102,084	52,624	84,454	9,190	248,352
(Increase) decrease in assets:					
Accounts receivable	(135)	(242)	(872)	4	(1,245)
Interfund services provided or used	3,687	-	3,351	-	7,038
Inventories	(2,654)	-	(9,145)	-	(11,799)
Prepaid items	(483)	(531)	(648)	(52)	(1,714)
Increase (decrease) in liabilities:					
Accounts payable	(1,043)	(1,064)	(3,362)	1,930	(3,539)
Interfund services provided or used	(1,559)	(1,214)	(979)	(3,286)	(7,038)
Payroll withholding payable	15	-	(166)	-	(151)
Taxes payable	187	-	235	-	422
Customer deposits	835	-	2,252	-	3,087
Total adjustments	<u>100,934</u>	<u>49,573</u>	<u>75,120</u>	<u>7,786</u>	<u>233,413</u>
Net cash provided by operating activities	<u>\$ 83,279</u>	<u>\$ 46,366</u>	<u>\$ 28,293</u>	<u>\$ 17,066</u>	<u>\$ 175,004</u>

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

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Cannelton (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

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

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

The accounts of the business-type 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.

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

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

2. Inventories and Prepaid Items

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

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

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
Buildings	\$ 2,000	Composite	50 years
Improvements other than buildings	2,000	Composite	25 years
Machinery and equipment	2,000	Composite	10 years
Transportation equipment	2,000	Composite	10 years

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

a. Sick Leave

Water and Electric Utilities

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

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

Wastewater and Trash Utilities

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

b. Vacation Leave

Water and Electric Utilities

All Water Utility and Electric Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. Union employees of the Water and Electric Utilities are paid for any year end unused vacation leave up to 10 days. This payment is included in the first pay period of the subsequent year.

Wastewater and Trash Utilities

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

No liability is reported for sick leave.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 6,901	\$ -	\$ -	\$ 6,901
Capital assets, being depreciated:				
Buildings	40,204	-	-	40,204
Improvements other than buildings	2,359,530	-	-	2,359,530
Machinery and equipment	107,700	-	-	107,700
Totals	2,507,434	-	-	2,507,434
Less accumulated depreciation for:				
Buildings	19,284	804	-	20,088
Improvements other than buildings	717,091	92,807	-	809,898
Machinery and equipment	87,761	8,473	-	96,234
Totals	824,136	102,084	-	926,220
Total capital assets, being depreciated, net	1,683,298	(102,084)	-	1,581,214
Total capital assets, net	\$ 1,690,199	\$ (102,084)	\$ -	\$ 1,588,115
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 3,050	\$ -	\$ -	\$ 3,050
Capital assets, being depreciated:				
Buildings	595,675	-	-	595,675
Improvements other than buildings	956,871	-	-	956,871
Machinery and equipment	107,987	18,894	-	126,881
Transportation equipment	24,352	-	-	24,352
Totals	1,684,885	18,894	-	1,703,779
Less accumulated depreciation for:				
Buildings	292,427	11,914	-	304,341
Improvements other than buildings	232,640	38,275	-	270,915
Machinery and equipment	107,987	-	-	107,987
Transportation equipment	4,870	2,435	-	7,305
Totals	637,924	52,624	-	690,548
Total capital assets, being depreciated, net	1,046,961	(33,730)	-	1,013,231
Total capital assets, net	\$ 1,050,011	\$ (33,730)	\$ -	\$ 1,016,281

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

	Balance	Increases	Decreases	Balance
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 10,500	\$ -	\$ -	\$ 10,500
Capital assets, being depreciated:				
Buildings	195,995	2,673	-	198,668
Improvements other than buildings	1,956,253	34,583	-	1,990,836
Machinery and equipment	104,010	-	-	104,010
Transportation equipment	210,427	-	-	210,427
Totals	2,466,685	37,256	-	2,503,941
Less accumulated depreciation for:				
Buildings	76,355	3,920	-	80,275
Improvements other than buildings	1,024,611	77,249	-	1,101,860
Machinery and equipment	100,725	3,285	-	104,010
Transportation equipment	210,427	-	-	210,427
Totals	1,412,118	84,454	-	1,496,572
Total capital assets, being depreciated, net	1,054,567	(47,198)	-	1,007,369
Total capital assets, net	\$ 1,065,067	\$ (47,198)	\$ -	\$ 1,017,869
Trash Utility:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 91,896	\$ -	\$ 8,000	\$ 83,896
Less accumulated depreciation for:				
Machinery and equipment	60,950	9,190	8,000	62,140
Total capital assets, being depreciated, net	30,946	(9,190)	-	21,756
Total capital assets, net	\$ 30,946	\$ (9,190)	\$ -	\$ 21,756

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

Water	\$ 102,084
Wastewater	52,624
Electric	84,454
Trash	9,190
Total depreciation expense	\$ 248,352

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

C. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2007, is as follows:

Due To	Due From				Totals
	General Fund	Wastewater Utility	Electric Utility	Trash Utility	
Water Utility	\$ -	\$ 39,179	\$ 1,038	\$ 27,489	\$ 67,706
Electric Utility	25,500	45,248	-	34,484	105,232
Totals	<u>\$ 25,500</u>	<u>\$ 84,427</u>	<u>\$ 1,038</u>	<u>\$ 61,973</u>	<u>\$ 172,938</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.

D. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Amount
1996 Waterworks improvement bonds	6%	\$ 125,000
2002 Wastewater refunding revenue bonds	4.3% to 7.0%	185,000
Total		<u>\$ 310,000</u>

WATER, WASTEWATER, ELECTRIC, AND TRASH UTILITIES  
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Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2008	\$ -	\$ 3,672	\$ 15,000	\$ 10,377
2009	30,000	6,462	15,000	9,710
2010	30,000	4,700	16,000	8,973
2011	30,000	2,938	17,000	8,139
2012	35,000	1,028	17,000	7,230
2013-2017	-	-	105,000	18,431
Totals	<u>\$ 125,000</u>	<u>\$ 18,800</u>	<u>\$ 185,000</u>	<u>\$ 62,860</u>

2. State Revolving Loan Payable

The Water Utility has entered into a state revolving loan. Annual debt service requirements to maturity for the loan, including interest of \$70,386 are as follows:

2008	\$ 4,775
2009	29,260
2010	28,680
2011	33,028
2012	32,303
2013-2017	150,638
2018-2022	<u>121,017</u>
Total	<u>\$ 399,701</u>

3. Advance Refunding

In prior years, the Wastewater Utility defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utility's financial statements. The following outstanding bonds, at December 31, 2007, were considered defeased:

	<u>Amount</u>
Wastewater Utility 1989 Issue	<u>\$ 147,000</u>

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4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable:					
Water Utility	\$ 150,000	\$ -	\$ 25,000	\$ 125,000	\$ -
Wastewater Utility	<u>199,000</u>	<u>-</u>	<u>14,000</u>	<u>185,000</u>	<u>15,000</u>
Total revenue bonds payable	349,000	-	39,000	310,000	15,000
Loans payable:					
Water Utility State revolving loan	<u>349,315</u>	<u>-</u>	<u>20,000</u>	<u>329,315</u>	<u>-</u>
Total long-term liabilities	<u>\$ 698,315</u>	<u>\$ -</u>	<u>\$ 59,000</u>	<u>\$ 639,315</u>	<u>\$ 15,000</u>

E. Restricted Assets

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

Restricted assets accounts	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Customer deposits account	\$ 8,082	\$ -	\$ 39,070
Revenue bond and interest account	5,574	18,208	-
Debt service reserve account	70,254	25,000	-
Depreciation account	<u>-</u>	<u>33,442</u>	<u>82,057</u>
Total restricted assets	<u>\$ 83,910</u>	<u>\$ 76,650</u>	<u>\$ 121,127</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.

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The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on March 8, 2004. The Utility has 697 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on March 25, 2002. The Utility has 606 customers.

3. Electric Utility

The current rate structure was approved by the Utility on June 23, 1998. The Utility has 963 customers.

4. Trash Utility

The current rate structure was approved by the Utility on March 1, 2004. The Utility has 611 customers.

C. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Electric and Water Utilities Union Employees Pension

Plan Description

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

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

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

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Funding Policy and Annual Pension Cost

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

2. Defined Contribution Pension Plans

a. 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 10 years of service and the first anniversary date on or after each participant's 65th birthday. Benefits are based solely upon contributions plus net earnings; therefore, there is no unfunded past service cost. Employees who leave employment before qualifying for benefits receive the accumulated contributions plus the invested earnings for each contract. Additional information may be obtained by contacting:

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 for the year ended December 31, 2007 were \$5,963 and \$2,473, respectively.

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

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b. Wastewater and Trash Utilities Employees Pension

Plan Description

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Wastewater and Trash Utilities and the Plan Administrator. Each individual employee is given the choice of a salary deduction to be withheld each pay period and contributed to the plan. The employer has elected to contribute up to 3% of each employee's compensation for each year. Each employee may choose the Oppenheimer Funds in which they want their contributions to be invested. Employer and employee contributions to the plan for the year ended December 31, 2007, were \$1,112 and \$795, respectively.

No actuarial information was available for the Wastewater and Trash Utilities' Employees Pension Plan.

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EXIT CONFERENCE

The contents of this report were discussed on August 28, 2008, with Morris Graves, Mayor; Arvina Bozarth, Clerk-Treasurer; Phillip A. Ball, General Manager of the Electric and Water Utilities; Melvin L. McBayer, former Mayor; and Mary Y. Snyder, former Clerk-Treasurer; and on September 2, 2008, with Adam Goffinet, President of the Common Council. Our audit disclosed no material items that warrant comment at this time.