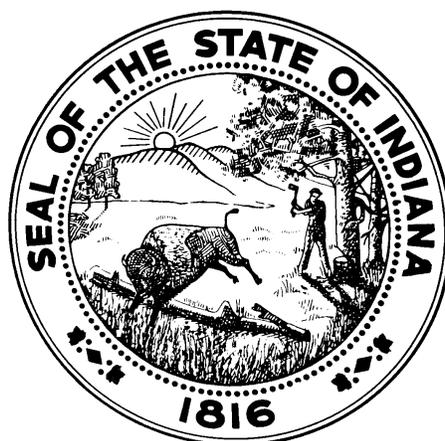


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF

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

January 1, 2008 to December 31, 2008



FILED
11/30/2009

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 Other Changes in Fund Net Assets.....	5
Statement of Cash Flows	6
Notes to Financial Statements	7-19
Required Supplementary Information:	
Schedule of Funding Progress	20
Examination Results and Comments:	
Penalties, Interest, and Other Charges	21
Compensation and Benefits	21
Fees	21
Exit Conference.....	22
Official Response	23-24
Summary	25
Affidavit	27

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jenny S. Richter	01-01-08 to 12-31-11
Mayor	Barbara L. Ewing	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Barbara L. Ewing	01-01-08 to 12-31-11
President of the Common Council	Gerald Yackle	01-01-08 to 12-31-09
Superintendent of the Water Utility	Terry L. Rogers (Vacant) R. Dale Poole	01-01-08 to 01-07-08 01-08-08 to 05-31-08 06-01-08 to 12-31-09
Superintendent of the Wastewater Utility	Bruce W. Badger	01-01-08 to 12-31-09
Superintendent of the Electric Utility	Marlow J. Smethurst	01-01-08 to 12-31-09
Electric Utility Office Manager	Marcia F. Parker	01-01-08 to 12-31-09
Water/Wastewater Bookkeeper	Bonnie S. Stiff	01-01-08 to 12-31-09
President of the Water Utility Service Board	Gerald W. Yackle	01-01-08 to 12-31-09
President of the Electric Utility Service Board	J.B. Land	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

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Water, Wastewater, and Electric Utilities, departments of the City of Tell City, as of and for the year ended December 31, 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 statement 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 Water, Wastewater, and Electric Utilities, City of Tell City, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Tell City as of December 31, 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 Water, Wastewater, and Electric 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 Water, Wastewater, and Electric Utilities have not presented Management's 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 part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

September 29, 2009

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>
Current assets:			
Cash	\$ 770,611	\$ 312,365	\$ 2,002,236
Accounts receivable (net of allowance)	133,736	116,145	396,230
Other receivables	-	-	49,648
Loans receivable	-	-	125,000
Inventories	62,739	-	402,683
Prepaid items	28,221	28,037	5,490
	<u>995,307</u>	<u>456,547</u>	<u>2,981,287</u>
Total current assets			
Noncurrent assets:			
Restricted cash:			
Depreciation cash	310,963	75,743	-
Bond and interest cash	20,715	142,253	-
Construction cash	3,257	31,565	-
Debt service reserve cash	526,608	276,225	-
Reserve cash	-	-	1,386,239
Storm water cash	-	69,898	-
Customer deposits	-	-	226,464
	<u>861,543</u>	<u>595,684</u>	<u>1,612,703</u>
Total restricted assets			
Deferred charges	74,348	55,354	-
	<u>74,348</u>	<u>55,354</u>	<u>-</u>
Capital assets:			
Land, improvements to land and construction in progress	11,724	1,804,823	623,234
Other capital assets (net of accumulated depreciation)	6,575,684	7,711,238	11,504,396
	<u>6,587,408</u>	<u>9,516,061</u>	<u>12,127,630</u>
Total capital assets			
Total noncurrent assets	<u>7,523,299</u>	<u>10,167,099</u>	<u>13,740,333</u>
Total assets	<u>8,518,606</u>	<u>10,623,646</u>	<u>16,721,620</u>
Liabilities			
Current liabilities:			
Accounts payable	89,008	28,482	786,811
Contracts payable	-	55,758	-
Payroll withholdings payable	-	-	6,920
Taxes payable	5,871	-	73,969
Accrued wages payable	16,975	8,765	37,701
Compensated absences	2,742	1,744	34,482
Current liabilities payable from restricted assets:			
Customer deposits	-	-	226,446
Revenue bonds payable	-	165,000	-
Accrued interest payable	-	35,360	-
	<u>114,596</u>	<u>295,109</u>	<u>1,166,329</u>
Total current liabilities			
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	3,265,371	1,063,964	-
State revolving loans payable	905,000	1,279,433	-
Compensated absences	24,674	15,695	-
Deferred credits	-	-	77,618
	<u>4,195,045</u>	<u>2,359,092</u>	<u>77,618</u>
Total noncurrent liabilities			
Total liabilities	<u>4,309,641</u>	<u>2,654,201</u>	<u>1,243,947</u>
Net Assets			
Invested in capital assets, net of related debt	2,281,664	6,921,628	12,127,630
Restricted for debt service	547,323	418,478	-
Unrestricted	1,379,978	629,339	3,350,043
	<u>4,208,965</u>	<u>7,969,445</u>	<u>15,477,673</u>
Total net assets			

