

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

EXAMINATION REPORT  
OF  
WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES  
CITY OF JASPER  
DUBOIS COUNTY, INDIANA

January 1, 2010 to December 31, 2010



**FILED**  
10/05/2011



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Juanita S. Boehm	01-01-08 to 12-31-11
Mayor	William J. Schmitt	01-01-08 to 12-31-11
Presiding Officer of the Board of Public Works and Safety	William J. Schmitt	01-01-08 to 12-31-11
Presiding Officer of the Common Council	William J. Schmitt	01-01-08 to 12-31-11
Utilities' General Manager	Gerald W. Hauersperger	01-01-10 to 12-31-11
Water Utility Manager	Michael A. Oeding	01-01-10 to 12-31-11
Wastewater Utility Manager	Greg E. Hollinden	01-01-10 to 12-31-11
Electric Utility Generation Manager	Windell Toby	01-01-10 to 12-31-11
Electric Utility Distribution Manager	Jerald L. Schitter	01-01-10 to 12-31-11
Gas Utility Manager	Michael A. Oeding	01-01-10 to 12-31-11
Utility Controller	Linda K. McGovren	01-01-10 to 12-31-11
Chairman of the Utility Service Board	Wayne Schuetter	01-01-10 to 12-31-11



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE WATER, WASTEWATER, ELECTRIC,  
AND GAS UTILITIES, CITY OF JASPER, DUBOIS COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Water, Wastewater, Electric, and Gas Utilities, departments of the City of Jasper, as of and for the year ended December 31, 2010. 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, Electric, and Gas Utilities, City of Jasper, 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 Jasper as of December 31, 2010, 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, Electric, and Gas Utilities, as of December 31, 2010, 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 Management's Discussion and Analysis, and Schedules of Funding Progress, as listed in the Table of Contents, are not required parts of the basic financial statements but are 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.

STATE BOARD OF ACCOUNTS

August 31, 2011

**Water, Wastewater, Electric and Gas Utilities**  
**City of Jasper, Indiana**  
**Management's Discussion and Analysis**  
**December 31, 2010**

This discussion and analysis highlights the financial activities of the Water, Wastewater, Electric and Gas Utilities ("Utilities"), a department of the City of Jasper ("City"), for the year ended December 31, 2010. We hope you will find this discussion helpful in assessing the Utilities' financial condition and activities, which are funded primarily through user charges and fees for services. Please read it in conjunction with the Utilities' financial statements and accompanying notes, which follow this discussion and analysis.

**Financial Highlights**

- The total net assets of the Utilities at December 31, 2010 were \$72,147,685, an increase of \$3,040,620. Of this amount, \$21,203,775 is unrestricted and may be used to meet the Utilities' ongoing obligations to its customers and users.
- The Utilities' unrestricted cash and cash equivalents increased by \$3,358,346, while restricted cash and cash equivalents increased by \$304,725, for a total cash increase of \$3,663,071.
- The Utilities' total capital assets, net of accumulated depreciation, decreased by \$455,966.
- The Utilities' long-term debt decreased by \$1,117,081. Principal payments of \$1,137,081 were made during 2010, while an interfund loan of \$20,000 was made from the electric utility to the water utility.

**Basic Financial Statements**

The Governmental Accounting Standards Board (GASB) requires the Utilities to present its financial statements in accordance with GASB Statement No. 34.

The basic financial statements for the Utilities consist of the following:

1. Statement of Net Assets;
2. Statement of Revenues, Expenses and Other Changes in Fund Net Assets;
3. Statement of Cash Flows; and
4. Notes to Financial Statements.

The Statement of Net Assets and the Statement of Revenues, Expenses and Other Changes in Fund Net Assets have been prepared using the accrual basis of accounting. This means that revenue is recorded when earned, and expenses are reflected in the statements when they are incurred, regardless of when the related cash is actually received or disbursed. In doing so, revenues and expenses are more closely matched to the accounting period to which they relate.

In addition to the basic financial statements, supplementary information is also included in the accompanying report.

### Condensed Financial Data

The Water, Wastewater and Electric Utilities experienced an increase in operating revenue from that of the previous year, while the Gas Utility suffered a decline in revenue. Interest income was down in all utilities, as interest rates continued to decline.

