

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

EXAMINATION REPORT  
OF  
CITY OF GAS CITY MUNICIPAL UTILITIES  
GRANT COUNTY, INDIANA  
January 1, 2008 to December 31, 2008



**FILED**  
09/22/2009



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Accountant's Report.....	3
Financial Information:	
Statement of Net Assets.....	4
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-18
Supplementary Information:	
Schedule of Funding Progress .....	19
Examination Results and Comments:	
Overpayment .....	20
Condition of Records .....	20-21
Public Records Retention – Accounts Receivable Detail.....	21
Delinquent Wastewater Accounts.....	21-22
Bad Debts and Uncollectible Accounts .....	22
Capital Asset Records .....	22
Customer Deposit Register .....	22
Exit Conference.....	23

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Julie L. Flores	01-01-08 to 12-31-11
Mayor	H. Larry Leach	01-01-08 to 12-31-11
President of the Board of Public Works	H. Larry Leach	01-01-08 to 12-31-11
President of the Common Council	Larry J. Terwillegar	01-01-08 to 12-31-09
Superintendent of Utilities	Raymond P. Smith	01-01-08 to 12-31-09
Utilities Office Manager	Lisa K. Oliver	01-01-08 to 12-31-09



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the City of Gas City Municipal Utilities (Utilities), departments of the City of Gas City, as of and for the year ended December 31, 2008. The Utilities' management is responsible for the financial statements 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 statements 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 Gas City as of December 31, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Utilities, as of December 31, 2008, 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 examine the information and express no opinion on it.

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

STATE BOARD OF ACCOUNTS

August 18, 2009

CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2008

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 191,412	\$ 422,224	\$ 99,472
Investments	-	72,500	-
Interest receivable	244	853	422
Accounts receivable (net of allowance)	44,049	73,017	236,982
Accounts receivable - other	-	-	2,641
<b>Interfund receivables:</b>			
Interfund loans	-	62,732	-
Interfund services provided and used	-	-	18,150
Inventories	23,443	5,507	185,157
Prepaid items	12,918	16,405	26,980
	<u>272,066</u>	<u>653,238</u>	<u>569,804</u>
<b>Total current assets</b>			
<b>Noncurrent assets:</b>			
<b>Restricted cash, cash equivalents and investments:</b>			
Depreciation cash and investments	86,653	1,066,822	86,060
Reserve cash and investments	103,512	-	178,704
Bond and interest cash and investments	65,648	292,971	362
Debt service reserve cash and investments	-	127,449	167,760
Construction cash and investments	-	-	30,807
Customer deposits cash and investments	57,469	-	121,456
Gas pump cash and investments	-	-	7,948
Tree cash and investments	-	-	95,628
	<u>313,282</u>	<u>1,487,242</u>	<u>688,725</u>
<b>Total restricted assets</b>			
Deferred charges	18,990	80,499	56,338
	<u>18,990</u>	<u>80,499</u>	<u>56,338</u>
<b>Capital assets:</b>			
Land, improvements to land and construction in progress	73,853	125,689	-
Other capital assets (net of accumulated depreciation)	2,687,015	9,882,430	2,384,699
	<u>2,760,868</u>	<u>10,008,119</u>	<u>2,384,699</u>
<b>Total capital assets</b>			
<b>Total noncurrent assets</b>			
	<u>3,093,140</u>	<u>11,575,860</u>	<u>3,129,762</u>
<b>Total assets</b>			
	<u>3,365,206</u>	<u>12,229,098</u>	<u>3,699,566</u>
<b><u>Liabilities</u></b>			
<b>Current liabilities:</b>			
Accounts payable	24,879	28,369	309,318
<b>Interfund payables:</b>			
Interfund loans	3,727	-	-
Interfund services provided and used	-	18,150	-
Contracts payable	-	473,721	-
Taxes payable	3,305	-	18,381
<b>Current liabilities payable from restricted assets:</b>			
Customer deposits	57,469	-	121,456
Capital leases payable	3,932	3,932	3,932
Loans payable	70,000	250,000	-
Accrued interest payable	7,953	94,409	783
	<u>171,265</u>	<u>868,581</u>	<u>453,870</u>
<b>Total current liabilities</b>			
<b>Noncurrent liabilities:</b>			
Revenue bonds payable	-	-	1,885,000
Capital leases payable	23,371	23,370	23,370
Loans payable	1,014,940	6,094,945	-
	<u>1,038,311</u>	<u>6,118,315</u>	<u>1,908,370</u>
<b>Total noncurrent liabilities</b>			
<b>Total liabilities</b>			
	<u>1,209,576</u>	<u>6,986,896</u>	<u>2,362,240</u>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	1,648,625	3,635,872	472,397
Restricted for debt service	169,160	420,420	168,122
Restricted for other purposes	144,122	1,066,822	520,603
Unrestricted	193,723	119,088	176,204
	<u>2,155,630</u>	<u>5,242,202</u>	<u>1,337,326</u>
<b>Total net assets</b>			