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>
Operating revenues:			
Metered water revenue:			
Residential and commercial	\$ 1,181,684	\$ -	\$ -
Municipal	19,217	-	-
Industrial	154,308	-	-
Residential sales	-	-	2,797,652
Commercial and industrial sales	-	-	8,759,510
Public street and highway lighting	-	-	79,936
Fuel cost adjustment revenue	-	-	1,514,396
Penalties	5,463	12,080	23,933
Other water revenue	68,939	-	-
Flat rate revenues (Storm water)	-	88,172	-
Measured revenue:			
Residential and commercial	-	1,308,995	-
Other	-	32,027	293,472
	<u>1,429,611</u>	<u>1,441,274</u>	<u>13,468,899</u>
 Total operating revenues			
	<u>1,429,611</u>	<u>1,441,274</u>	<u>13,468,899</u>
 Operating expenses:			
Transmission and distribution	-	-	200,117
Customer accounts	-	-	35,587
Administration and general	-	-	303,201
Salaries and wages	408,028	287,449	1,043,147
Employee pensions and benefits	126,036	85,473	474,715
Purchased power	121,341	107,059	9,924,956
Sludge removal	-	23,502	-
Chemicals	15,058	63,834	-
Materials and supplies	104,146	30,927	-
Contractual services	136,278	143,369	-
Repairs	-	205,653	-
Transportation expenses	15,859	16,852	-
Insurance expense	62,253	80,190	111,616
Payment in lieu of taxes	44,722	52,248	75,034
Bad debt expense	1,730	2,501	15,577
Depreciation and amortization	245,327	256,315	649,914
Miscellaneous expenses	60,243	135,876	65,564
	<u>1,341,021</u>	<u>1,491,248</u>	<u>12,899,428</u>
 Total operating expenses			
	<u>1,341,021</u>	<u>1,491,248</u>	<u>12,899,428</u>
 Operating income (loss)	<u>88,590</u>	<u>(49,974)</u>	<u>569,471</u>
 Nonoperating revenues (expenses):			
Interest and investment revenue	42,727	16,577	80,420
Rental Income	-	-	38,306
Fiber optic lease income	-	-	825
Telecommunications revenue	-	-	27,900
Telecommunications expense	-	-	(10,936)
Building suite expense	-	-	(83,355)
Interest expense	(114,808)	(103,217)	-
Amortization expense	(30,554)	(18,029)	-
	<u>(102,635)</u>	<u>(104,669)</u>	<u>53,160</u>
 Total nonoperating revenues (expenses)			
	<u>(102,635)</u>	<u>(104,669)</u>	<u>53,160</u>
 Income (loss) before contributions	(14,045)	(154,643)	622,631
 Capital contributions	<u>224,342</u>	<u>44,249</u>	<u>-</u>
 Change in net assets	210,297	(110,394)	622,631
 Total net assets - beginning	<u>3,998,668</u>	<u>8,079,839</u>	<u>14,855,042</u>
 Total net assets - ending	<u>\$ 4,208,965</u>	<u>\$ 7,969,445</u>	<u>\$ 15,477,673</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2008