The table shown below provides a summary of each utility's revenues, expenses and changes in net assets for the year ended December 31, 2010, along with comparative figures from 2009:

City of Jasper, Indiana  
Water, Wastewater, Electric and Gas Utilities  
Statement of Revenues, Expenses, and Other Changes in Fund Net Assets  
(000's omitted)

	Water Utility		Wastewater Utility		Electric Utility		Gas Utility		Total Utilities	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Operating revenues	\$ 3,844	\$ 2,720	\$ 2,981	\$ 2,893	\$ 27,793	\$ 26,683	\$ 5,267	\$ 6,674	\$ 39,885	\$ 38,970
Operating expenses	2,336	2,492	2,862	2,991	25,262	26,315	5,993	6,836	36,453	38,634
Operating income (loss)	1,508	228	119	(98)	2,531	368	(726)	(162)	3,432	336
Non-operating revenues (expenses)	(313)	(345)	9	(31)	104	92	12	(17)	(188)	(301)
Income (loss) before contributions and transfers	1,195	(117)	128	(129)	2,635	460	(714)	(179)	3,244	35
Capital contributions	138	190	49	9	-	18	36	19	223	236
Transfers out	(214)	(182)	-	-	(171)	(145)	(42)	(35)	(427)	(362)
Change in net assets	1,119	(109)	177	(120)	2,464	333	(720)	(195)	3,040	(91)
Total net assets - begin	12,784	12,893	22,993	23,113	28,660	28,327	4,671	4,866	69,108	69,199
Total net assets - end	\$ 13,903	\$ 12,784	\$ 23,170	\$ 22,993	\$ 31,124	\$ 28,660	\$ 3,951	\$ 4,671	\$ 72,148	\$ 69,108

The following table outlines the composition of the Utilities' total net assets as of December 31, 2010, with comparative figures from 2009:

City of Jasper, Indiana  
Water, Wastewater, Electric and Gas Utilities  
Statement of Net Assets  
(000's omitted)

	Water Utility		Wastewater Utility		Electric Utility		Gas Utility		Total Utilities	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2008
Current and other assets	\$ 3,103	\$ 2,677	\$ 3,921	\$ 3,461	\$ 20,198	\$ 17,864	\$ 1,769	\$ 2,513	\$ 28,991	\$ 26,515
Capital assets	20,568	20,657	20,156	20,434	14,916	14,959	4,030	4,076	59,670	60,126
Total Assets	<u>23,671</u>	<u>23,334</u>	<u>24,077</u>	<u>23,895</u>	<u>35,114</u>	<u>32,823</u>	<u>5,799</u>	<u>6,589</u>	<u>88,661</u>	<u>86,641</u>
Long-term liabilities outstanding	9,140	10,067	625	675	-	-	833	973	10,598	11,715
Other liabilities	628	483	282	227	3,989	4,163	1,016	946	5,915	5,819
Total Liabilities	<u>9,768</u>	<u>10,550</u>	<u>907</u>	<u>902</u>	<u>3,989</u>	<u>4,163</u>	<u>1,849</u>	<u>1,919</u>	<u>16,513</u>	<u>17,534</u>
Net assets:										
Invested in capital assets										
net of related debt	11,284	10,774	19,506	19,734	14,916	14,958	3,197	4,076	48,903	49,542
Restricted	1,452	1,183	589	490	-	-	-	-	2,041	1,673
Unrestricted	1,167	827	3,075	2,769	16,209	13,702	753	594	21,204	17,892
Total Net Assets	<u>\$ 13,903</u>	<u>\$ 12,784</u>	<u>\$ 23,170</u>	<u>\$ 22,993</u>	<u>\$ 31,125</u>	<u>\$ 28,660</u>	<u>\$ 3,950</u>	<u>\$ 4,670</u>	<u>\$ 72,148</u>	<u>\$ 69,107</u>

Total net assets increased in the water, wastewater, and electric utilities during 2010 and decreased in the gas utility, due to the following:

- Income or (loss) recorded by each utility (income of \$1,195,000 in water, income of \$127,000 in wastewater, income of \$2,635,000 in electric, and a loss of \$714,000 in gas), and
- Contributions to capital made by customers, developers and others (\$138,000 in water, \$49,000 in wastewater, \$0 in electric, and \$36,000 in gas), and
- Transfers to the City for payments in lieu of taxes (\$214,000 from water, \$0 from wastewater, \$171,000 from electric, and \$42,000 from gas).

More detailed information is presented in the Statement of Net Assets; the Statement of Revenues, Expenses and Other Changes in Fund Net Assets; and the Statement of Cash Flows, which are included in the annual report.