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

CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2008

	Water Utility	Wastewater Utility	Electric Utility
Operating revenues:			
Measured revenue:			
Residential	\$ 535,766	\$ 999,297	\$ 2,083,322
Commercial and industrial sales	151,660	208,557	1,696,374
Jonesboro treatment fees	-	192,146	-
Public street and highway lighting	-	-	40,687
Fire protection revenue	78,914	-	-
Fuel cost adjustment	-	-	846,301
Penalties	6,534	27,312	28,803
Tap fees	2,500	1,200	-
Other	-	14,967	19,675
	<u>775,374</u>	<u>1,443,479</u>	<u>4,715,162</u>
Total operating revenues			
	<u>775,374</u>	<u>1,443,479</u>	<u>4,715,162</u>
Operating expenses:			
Purchased power	32,812	80,846	3,561,307
Transmission and distribution	-	-	569,663
Customer accounts	-	-	31,042
Administration and general	120,293	169,424	313,622
Salaries and wages	187,671	332,587	-
Sludge removal	-	38,639	-
Chemicals	62,894	-	-
Materials and supplies	111,116	154,072	-
Contractual services	19,946	16,615	-
Rents	-	2,944	-
Transportation expenses	10,343	18,126	-
Insurance expense	29,693	40,823	-
Regulatory commission expenses	3,157	3,187	-
Gross income tax	10,057	-	62,950
Indiana employment tax	1,231	1,231	1,231
Social security	15,008	26,140	27,511
Bad debt expense	1,569	17,482	55,868
Tree removal	-	-	2,569
Depreciation and amortization	95,442	160,199	164,719
Miscellaneous expenses	14,476	10,943	-
	<u>715,708</u>	<u>1,073,258</u>	<u>4,790,482</u>
Total operating expenses			
	<u>715,708</u>	<u>1,073,258</u>	<u>4,790,482</u>
Operating income (loss)	<u>59,666</u>	<u>370,221</u>	<u>(75,320)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	12,038	43,185	23,250
Miscellaneous revenue	511	-	-
Interest expense	(35,639)	(2,263)	(96,947)
Amortization of debt issue costs	(1,550)	(4,190)	(3,314)
Miscellaneous expense	(23,278)	(21,765)	(23,278)
	<u>(47,918)</u>	<u>14,967</u>	<u>(100,289)</u>
Total nonoperating revenues (expenses)			
	<u>(47,918)</u>	<u>14,967</u>	<u>(100,289)</u>
Income (loss) before contributions and transfers	11,748	385,188	(175,609)
Extraordinary loss on disposal of capital assets	-	(1,797,560)	-
Capital contributions	-	-	18,150
Transfers out	-	-	(145,000)
	<u>11,748</u>	<u>(1,412,372)</u>	<u>(302,459)</u>
Change in net assets			
	<u>11,748</u>	<u>(1,412,372)</u>	<u>(302,459)</u>
Total net assets - beginning	<u>2,143,882</u>	<u>6,654,574</u>	<u>1,639,785</u>
Total net assets - ending	<u>\$ 2,155,630</u>	<u>\$ 5,242,202</u>	<u>\$ 1,337,326</u>