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,427,613	\$ 1,444,950	\$ 13,428,975
Payments to suppliers and contractors	(513,731)	(827,856)	(10,896,583)
Payments to employees	(527,943)	(369,862)	(1,497,986)
Other receipts (payments)	-	-	(67,462)
	<u>385,939</u>	<u>247,232</u>	<u>966,944</u>
Net cash provided by operating activities			
Cash flows from capital and related financing activities:			
Capital contributions	224,342	44,249	-
Acquisition and construction of capital assets	(48,175)	(15,000)	(620,452)
Principal paid on capital debt	(310,000)	(156,000)	-
Interest paid on capital debt	(215,665)	(117,408)	-
Interest subsidy from Waupaca	100,857	11,551	-
Rental income	-	-	38,306
	<u>(248,641)</u>	<u>(232,608)</u>	<u>(582,146)</u>
Net cash used by capital and related financing activities			
Cash flows from investing activities:			
Interest received	<u>42,727</u>	<u>16,577</u>	<u>80,420</u>
Net increase in cash and cash equivalents	180,025	31,201	465,218
Cash and cash equivalents, January 1	<u>1,452,129</u>	<u>876,848</u>	<u>3,149,721</u>
Cash and cash equivalents, December 31	<u>\$ 1,632,154</u>	<u>\$ 908,049</u>	<u>\$ 3,614,939</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 88,590	\$ (49,974)	\$ 569,471
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	245,327	256,315	649,914
Nonoperating miscellaneous revenue	-	-	28,725
Nonoperating miscellaneous expense	-	-	(94,291)
(Increase) decrease in assets:			
Accounts receivable	1,366	6,177	(24,347)
Other receivables	-	-	(1,896)
Allowance for uncollectible accounts	(1,634)	-	-
Inventories	20,784	-	(10,107)
Prepaid items	(5,289)	(2,454)	91,760
Increase (decrease) in liabilities:			
Accounts payable	29,921	(2,728)	(236,014)
Contracts payables	-	36,836	-
Accrued wages payable	3,283	1,074	14,950
Payroll withholding payable	-	-	523
Taxes payable	753	-	4,565
Compensated absences payable	2,838	1,986	4,926
Deferred credits	-	-	(30,903)
Customer deposits	-	-	(332)
	<u>297,349</u>	<u>297,206</u>	<u>397,473</u>
Total adjustments			
Net cash provided by operating activities	<u>\$ 385,939</u>	<u>\$ 247,232</u>	<u>\$ 966,944</u>

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

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

Joint Venture

The Electric Utility is a participant with Perry-Spencer Communications, Inc., in a joint venture to operate Riverside Communications which was created to provide certain telecommunication and information services. On September 8, 2005, the Tell City Electric Utility advanced funds in the amount of \$125,000 to Riverside Communications. No repayments of the advanced funds have been received by December 31, 2008. All proceeds or losses realized are to be borne equally by the two parties in the joint venture. As of December 31, 2008, it appears unlikely that Riverside Communications is producing sufficient revenue to repay the advances it received or to repay the full amount due to the two parties. Tell City Electric Utility and Perry-Spencer Communications, Inc., are to share equally in any debts Riverside Communications may incur. Complete financial statements for Riverside Communications can be obtained from Perry-Spencer Communications, Inc., 11877 E. State Road 62, St. Meinrad, Indiana 47577.