## Fund Analysis

### Water:

In total, the water utility's cash, cash equivalents and investments increased by \$452,000 (20.6%) during the year.

- The operating and maintenance cash increased by \$175,000. Operating revenues increased by \$1,124,000 over the previous year, due to an increase in metered sales of 8.8%. Revised billing rates took effect in December, 2009 which also contributed to the increased revenue.

The Water Utility reduced operating expenses by \$156,000 over the previous year. Expenditures from the fund included repaying the Electric Utility for a \$204,028 operating loan. In addition, transfers were made to other Water Utility funds, including \$1,090,820 transferred to pay principal and interest on outstanding bond issues.

- The depreciation fund increased by \$268,000 during 2010. Major expenditures during 2010 included the purchase of a loader/backhoe and a service truck that is shared with the Gas Utility. The Water Utility also paid its allocated portion of the new business office financial software and related hardware costs from this fund.

The Water Utility's operating income increased by \$1,280,000, while net assets increased \$1,119,000 (8.8%) over the previous year.

The average number of water customers for 2010 was 6,154, an increase of 41 over the previous year's average.

#### *Wastewater:*

In total, the wastewater utility's cash, cash equivalents and investments increased by \$481,000 (15.7%) during 2010.

- The operating and maintenance cash increased by \$260,000. Operating revenue increased by \$88,000 as sales volumes increased 5.0% over the previous year. At the same time, however, the total volume of wastewater treated at the plant declined by 17.3% which led to a \$129,000 reduction in operating expenses. Improvements to the city's infrastructure resulted in less infiltration into the collection system, which reduced treatment costs.
- Depreciation cash increased by \$99,000 in 2010. Some of the larger expenditures made from this fund were for the manhole relining project, a new telehandler to replace a 1993 wheel loader, and a new service truck. In addition, the Wastewater Utility expended depreciation funds for its share of the new financial software and related hardware installed at the business office.
- The plant expansion cash increased by \$41,000 during 2010. Revenues associated with connection fees and interest earnings were credited to this fund.

As noted above, operating revenues in the wastewater utility increased \$88,000, while operating expenses was lower by \$129,000. Operating income for 2010 was \$119,000 compared to an operating loss of \$98,000 in the previous year, for an increase in operating income of 217,000. This led to an increase in net assets of \$177,000 (0.8%).

The average number of wastewater customers for 2010 was 6,465, an increase of 44 over the previous year's average.

#### *Electric:*

Effective January 1, 2008, the City entered into a long-term contract with Indiana Municipal Power Agency ("IMPA") to become the City's electric power supplier. The City entered into a separate agreement with IMPA to schedule and dispatch the output of the City's electric power plant, also effective January 1, 2008. However, during much of 2009 and 2010 the City's electric power plant was on standby status to assist in meeting peak demands for electricity. Employees were temporarily reassigned to other utility departments, and affected employees' work schedules were reduced through much of 2010.

Total cash, cash equivalents and investments for the electric utility increased by \$3,164,000 (23.4%).

- Cash in the electric operating and maintenance fund increased by \$3,063,000. Operating revenue increased by \$1,109,000, while operating expenses declined by \$1,053,000. Transfers to other funds, such as to the depreciation fund, impacting the balance in the operating and maintenance fund.
- The electric utility's depreciation cash increased by \$73,000. Most of the expenditures from this fund were for additions and improvements to the electric distribution system, a 2010 International digger derrick, a service truck, a brush chipper, legal and engineering studies related to the generation plant, and a portion of the business office's new financial software and related hardware.

The average number of electric customers for 2010 was 6,996, an increase of 24 over the previous year's average.

*Gas:*

The gas utility's total cash, cash equivalents and investments decreased by \$434,000, or 49.0%.

- The gas utility's operating and maintenance cash decreased by \$140,000. Operating revenues declined by \$1,407,000, while operating expenses were lower by \$843,000. During the year, funds were transferred from the depreciation cash fund to the operation and maintenance fund to help offset the revenue shortfall. After a study concluded that the current rate structure was insufficient in light of declining consumption levels, the City hired an outside consultant to perform a gas cost of service study. The consultant recommended a new rate design that will adequately recoup the Gas Utility's fixed costs. After much study and review, the City approved its first rate increase since 1995, along with a revised rate structure. The new rate schedules will become effective with utility bills due on and after October 10, 2011.
- The gas utility's depreciation cash decreased by \$306,000. A large portion of the decline was due to making transfers to the operating and maintenance fund, as noted above. Capital expenditures during 2010 included the purchase of tapping equipment and a service truck that is being shared with the Water Utility. The Gas Utility also expended funds for its allocation of the business office's new financial software and hardware costs.