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

CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2008

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 767,760	\$ 1,464,057	\$ 4,624,141
Payments to suppliers and contractors	(290,550)	(408,517)	(4,237,440)
Payments to employees	(320,776)	(513,339)	(325,705)
Other payments	(25,490)	(3,615)	(25,889)
	<u>130,944</u>	<u>538,586</u>	<u>35,107</u>
Net cash provided by operating activities			
Cash flows from noncapital financing activities:			
Transfer to other funds	-	-	(145,000)
Interfund loan repayments	(24,000)	43,625	-
	<u>(24,000)</u>	<u>43,625</u>	<u>(145,000)</u>
Net cash provided (used) by noncapital financing activities			
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(79,297)	(205,953)	(54,813)
Principal paid on capital debt	(73,715)	(150,428)	(78,716)
Interest paid on capital debt	(34,205)	(85,976)	(94,217)
	<u>(187,217)</u>	<u>(442,357)</u>	<u>(227,746)</u>
Net cash used by capital and related financing activities			
Cash flows from investing activities:			
Interest received	13,355	48,328	26,439
	<u>13,355</u>	<u>48,328</u>	<u>26,439</u>
Net increase (decrease) in cash and cash equivalents			
	(66,918)	188,182	(311,200)
Cash and cash equivalents, January 1	571,612	1,721,284	1,099,397
	<u>571,612</u>	<u>1,721,284</u>	<u>1,099,397</u>
Cash and cash equivalents, December 31	<u>\$ 504,694</u>	<u>\$ 1,909,466</u>	<u>\$ 788,197</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 59,666	\$ 370,221	\$ (75,320)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	95,442	160,199	164,719
Bad debt expense	1,569	17,482	55,868
Nonoperating expense	(25,490)	(3,615)	(26,001)
(Increase) decrease in assets:			
Accounts receivable - customer	(7,614)	19,675	(93,357)
Accounts receivable - other	-	903	2,336
Inventories	904	(3,926)	(10,195)
Prepaid items	2,088	5,310	(541)
Increase (decrease) in liabilities:			
Accounts payable	13,945	(16,335)	20,625
Wages payable	(4,307)	(7,264)	(7,700)
Taxes payable	329	-	3,172
Compensated absence payable	(8,505)	(4,064)	(4,383)
Customer deposits	2,917	-	5,884
	<u>71,278</u>	<u>168,365</u>	<u>110,427</u>
Total adjustments			
Net cash provided by operating activities	<u>\$ 130,944</u>	<u>\$ 538,586</u>	<u>\$ 35,107</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through loans payable	\$ -	\$ 2,857,508	\$ -
Capital assets acquired through contracts payable	-	473,721	-
Capital assets acquired through capitalized interest	-	158,345	-

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

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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

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

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The 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.

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

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

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

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

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

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

4. Capital Assets

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

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

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Utilities during the current year was \$293,194. Of the amount, \$158,345 was included as part of the cost of capital assets under construction in connection with the wastewater plant project.

5. Compensated Absences

- a. Bonus Leave – Utility employees earn bonus leave at the rate of 5 days per year. Bonus leave may be used for sick, vacation or personal leave. Unused bonus leave may be accumulated indefinitely. Accumulated bonus leave up to 80 hours may be paid in December each year. Accumulated bonus leave is paid to employees upon separation of employment.

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

b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

Bonus leave is accrued when incurred.

No liability is reported for vacation leave.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits and Investments

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 51,353	\$ -	\$ -	\$ 51,353
Construction in progress	-	22,500	-	22,500
 Total capital assets, not being depreciated	 51,353	 22,500	 -	 73,853
Capital assets, being depreciated:				
Buildings	581,874	-	-	581,874
Improvements other than buildings	3,266,999	34,082	-	3,301,081
Machinery and equipment	266,899	8,000	1,991	272,908
Transportation equipment	70,245	10,465	-	80,710
 Totals	 4,186,017	 52,547	 1,991	 4,236,573