B. Fund Financial Statements

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

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

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

2. Inventories and Prepaid Items

All inventories are valued at cost using the last in/first out (LIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Restricted Assets

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

4. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Water and Wastewater Utilities:			
Buildings and improvements	\$ 5,000	Composite	50 years
Improvements other than buildings	5,000	Composite	50 years
Machinery and equipment	5,000	Composite	10 years
Transportation equipment	5,000	Composite	10 years
Electric Utility:			
Buildings	5,000	Composite	33 years
Improvements other than buildings	0 or 5,000	Composite	33 years
Machinery and equipment	5,000	Composite	10 or 33 years
Transportation equipment	5,000	Composite	10 years

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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 Wastewater Utility employees earn sick leave at the rate of 5 days per year. Unused sick leave for Water and Wastewater Utility employees may be accumulated to a maximum of 45 days. Accumulated sick leave is paid to employees through cash payments upon termination. Electric Utility employees earn sick leave at a rate of 7 days per year. Each January, Electric Utility employees are paid through cash payments for any unused sick leave from the prior year.
- b. Vacation Leave - Water and Wastewater Utility employees earn vacation leave at rates from 5 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. Electric Utility employees earn vacation leave at rates from 5 days to 28 days per year based upon the number of years of service. Each January, Electric Utility employees are paid through cash payments for any unused vacation leave from the prior year.
- c. Personal Leave - Water and Wastewater Utility employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year. Electric Utility employees earn personal leave at the rate of 1 day per year. Each January, Electric Utility employees are paid through cash payments for any unused personal leave from the prior year.

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

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits

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

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

B. Receivables

The following receivable account has timing and credit characteristics different from typical accounts receivable.

Other Receivables - This line item on the Statement of Net Assets primarily includes receivables due from Riverside Communications, Inc. (See "Joint Venture" Note I.A.) for connection charges associated with internet services.

C. 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	\$ 11,724	\$ -	\$ -	\$ 11,724
Capital assets, being depreciated:				
Buildings	43,814	-	-	43,814
Improvements other than buildings	8,953,331	-	-	8,953,331
Machinery and equipment	568,137	-	17,500	550,637
Transportation equipment	45,700	48,175	-	93,875
Totals	<u>9,610,982</u>	<u>48,175</u>	<u>17,500</u>	<u>9,641,657</u>
Less accumulated depreciation for:				
Buildings	24,589	876	-	25,465
Improvements other than buildings	2,285,391	179,067	-	2,464,458
Machinery and equipment	501,621	60,814	17,500	544,935
Transportation equipment	26,545	4,570	-	31,115
Totals	<u>2,838,146</u>	<u>245,327</u>	<u>17,500</u>	<u>3,065,973</u>
Total capital assets, being depreciated, net	<u>6,772,836</u>	<u>(197,152)</u>	<u>-</u>	<u>6,575,684</u>
Total capital assets, net	<u>\$ 6,784,560</u>	<u>\$ (197,152)</u>	<u>\$ -</u>	<u>\$ 6,587,408</u>
 <u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 10,936	\$ -	\$ -	\$ 10,936
Construction in progress	1,777,391	16,496	-	1,793,887
Total capital assets, not being depreciated	<u>1,788,327</u>	<u>16,496</u>	<u>-</u>	<u>1,804,823</u>