Net assets declined by \$720,000 as a result of operating losses during the year.

The average number of gas customers for 2010 was 4,148, an increase of 10 over the previous year's average.

Overall, total operating revenue for the Utilities increased \$915,000 (2.3%) from the previous year, while total operating expenses declined by \$2,181,000 (5.6%). Total operating income was \$3,432,000, or \$3,096,000 more than the previous year.

Total net assets of the Utilities increased by \$3,040,000 (4.4%), to \$72,148,000.

## Capital Asset and Long-Term Debt Activity

### Capital Asset Activity:

As of December 31, 2010, the Utilities had \$94,391,000 invested in capital assets, such as land, buildings, improvements, equipment, and electric, water, sewer, and gas lines. Total accumulated depreciation at the end of 2010 was \$34,721,000, resulting in net capital assets of \$59,670,000. The total capital assets of the Utilities are summarized by category as follows:

	(000's omitted)	
	<u>2010</u>	<u>2009</u>
Land	635	635
Buildings	21,310	21,310
Improvements	52,278	51,761
Equipment	19,506	19,181
Construction in Progress	662	156
Total	<u>94,391</u>	<u>93,043</u>
Less: Accumulated depreciation	<u>(34,721)</u>	<u>(32,918)</u>
Total capital assets, net	<u><u>59,670</u></u>	<u><u>60,125</u></u>

The business-type activities recorded approximately \$606,000 for additions and on-going improvements to their respective distribution systems, with \$223,000 of this amount being contributed by developers and customers.

Other major capital additions for the utilities include the following:

- \$224,000 for a digger derrick for the electric utility;
- \$113,000 for one utility service vehicle for each of the four utilities;
- \$80,000 for a loader/backhoe used in the water utility;
- \$62,000 for a telehandler in the wastewater utility;
- \$47,000 for a portable generator for sewer lift stations; and
- \$38,000 for a brush chipper for the electric utility.

During 2010, the utilities also recorded \$115,000 in costs related to the new business office software and associated hardware, \$206,000 for engineering and miscellaneous costs related to the Beaver Creek Lake Dam project, \$100,000 for engineering studies and legal fees associated with the biomass study of the City's electric generating plant, and \$72,000 in sewer relining costs. These amounts are reported in the financial statements as construction in progress.

See Note I.D.5 and Note II.C. in the attached financial statements for additional information.

*Long-term Debt Activity:*

As of December 31, 2010 and 2009 the Utilities' outstanding debt consisted of the following:

	<u>2010</u>	<u>2009</u>
• Water Utility	\$ 9,140,000	\$10,067,028
• Wastewater Utility	\$ 650,000	\$ 700,000
• Gas Utility	\$ 832,796	\$ 972,849

During the year, the Utilities made principal payments of \$1,137,081 and interest payments of \$374,798. In addition, the electric utility made an interfund loan to the water utility of \$20,000 in 2010.

See Notes I.D.4, I.D.7, II.B., II.E. and II.F. in the attached financial statements for additional information.

**Other Currently Known Facts**

- Interest rates continue to be at record lows, reducing the amount of interest income the City may earn on its short-term cash investments.
- On October 25, 2010 the Mayor and Common Council authorized disposal of the City's electric generating plant ("power plant") using the alternate lease procedure under Indiana Code 36-1-11-12. Accordingly, on October 27, 2010 the Utility Service Board requested proposals for alternate solutions for utilization of the plant using the alternate lease procedure. In December, 2010 the Board and Council chose the proposal submitted by Twisted Oak Corporation for further research and consideration. Under this proposal, Twisted Oak Corporation would operate the power plant through an Indiana legal liability company known as Jasper Clean Energy LLC, and would convert the existing coal-fired boiler to a biomass boiler burning a renewable energy crop, miscanthus grass, along with adding a natural gas turbine. Under the terms of the proposed lease agreement, the City would receive annual rental payments, in addition to royalty payments based on the quantity of electric power produced from the boiler during the operational phase of the lease. These revenues would flow to the City's electric utility. After much due diligence regarding the economic analysis and potential health impacts of the proposed lease agreement, the Board adopted Resolution No. USB 2011-7 on August 5, 2011. This resolution approved a lease agreement between the City and Jasper Clean Energy LLC for the Jasper power plant, and agreed to forward the lease to the Jasper Common Council for approval, as required by Indiana Code 36-1-11-3(c)(2) and Indiana Code 36-1-11-10(f). At the same meeting, the Common Council of the City of Jasper adopted Resolution No. 2011-10, giving its approval of said lease agreement.
- During 2010, the City was awarded two grants that will assist the Water Utility in funding improvements to the Beaver Creek Lake Dam. The U.S. Department of Commerce Economic Development Administration has granted \$2,228,640 in federal funds, while the Indiana Office of Community and Rural Affairs granted an award of \$760,360. On August 15, 2011 the Utility Service Board opened and took under advisement two bids for the construction portion of the rehabilitation project. The bids were in the amounts of \$3,272,162 and \$3,991,507. The Water Utility's share of the project cost will come from