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

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	56,324	10,134	-	66,458
Improvements other than buildings	1,130,060	56,849	-	1,186,909
Machinery and equipment	227,366	22,329	6,241	243,454
Transportation equipment	46,607	6,130	-	52,737
	<u>1,460,357</u>	<u>95,442</u>	<u>6,241</u>	<u>1,549,558</u>
Totals				
Total capital assets, being depreciated, net	<u>2,725,660</u>	<u>(42,895)</u>	<u>(4,250)</u>	<u>2,687,015</u>
Total Water Utility capital assets, net	<u>\$ 2,777,013</u>	<u>\$ (20,395)</u>	<u>\$ (4,250)</u>	<u>\$ 2,760,868</u>
 <u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 125,689	\$ -	\$ -	\$ 125,689
Construction in progress	3,696,642	3,588,227	7,284,869	-
	<u>3,822,331</u>	<u>3,588,227</u>	<u>7,284,869</u>	<u>125,689</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	28,485	103,471	-	131,956
Improvements other than buildings	7,084,808	7,181,398	3,589,331	10,676,875
Machinery and equipment	329,127	47,157	20,654	355,630
Transportation equipment	105,725	53,693	-	159,418
	<u>7,548,145</u>	<u>7,385,719</u>	<u>3,609,985</u>	<u>11,323,879</u>
Totals				
Less accumulated depreciation for:				
Buildings	20,994	496	6,450	15,040
Improvements other than buildings	2,832,303	123,290	1,791,771	1,163,822
Machinery and equipment	178,017	27,668	20,654	185,031
Transportation equipment	68,811	8,745	-	77,556
	<u>3,100,125</u>	<u>160,199</u>	<u>1,818,875</u>	<u>1,441,449</u>
Totals				
Total capital assets, being depreciated, net	<u>4,448,020</u>	<u>7,225,520</u>	<u>1,791,110</u>	<u>9,882,430</u>
Total Wastewater Utility capital assets, net	<u>\$ 8,270,351</u>	<u>\$ 10,813,747</u>	<u>\$ 9,075,979</u>	<u>\$ 10,008,119</u>

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

<u>Electric Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings	\$ 233,476	\$ 5,866	\$ -	\$ 239,342
Improvements other than buildings	3,764,756	34,232	103,925	3,695,063
Machinery and equipment	785,431	-	102,237	683,194
Transportation equipment	<u>384,065</u>	<u>10,465</u>	<u>14,670</u>	<u>379,860</u>
Totals	<u>5,167,728</u>	<u>50,563</u>	<u>220,832</u>	<u>4,997,459</u>
Less accumulated depreciation for:				
Buildings	116,158	6,099	-	122,257
Improvements other than buildings	1,456,022	98,908	103,925	1,451,005
Machinery and equipment	716,878	59,712	106,487	670,103
Transportation equipment	<u>384,065</u>	<u>-</u>	<u>14,670</u>	<u>369,395</u>
Totals	<u>2,673,123</u>	<u>164,719</u>	<u>225,082</u>	<u>2,612,760</u>
Total Electric Utility capital assets, net	<u>\$ 2,494,605</u>	<u>\$ (114,156)</u>	<u>\$ (4,250)</u>	<u>\$ 2,384,699</u>

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

Water Utility	\$ 95,442
Wastewater Utility	160,199
Electric Utility	<u>164,719</u>
Total depreciation expense	<u>\$ 420,360</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2008</u>	<u>Committed</u>
Water treatment plant renovation and expansion	<u>\$ 5,500,000</u>	<u>\$ 22,500</u>	<u>\$ 5,477,500</u>

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

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2008, is as follows:

Due To	Due From			Totals
	General Fund	Water Utility	Wastewater Utility	
Wastewater Utility:				
2009	\$ 19,625	\$ 3,727	\$ -	\$ 23,352
2010	19,625	-	-	19,625
2011	19,755	-	-	19,755
	<u>59,005</u>	<u>3,727</u>	<u>-</u>	<u>62,732</u>
Totals	<u>\$ 59,005</u>	<u>\$ 3,727</u>	<u>\$ -</u>	<u>\$ 62,732</u>
Electric Utility:				
2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,150</u>	<u>\$ 18,150</u>

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

2. Interfund Transfers

Interfund transfers at December 31, 2008, were as follows:

Transfer From	Transfer To General Fund
Electric Utility	<u>\$ 145,000</u>

The Utility typically uses transfers to fund ongoing operating subsidies.