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

<u>Wastewater Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings	342,670	-	-	342,670
Improvements other than buildings	11,614,846	-	-	11,614,846
Machinery and equipment	483,400	-	-	483,400
Transportation equipment	<u>171,649</u>	<u>13,500</u>	<u>5,000</u>	<u>180,149</u>
Totals	<u>12,612,565</u>	<u>13,500</u>	<u>5,000</u>	<u>12,621,065</u>
Less accumulated depreciation for:				
Buildings	202,914	6,853	-	209,767
Improvements other than buildings	3,823,297	232,297	-	4,055,594
Machinery and equipment	483,400	-	-	483,400
Transportation equipment	<u>148,901</u>	<u>17,165</u>	<u>5,000</u>	<u>161,066</u>
Totals	<u>4,658,512</u>	<u>256,315</u>	<u>5,000</u>	<u>4,909,827</u>
Total capital assets, being depreciated, net	<u>7,954,053</u>	<u>(242,815)</u>	<u>-</u>	<u>7,711,238</u>
Total capital assets, net	<u>\$ 9,742,380</u>	<u>\$ (226,319)</u>	<u>\$ -</u>	<u>\$ 9,516,061</u>
 <u>Electric Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 232,226	\$ -	\$ -	\$ 232,226
Construction in progress	<u>254,909</u>	<u>692,912</u>	<u>556,813</u>	<u>391,008</u>
Total capital assets, not being depreciated	<u>487,135</u>	<u>692,912</u>	<u>556,813</u>	<u>623,234</u>
Capital assets, being depreciated:				
Buildings	350,665	-	-	350,665
Improvements other than buildings	13,757,716	252,684	35,457	13,974,943
Machinery and equipment	4,610,295	241,380	-	4,851,675
Transportation equipment	<u>727,066</u>	<u>-</u>	<u>-</u>	<u>727,066</u>
Totals	<u>19,445,742</u>	<u>494,064</u>	<u>35,457</u>	<u>19,904,349</u>

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

<u>Electric Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	104,690	10,520	-	115,210
Improvements other than buildings	4,934,792	412,731	25,746	5,321,777
Machinery and equipment	2,048,261	187,639	-	2,235,900
Transportation equipment	688,042	39,024	-	727,066
Totals	<u>7,775,785</u>	<u>649,914</u>	<u>25,746</u>	<u>8,399,953</u>
Total capital assets, being depreciated, net	<u>11,669,957</u>	<u>(155,850)</u>	<u>9,711</u>	<u>11,504,396</u>
Total capital assets, net	<u>\$ 12,157,092</u>	<u>\$ 537,062</u>	<u>\$ 566,524</u>	<u>\$ 12,127,630</u>

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

Water	\$ 245,327
Wastewater	256,315
Electric	<u>649,914</u>
Total depreciation expense	<u>\$ 1,151,556</u>

D. 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>	<u>Required Future Funding</u>
Wastewater Utility - sewer line extension	\$ 1,922,391	\$ 1,793,887	\$ 128,504	\$ -
Electric Utility - various projects	<u>500,000</u>	<u>391,008</u>	<u>108,992</u>	<u>-</u>
Totals	<u>\$ 2,422,391</u>	<u>\$ 2,184,895</u>	<u>\$ 237,496</u>	<u>\$ -</u>

E. 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:

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

Purpose	Interest Rates	Amount
2005 Waterworks refunding revenue bonds	3% to 6%	\$ 1,795,000
1999 Waterworks improvement revenue bonds	5%	1,650,000
1999 Wastewater refunding revenue bonds	4% to 5%	1,200,000
1996 Wastewater improvement revenue bonds	8%	<u>115,000</u>
Total		<u><u>\$ 4,760,000</u></u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2009	\$ -	\$ 87,983	\$ 165,000	\$ 65,628
2010	305,000	169,069	175,000	56,855
2011	300,000	154,492	180,000	47,440
2012	325,000	138,460	145,000	37,800
2013	335,000	121,628	150,000	31,057
2014-2018	1,860,000	318,771	500,000	48,903
2019	<u>320,000</u>	<u>7,760</u>	-	-
Totals	<u><u>\$ 3,445,000</u></u>	<u><u>\$ 998,163</u></u>	<u><u>\$ 1,315,000</u></u>	<u><u>\$ 287,683</u></u>