either existing Water Utility funds, or from the proceeds of a loan from the Electric Utility. The project, which is expected to be completed during 2012, is designed to provide protection from future flooding as mandated by the Indiana Department of Environmental Management, as well as to promote economic development within the City and surrounding area.

- On June 3, 2011 the City of Jasper was awarded an Indiana Office of Community and Rural Affairs grant of \$535,565 to help the Wastewater Utility fund sanitary sewer improvements in the City's north side. Bids for the project have not yet been advertised, but preliminary cost figures estimate that the project will cost approximately \$786,565. Work on the project must be completed within eighteen months of the grant's award date.
- The Utility Business Office implemented a new accounting software package in the fourth quarter of 2010, followed by the billing and customer service modules in the second quarter of 2011. Other modules to complete the software conversion are scheduled to be installed later this year.
- On July 20, 2011 the Common Council approved Ordinance 2011-7, revising the rates and charges for the sale of gas by the Jasper Municipal Gas Utility. The revised rates and charges are effective for billings due for payment on and after October 10, 2011.
- On August 17, 2011 the Common Council approved a five-year loan in the amount of \$720,354 from the Electric Utility to the Gas Utility. This interfund loan replaces a similar loan made in October, 2006 and which matures in September, 2011. The purpose of the loan was to finance the Gas Utility's purchase of pipeline rights used in transporting gas to the City.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show accountability for the money the Utilities receive. If you have questions about this report or need additional financial information, please contact the City's Clerk-Treasurer Office at 610 Main Street, Jasper, Indiana. Further information about the City and its Utility Departments can be found on the City of Jasper website, located at [www.jasperindiana.gov](http://www.jasperindiana.gov).

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES  
CITY OF JASPER  
STATEMENT OF NET ASSETS  
December 31, 2010

<u>Assets</u>	2010			
	Water	Wastewater	Electric	Gas
<b>Current assets:</b>				
Cash and cash equivalents	\$ 573,051	\$ 838,560	\$ 11,512,510	\$ 11,941
Accounts receivable (net of allowance)	213,343	163,263	1,269,137	225,938
Accounts receivable - other	1,968	2,717	6,442	39,252
Interfund receivables:				
Interfund loans	-	-	832,796	-
Interfund services provided and used	4,025	-	-	14
Inventories	180,211	133,016	1,228,087	206,775
Prepaid items	56,301	71,931	169,380	14,074
<b>Total current assets</b>	<b>1,028,899</b>	<b>1,209,487</b>	<b>15,018,352</b>	<b>497,994</b>
<b>Noncurrent assets:</b>				
Restricted cash, cash equivalents and investments:				
Debt service reserve	1,096,375	74,062	-	-
Depreciation	355,175	514,883	3,507,908	27,677
Computer	35,598	34,342	30,732	38,070
In lieu of taxes reserve	320,392	-	251,854	66,423
Self-insurance liability reserve	200,000	261,750	1,027,512	200,000
Industrial pretreatment	-	173,206	-	-
Plant expansion	-	1,186,243	-	-
Interceptor improvement	-	357,888	-	-
Customer deposits	66,920	108,589	361,353	106,941
<b>Total restricted assets</b>	<b>2,074,460</b>	<b>2,710,963</b>	<b>5,179,359</b>	<b>439,111</b>
Intangible assets - pipeline rights	-	-	-	832,796
Capital assets:				
Land, improvements to land and construction in progress	534,008	317,494	397,710	47,813
Other capital assets (net of accumulated depreciation)	20,033,684	19,838,693	14,518,230	3,981,897
<b>Total capital assets</b>	<b>20,567,692</b>	<b>20,156,187</b>	<b>14,915,940</b>	<b>4,029,710</b>
<b>Total noncurrent assets</b>	<b>22,642,152</b>	<b>22,867,150</b>	<b>20,095,299</b>	<b>5,301,617</b>
<b>Total assets</b>	<b>23,671,051</b>	<b>24,076,637</b>	<b>35,113,651</b>	<b>5,799,611</b>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Contracts payable	143,317	-	-	-
Accounts payable	398,490	144,534	3,562,114	905,981
Interfund payables:				
Interfund services provided and used	14	4,025	-	-
Taxes payable	18,991	4	65,837	1,159
Current liabilities payable from restricted assets:				
Customer deposits	66,920	108,589	361,353	106,941
Performance deposits	-	-	-	2,200
Loans payable	-	25,000	-	-
<b>Total current liabilities</b>	<b>627,732</b>	<b>282,152</b>	<b>3,989,304</b>	<b>1,016,281</b>
<b>Noncurrent liabilities:</b>				
Interfund loan	-	-	-	832,796
Loans payable	9,140,000	625,000	-	-
<b>Total noncurrent liabilities</b>	<b>9,140,000</b>	<b>625,000</b>	<b>-</b>	<b>832,796</b>
<b>Total liabilities</b>	<b>9,767,732</b>	<b>907,152</b>	<b>3,989,304</b>	<b>1,849,077</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 11,284,375	\$ 19,506,186	\$ 14,915,940	\$ 3,196,914
Restricted for debt service	1,451,550	588,945	-	-
Unrestricted	1,167,394	3,074,354	16,208,407	753,620
<b>Total net assets</b>	<b>\$ 13,903,319</b>	<b>\$ 23,169,485</b>	<b>\$ 31,124,347</b>	<b>\$ 3,950,534</b>