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

E. Leases

Capital Leases

The Utilities have entered into a capital lease for a skidsteer and dozer. Future minimum lease payments and present values of the net minimum lease payments under this capital lease as of December 31, 2008, are as follows:

2009	\$	16,329
2010		16,329
2011		16,329
2012		16,329
2013		16,329
2014		<u>16,328</u>
Total minimum lease payments		97,973
Less amount representing interest		<u>16,066</u>
Present value of net minimum lease payments		<u>\$ 81,907</u>

Assets acquired through this capital lease still in effect are as follows:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Machinery and equipment	\$ 37,250	\$ 37,250	\$ 37,250
Accumulated depreciation	<u>7,450</u>	<u>7,450</u>	<u>7,450</u>
Totals	<u>\$ 29,800</u>	<u>\$ 29,800</u>	<u>\$ 29,800</u>

F. 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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Electric Utility substation	4.25% to 4.85%	<u>\$ 1,885,000</u>

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Electric Utility	
	Principal	Interest
2009	\$ -	\$ 43,152
2010	75,000	84,710
2011	80,000	81,416
2012	85,000	77,910
2013	85,000	74,298
2014-2018	490,000	310,887
2019-2023	615,000	186,926
2024-2026	455,000	33,829
<b>Totals</b>	<b>\$ 1,885,000</b>	<b>\$ 893,128</b>

2. State Revolving Fund Loans Payable

In 2000, the Water Utility entered into a State Revolving Fund Loan. Under terms of the loan, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the water treatment plant expansion. Funds were loaned to the Water Utility as construction costs accrued to the maximum amount allowed of \$1,415,000. At the completion of construction, the outstanding principal balance of \$1,414,940 was amortized over a period of 20 years. Annual debt service requirements to maturity for the loan, including interest of \$217,406, are as follows:

2009	\$ 100,448
2010	98,418
2011	101,316
2012	99,141
2013	101,893
2014-2018	498,434
2019-2022	302,696
<b>Total</b>	<b>\$ 1,302,346</b>

In 2007, the Wastewater Utility entered into a State Revolving Fund Loan. Under terms of the loan, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the wastewater treatment plant expansion. Funds were loaned to the Wastewater Utility as construction costs accrued to the maximum amount allowed of \$6,780,000. At the completion of construction, the outstanding principal balance will be amortized over a period of 20 years. Annual debt service requirements to maturity for the loan have yet to be determined.

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

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Electric Utility	\$ 1,960,000	\$ -	\$ 75,000	\$ 1,885,000	\$ -
Loan payable:					
Water Utility	1,154,940	-	70,000	1,084,940	70,000
Wastewater Utility	3,496,714	2,968,231	120,000	6,344,945	250,000
Totals	<u>4,651,654</u>	<u>2,968,231</u>	<u>190,000</u>	<u>7,429,885</u>	<u>320,000</u>
Capital lease payable:					
Water Utility	31,018	-	3,715	27,303	3,932
Wastewater Utility	57,730	-	30,428	27,302	3,932
Electric Utility	31,018	-	3,716	27,302	3,932
Totals	<u>119,766</u>	<u>-</u>	<u>37,859</u>	<u>81,907</u>	<u>11,796</u>
Total long-term liabilities	<u>\$ 6,731,420</u>	<u>\$ 2,968,231</u>	<u>\$ 302,859</u>	<u>\$ 9,396,792</u>	<u>\$ 331,796</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; and natural disasters.

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

Job Related Illnesses or Injuries to Employees

During 1997, the Utilities joined the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Utilities pay an annual premium to the risk pool for its job related illnesses or injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

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

B. Rate Structure

1. Water Utility

On March 15, 1988, the Common Council adopted Ordinance 1-1988 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Common Council on July 20, 2004. The Utility has 2,578 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on July 20, 2004. The Utility has 2,524 customers.