2. State Revolving Loans Payable – Water and Wastewater Utilities

The Water and Wastewater Utilities have entered into state revolving loans. Under the terms of the State Revolving Loan Fund, revenue bonds are purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of the water and wastewater plant expansions. Funds are loaned to the Utilities as construction costs are accrued to the maximum allowed. At completion of construction the 2000 Water Utility loan principal balance was \$1,040,000. At December 31, 2008, the outstanding principal balance on the Water Utility loan was \$925,000. The 2006 Wastewater Utility loan established a maximum draw of \$1,425,000. As of December 31, 2008, the loan principal balance was \$1,279,433. Annual debt service requirements for the 2006 Wastewater Utility loan will not be determined until the planned construction project is completed. Annual debt service requirements to maturity for the Water Utility state revolving loan, including interest of \$247,370, are as follows:

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

2009	\$ 13,122
2010	41,028
2011	60,302
2012	54,360
2013	58,418
2014-2018	287,587
2019-2021	<u>637,553</u>
 Total	 <u>\$ 1,152,370</u>

3. Advance Refunding

In prior years, the Water and Wastewater Utilities defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utilities' financial statements. The following outstanding bonds, at December 31, 2008, were considered defeased:

	<u>Amount</u>
Water Utility - 1993 and 1996 Issues	\$ 1,955,000
Wastewater Utilities - 1990 and 1991 Issues	890,000

4. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Revenue bonds payable	\$ 3,735,000	\$ -	\$ 290,000	\$ 3,445,000	\$ -
Less unamortized bond discount	(49,356)	-	(5,100)	(44,256)	-
Less deferred amount on refunding	<u>(152,295)</u>	<u>-</u>	<u>(16,922)</u>	<u>(135,373)</u>	<u>-</u>
 Total revenue bonds payable long-term (net)	 3,533,349	 -	 267,978	 3,265,371	 -
State revolving loan payable	925,000	-	20,000	905,000	-
Compensated absences payable	<u>24,133</u>	<u>3,283</u>	<u>-</u>	<u>27,416</u>	<u>2,742</u>
 Total long-term liabilities, Water Utility	 <u>4,482,482</u>	 <u>3,283</u>	 <u>287,978</u>	 <u>4,197,787</u>	 <u>2,742</u>

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Wastewater Utility:					
Revenue bonds payable	1,470,000	-	155,000	1,315,000	165,000
Less deferred amount on refunding	(96,790)	-	(10,754)	(86,036)	-
 Total revenue bonds payable long-term (net)	 1,373,210	 -	 144,246	 1,228,964	 165,000
State revolving loan payable	1,265,437	14,996	1,000	1,279,433	-
Compensated absences payable	15,453	1,986	-	17,439	1,744
 Total long-term liabilities, Wastewater Utility	 2,654,100	 16,982	 145,246	 2,525,836	 166,744
Electric Utility:					
Compensated absences	29,556	4,926	-	34,482	34,482
Deferred credits	108,521	-	30,903	77,618	30,902
 Total long-term liabilities, Electric Utility	 138,077	 4,926	 30,903	 112,100	 65,384
 Total long-term liabilities	 <u>\$ 7,274,659</u>	 <u>\$ 25,191</u>	 <u>\$ 464,127</u>	 <u>\$ 6,835,723</u>	 <u>\$ 234,870</u>

F. Restricted Assets

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

<u>Restricted Assets Accounts</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Depreciation account	\$ 310,963	\$ 75,743	\$ -
Bond and interest account	20,715	142,253	-
Construction account	3,257	31,565	-
Debt service reserve account	526,608	276,225	-
Reserve accounts	-	-	1,386,239
Storm water account	-	69,898	-
Customer deposits	-	-	226,464
 Total restricted assets	 <u>\$ 861,543</u>	 <u>\$ 595,684</u>	 <u>\$ 1,612,703</u>

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

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

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

Medical Benefits to Employees, Retirees, and Dependents

The Utilities have chosen to establish a risk financing fund for risks associated with health and life insurance claims. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$20,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the Self-Insurance Fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based primarily upon each affected fund's number of employees and are reported as quasi-external interfund transactions.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

However, claim liabilities cannot be reasonably estimated.