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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES  
CITY OF JASPER  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS  
As of and for the Year Ended December 31, 2010

	2010			
	Water	Wastewater	Electric	Gas
Operating revenues:				
Metered water revenue:				
Residential	\$ 1,997,534	\$ -	\$ -	\$ -
Residential sales	-	-	6,320,544	1,590,529
Commercial and industrial sales	1,582,440	-	21,196,987	3,633,031
Public street and highway lighting	-	-	180,554	-
Fire protection revenue	184,859	-	-	-
Penalties	10,942	25,787	47,169	9,026
Measured revenue:				
Residential	-	1,691,767	-	-
Commercial	-	1,082,621	-	-
Other	68,085	180,944	47,341	34,722
Total operating revenues	<u>3,843,860</u>	<u>2,981,119</u>	<u>27,792,595</u>	<u>5,267,308</u>
Operating expenses:				
Source of supply and expense - operations and maintenance	105,614	-	-	-
Water treatment expense - operations and maintenance	430,345	-	-	-
Production and supply	-	-	-	5,055,662
Power production	-	-	21,506,848	-
Transmission and distribution	440,234	-	989,414	303,453
Collection system - operations and maintenance	-	265,093	-	-
Pumping - operations and maintenance	-	202,029	-	-
Treatment and disposal - operations and maintenance	-	661,187	-	-
Customer accounts	27,621	30,182	36,904	15,160
Administration and general	861,306	1,095,907	1,873,603	487,885
Depreciation and amortization	470,717	607,770	855,073	131,146
Total operating expenses	<u>2,335,837</u>	<u>2,862,168</u>	<u>25,261,842</u>	<u>5,993,306</u>
Operating income (loss)	<u>1,508,023</u>	<u>118,951</u>	<u>2,530,753</u>	<u>(725,998)</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	6,765	9,021	38,809	2,611
Miscellaneous revenue	28,866	23,746	65,501	11,780
Interest expense	(348,294)	(24,063)	-	(2,441)
Total nonoperating revenues (expenses)	<u>(312,663)</u>	<u>8,704</u>	<u>104,311</u>	<u>11,950</u>
Income (loss) before contributions and transfers	1,195,360	127,655	2,635,064	(714,048)
Capital contributions	138,356	49,230	-	35,720
Transfers out	(214,212)	-	(170,687)	(41,818)
Change in net assets	1,119,504	176,885	2,464,377	(720,146)
Total net assets - beginning	<u>12,783,815</u>	<u>22,992,600</u>	<u>28,659,970</u>	<u>4,670,680</u>
Total net assets - ending	<u>\$ 13,903,319</u>	<u>\$ 23,169,485</u>	<u>\$ 31,124,347</u>	<u>\$ 3,950,534</u>