3. Electric Utility

On March 15, 1988, the Common Council adopted Ordinance 1-1988 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Common Council on January 15, 2002. The Utility has 3,117 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

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

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 88,511
Interest on net pension obligation	(3,337)
Adjustment to annual required contribution	3,803
Annual pension cost	88,977
Contributions made	80,996
Increase in net pension obligation	7,981
Net pension obligation, beginning of year	(46,026)
Net pension obligation, end of year	\$ (38,045)
Contribution rates:	
Utilities	7.75%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 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%

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

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-06	\$ 75,833	68%	\$ (72,058)
	06-30-07	85,643	70%	(46,026)
	06-30-08	88,977	91%	(38,045)

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

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 1,041,936	\$ 1,318,643	\$ (276,707)	79%	\$ 1,126,779	(25%)
07-01-07	1,193,213	1,470,633	(277,420)	81%	1,160,716	(24%)
07-01-08	1,278,070	1,583,471	(305,401)	81%	1,206,262	(25%)

CITY OF GAS CITY MUNICIPAL UTILITIES  
EXAMINATION RESULTS AND COMMENTS

OVERPAYMENT

As noted in prior Report B32433, a contract was awarded for \$1,115,711, including change orders, to furnish the equipment for the Electric Substation Project, which was completed in 2006. Payments on this contract totaled \$1,129,039. The difference of \$13,328 could not be explained by the Utility Officials. As of July 20, 2009, a refund had not been received. The Utility Officials are trying to resolve this issue with the contractor.

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

CONDITION OF RECORDS

The following deficiencies relating to the recordkeeping were noted:

- (1) There were a considerable number of posting errors. These errors included transfers posted twice, principal and interest amounts not posted for the correct amounts, incorrect depreciation expense, year-end accruals calculated but not posted, and incorrect amounts accrued at year end.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

- (2) Some transactions were recorded as "negative" receipts. The unit adjusted customer account balances by posting negative receipts.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

- (3) Transactions related to the State Revolving Loan were not posted to the records. These transactions included interest received and principal and interest payments disbursed.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

- (4) Bank reconcilements were not performed for the bank accounts of the State Revolving Loan funds.

IC 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

- (5) Cash balances reported by the Utilities did not agree with cash balances reported by the City. The Utilities and the City are not performing monthly reconcilements to identify differences. When reconcilements were attempted and differences were found, adjustments were not always treated consistently by the Utilities and the City. The Utilities may

CITY OF GAS CITY MUNICIPAL UTILITIES  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

date the transaction back to the date of occurrence and the City may date the transaction as of the date posted or vice versa. As of July 21, 2009, the Utilities and the City had not identified or corrected the differences between their cash balances for the period ending December 31, 2008.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PUBLIC RECORDS RETENTION - ACCOUNTS RECEIVABLE DETAIL

A detailed listing of customer account balances at December 31, 2008, to support accounts receivable for the utilities was not presented for audit.

IC 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties on active customer accounts 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. Some liens were filed for nonactive wastewater accounts.

IC 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. . . ."

CITY OF GAS CITY MUNICIPAL UTILITIES  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

"(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 . . ."

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

The Utilities do not have a written policy for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. Therefore, collection procedures are not applied consistently to all customers.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

The Utilities do not maintain sufficient detailed records of capital assets. Upon purchase, the costs of the capital assets should be added to the aggregate capital assets and to the subsidiary accounts for land, buildings, etc., in the general ledger. However, the detailed listing of assets does not support the amounts reported in the general ledger. Assets purchased are not consistently reported in both the general ledger and the detail listing. Some may appear in one and not the other. Deletions or disposals of capital assets are indicated on the detail listing, but not removed from the general ledger accounts.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register was not reconciled to the customer deposit amount recorded in the general ledger.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF GAS CITY MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on August 18, 2009, with Julie L. Flores, Clerk-Treasurer; Lisa K. Oliver, Utilities Office Manager; Raymond P. Smith, Superintendent of Utilities; Larry J. Terwillegar, President of the Common Council; and H. Larry Leach, Mayor.