B. Postemployment Benefits

In addition to the pension benefits described below, the Utilities provide postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utilities on or after attaining age 55 with at least 20 years of service. Currently, no retirees meet these eligibility requirements. The Utilities and retirees provide 20% and 80%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2008, expenditures of \$0 were recognized for postemployment benefits.

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

C. Rate Structure

1. Water Utility

On May 20, 1996, the Common Council adopted Ordinance No. 780 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on June 28, 2004. The Utility has 3,360 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on January 2, 2007. Separate rate structures exist for the Branchville wastewater line and the Waupaca Foundry. The current rate structures for both the Branchville wastewater line and the Waupaca Foundry were approved by the Common Council on January 2, 2007. The current rate structure for storm water billings was approved by the Common Council on July 2, 2007. The Utility has 3,246 water customers and 3,143 storm water customers.

3. Electric Utility

On February 2, 1998, the Common Council adopted Ordinance No. 801 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on April 7, 2008. The Utility has 4,170 customers.

D. Subsequent Event – Settlement of Lawsuit – Electric Utility

The Tell City Electric Utility was a third party defendant in a lawsuit concerning a hazardous waste site in Vanderburgh County, Indiana. On September 11, 2009, Tell City Electric paid \$75,000 to Evansville Greenway PRP Group as its share of an out-of-court settlement in this case. The Utility expects to receive approximately \$40,000 in insurance reimbursements.

E. Pension Plans

Agent Multiple-Employer Defined Benefit Pension Plans

1. 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 Utility authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 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.

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

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 Utility's annual pension cost and related information, as provided by the actuary, is presented in this note.

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

2. Electric Utility Pension

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

Plan members contributions are required by written plan agreement. Employer's contributions are \$1.14 per hour of annual covered payroll.

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

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

Actuarial Information for the Public Employees' Retirement Plan

	PERF
Annual required contribution	\$ 117,185
Interest on net pension obligation	(6,518)
Adjustment to annual required contribution	7,427
Annual pension cost	118,094
Contributions made	102,543
Increase in net pension obligation	15,551
Net pension obligation, beginning of year	(89,898)
Net pension obligation, end of year	\$ (74,347)
Contribution rates:	
Water and Wastewater Utilities	6.75%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-06	\$ 88,620	98%	\$ (90,748)
	06-30-07	95,547	99%	(89,898)
	06-30-08	118,094	87%	(74,347)

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

Public Employees' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 1,571,917	\$ 1,773,575	\$ (201,658)	89%	\$ 1,416,232	(14%)
07-01-07	1,764,510	2,014,573	(250,063)	88%	1,675,806	(15%)
07-01-08	1,973,849	2,246,061	(272,212)	88%	1,575,055	(17%)

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

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

Penalties and interest totaling \$2,350.89 were paid to the Indiana Department of Revenue on August 21, 2008, for the period ending April 30, 2008.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

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

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We requested that Marcia F. Parker, Electric Utility Office Manager, refund \$2,350.89 to the Tell City Electric Utility. (See Summary, page 25)

COMPENSATION AND BENEFITS (Applies to Electric Utility)

One employee's rate of pay increased during the audit period and the salary resolution was not amended to include this change in compensation. In addition, two part-time employees received compensation which was not included on the salary resolution.

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

FEES (Applies to Electric Utility)

The following unauthorized fee was collected:

The Tell City Electric Utility began charging a fee to Perry-Spencer Communications, Inc., for leasing of fiber optic fibers in July 2008. An ordinance authorizing this fee was not passed by the Common Council until July 6, 2009 (Ordinance No. 1014).

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

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

The contents of this report were discussed on September 29, 2009, with Barbara L. Ewing, Mayor; Jenny S. Richter, Clerk-Treasurer; R. Dale Poole, Superintendent of the Water Utility; Bruce W. Badger, Superintendent of the Wastewater Utility; Marlow J. Smethurst, Superintendent of the Electric Utility; Marcia F. Parker, Electric Utility Office Manager; Joseph Malone, Electric Utility Service Board member; J.B. Land, President of the Electric Utility Service Board; and Bonnie S. Stiff, Water/Wastewater Bookkeeper. The official response has been made a part of this report and may be found on pages 23 and 24.