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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES  
CITY OF JASPER  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2010

	2010			
	Water	Wastewater	Electric	Gas
<b>Cash flows from operating activities:</b>				
Receipts from customers and users	\$ 3,845,052	\$ 3,000,566	\$ 28,187,378	\$ 5,415,529
Payments to suppliers and contractors	(878,820)	(650,645)	(23,247,568)	(5,252,013)
Payments to employees	(837,829)	(1,526,246)	(1,220,965)	(378,820)
Interfund services provided (used)	21,524	(21,553)	(347)	376
Other receipts	27,966	8,456	55,518	8,989
<b>Net cash provided (used) by operating activities</b>	<b>2,177,893</b>	<b>810,578</b>	<b>3,774,016</b>	<b>(205,939)</b>
<b>Cash flows from noncapital financing activities:</b>				
Transfer to other funds	(214,212)	-	(170,687)	(41,818)
Interfund loans	20,000	-	(20,000)	-
Interfund loans repayments	(204,028)	-	344,082	(140,054)
Interest on interfund loans	(474)	-	2,915	(2,441)
<b>Net cash used by noncapital financing activities</b>	<b>(398,714)</b>	<b>-</b>	<b>156,310</b>	<b>(184,313)</b>
<b>Cash flows from capital and related financing activities:</b>				
Capital contributions	138,356	49,230	-	35,720
Proceeds from the sale of capital assets	110,399	35,105	25,939	18,549
Acquisition and construction of capital assets	(491,494)	(349,142)	(828,512)	(100,319)
Principal paid on capital debt	(743,000)	(50,000)	-	-
Interest paid on capital debt	(347,820)	(24,063)	-	-
<b>Net cash used by capital and related financing activities</b>	<b>(1,333,559)</b>	<b>(338,870)</b>	<b>(802,573)</b>	<b>(46,050)</b>
<b>Cash flows from investing activities:</b>				
Interest received	6,765	9,021	35,894	2,611
<b>Net increase in cash and cash equivalents</b>	<b>452,385</b>	<b>480,729</b>	<b>3,163,647</b>	<b>(433,691)</b>
Cash and cash equivalents, January 1	2,195,126	3,068,794	13,528,222	884,743
Cash and cash equivalents, December 31	<u>\$ 2,647,511</u>	<u>\$ 3,549,523</u>	<u>\$ 16,691,869</u>	<u>\$ 451,052</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 1,508,023	\$ 118,951	\$ 2,530,753	\$ (725,998)
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>				
Depreciation expense	470,717	607,770	855,073	131,146
Amortization expense (see Note II.B.)	-	-	-	140,054
Bad debt expense	2,288	(151)	7,529	(2,378)
Nonoperating revenue and expense	27,966	8,456	55,518	8,989
(Increase) decrease in assets:				
Accounts receivable	1,192	19,447	394,783	148,221
Interfund services provided or used	22,129	688	341	463
Inventories	740	189	79,962	22,756
Prepaid items	(177)	56	23,707	623
Increase (decrease) in liabilities:				
Contracts payable	143,317	-	-	-
Accounts payable	(10,985)	66,885	(200,449)	67,673
Interfund payables	(605)	(22,241)	(688)	(87)
Taxes payable	5,972	4	(6,078)	(4,020)
Performance deposits	-	-	-	100
Customer deposits	7,316	10,524	33,565	6,519
<b>Total adjustments</b>	<b>669,870</b>	<b>691,627</b>	<b>1,243,263</b>	<b>520,059</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 2,177,893</b>	<b>\$ 810,578</b>	<b>\$ 3,774,016</b>	<b>\$ (205,939)</b>

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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES  
CITY OF JASPER  
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 Jasper (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 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 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance for their enterprise funds.

Enterprise 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.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

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, ELECTRIC, AND GAS UTILITIES  
CITY OF JASPER  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 average cost method. Inventories of enterprise 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 because their use is limited by applicable bond covenants.

The financial statements report \$1,451,550 and \$588,945 of restricted net assets for the Water and Wastewater Utilities, respectively, of which all is restricted by enabling legislation.

4. Intangible Assets

Intangible assets, which include pipeline rights, are reported in the financial statements. Intangible assets are reported at the actual cost. Intangible assets are amortized monthly at an amount equal to the principal paid for the interfund loan relating to the purchase of the intangible assets. The amortization expense is reported as part of the production and supply expense instead of amortization expense because the rights to use the pipeline are an expense of purchasing the gas.