TELL CITY ELECTRIC DEPARTMENT



October 6, 2009

Official Response
State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

Re: Official Response to audit of Tell City Water, Wastewater and Electric Utilities for 2008 from the Tell City Electric Department.

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

Penalties and interest totaling \$2,350.89 were paid to the Indiana Department of Revenue on August 21, 2008 for the period ending April 30, 2008.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We requested that Mrs. Marcia F. Parker, Electric Utility Office Manager, refund \$2,350.89 to the Tell City Electric Utility Operating Fund.

NOTE: The above is quoted from the "EXIT CONFERENCE DISCUSSION DRAFT ONLY" which was presented to and discussed with the representatives of the Tell City Electric Department on September 29, 2009.

OFFICIAL RESPONSE

Mrs. Marcia F. Parker has been employed with the Tell City Electric Department for 29 years and as Office Manager for 25 years. Currently she is responsible for preparing and filing 224 weekly, monthly, quarterly and annual reports each year with various State and Federal government agencies/departments. During her tenure as Office Manager she has prepared and filed approximately 5,000 of these reports. For all of these reports filed, she has only been cited twice for filing an incorrect report.

601 MAIN STREET • PO BOX 9 • TELL CITY, INDIANA • 47586-0009
PHONE: (812)547-3411 • FAX: (812)547-9557 Email: 'MarlowS@tellcityelectric.com'

This outstanding record must be considered when we decide whether or not Mrs. Parker be required to reimburse the Electric Department for the amount of the penalty and interest. The referenced statement from the "Accounting and Uniform Compliance Guidelines Manual" states that the penalty may be the personal obligation of the responsible official or employee.

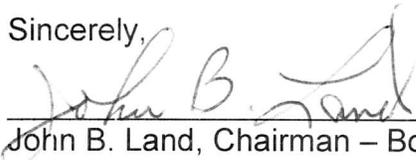
The key word is "may". The use of this word means that all factors should be considered before a penalty is imposed on the employee.

The Board of Directors of the Electric Department has considered all of these factors. They decided that due to Mrs. Parker's outstanding work record, she should not be required to reimburse the Electric Department for the penalty amount. Since it was the Tell City Electric Department that paid the penalty, the Board of Directors believes that their decision should be the final one concerning this matter.

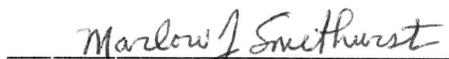
To reflect this decision, the Board approved a "Motion" at the June 23, 2009 Board of Directors meeting. The Motion states in part that "no employee would be required to pay this penalty personally". A copy of the June 23, 2009 meeting "Minutes" is attached for reference.

The Board of Directors of the Tell City Electric Department requests that their decision be recognized; that Mrs. Parker shall not be responsible for reimbursing the Electric Department for any of this penalty amount.

Sincerely,



John B. Land, Chairman – Board of Directors



Marlow J. Smethurst, Superintendent

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF TELL CITY
SUMMARY

	Charges	Credits	Balance Due
Marcia F. Parker, Electric Utility Office Manager: Penalties, Interest, and Other Charges, page 21	\$ 2,350.89	\$ -	\$ 2,350.89

(This page intentionally left blank.)

AFFIDAVIT

STATE OF INDIANA)
)
PERRY COUNTY)

I, Thomas M. Alles, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Tell City Water, Wastewater, and Electric Utilities, for the period from January 1, 2008 to December 31, 2008, is true and correct to the best of my knowledge and belief.

Thomas M. Alles
Field Examiner

Subscribed and sworn to before me this 27th day of October, 2009.

Jane A. Varner
Notary Public

My Commission Expires: May 25, 2015

County of Residence: Perry