5. 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:

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 1,000	Straight-line	67 years
Improvement other than buildings	1,000	Straight-line	20 to 99 years
Machinery and Equipment	1,000	Straight-line	5 to 30 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 Water, Wastewater, Electric, and Gas Utilities during the current year was \$348,294, \$24,063, \$0, and \$2,441, respectively. None of the interest expense was included as part of the cost of capital assets under construction.

6. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 10 days per year. Unused sick leave may be accumulated to a maximum of 120 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utility employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick, and personal leave.

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

II. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk; however, the utilities are not exposed to custodial credit risk at this time. At December 31, 2010, the bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

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

B. Intangible Assets – Pipeline Rights

On August 25, 2006, the City, through the Utility Service Board, negotiated an agreement with NGM, LLC for the assignment of NGM's ETS Service Agreement and Gathering Agreement with ANR Pipeline Company to the City of Jasper for the City's gas transportation, effective September 1, 2006 to May 31, 2021. The Gas Utility purchased these agreements for pipeline rights at a cost of \$1,359,375. The intangible assets – pipeline rights were amortized based on the principal payments made on the corresponding interfund loan of \$140,054. As of December 31, 2010, the value of the intangible assets – pipeline rights was \$832,796.

C. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 292,054	\$ -	\$ -	\$ 292,054
Construction in progress	<u>6,355</u>	<u>244,372</u>	<u>8,773</u>	<u>241,954</u>
Total capital assets, not being depreciated	<u>298,409</u>	<u>244,372</u>	<u>8,773</u>	<u>534,008</u>
Capital assets, being depreciated:				
Buildings	10,473,758	-	-	10,473,758
Improvements other than buildings	11,024,970	115,210	62,788	11,077,392
Machinery and equipment	<u>4,224,873</u>	<u>140,685</u>	<u>113,680</u>	<u>4,251,878</u>
Totals	<u>25,723,601</u>	<u>255,895</u>	<u>176,468</u>	<u>25,803,028</u>
Less accumulated depreciation for:				
Buildings	1,265,913	158,469	-	1,424,382
Improvements other than buildings	3,078,240	205,685	20,283	3,263,642
Machinery and equipment	<u>1,021,443</u>	<u>106,563</u>	<u>46,686</u>	<u>1,081,320</u>
Totals	<u>5,365,596</u>	<u>470,717</u>	<u>66,969</u>	<u>5,769,344</u>
Total capital assets, being depreciated, net	<u>20,358,005</u>	<u>(214,822)</u>	<u>109,499</u>	<u>20,033,684</u>
Total capital assets, net	<u>\$ 20,656,414</u>	<u>\$ 29,550</u>	<u>\$ 118,272</u>	<u>\$ 20,567,692</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 195,639	\$ -	\$ -	\$ 195,639
Construction in progress	11,403	154,530	44,078	121,855
	<u>207,042</u>	<u>154,530</u>	<u>44,078</u>	<u>317,494</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	6,902,921	-	-	6,902,921
Improvements other than buildings	16,705,293	92,556	-	16,797,849
Machinery and equipment	7,272,988	146,134	77,462	7,341,660
	<u>30,881,202</u>	<u>238,690</u>	<u>77,462</u>	<u>31,042,430</u>
Totals				
Less accumulated depreciation for:				
Buildings	1,751,307	92,166	-	1,843,473
Improvements other than buildings	4,024,998	309,905	-	4,334,903
Machinery and equipment	4,877,611	206,735	58,985	5,025,361
	<u>10,653,916</u>	<u>608,806</u>	<u>58,985</u>	<u>11,203,737</u>
Totals				
Total capital assets, being depreciated, net				
	<u>20,227,286</u>	<u>(370,116)</u>	<u>18,477</u>	<u>19,838,693</u>
Total capital assets, net				
	<u>\$ 20,434,328</u>	<u>\$ (215,586)</u>	<u>\$ 62,555</u>	<u>\$ 20,156,187</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 130,850	\$ -	\$ -	\$ 130,850
Construction in progress	133,685	254,814	121,639	266,860
	<u>264,535</u>	<u>254,814</u>	<u>121,639</u>	<u>397,710</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	3,857,153	-	-	3,857,153
Improvements other than buildings	18,643,571	363,301	6,461	19,000,411
Machinery and equipment	6,951,250	332,036	116,832	7,166,454
	<u>29,451,974</u>	<u>695,337</u>	<u>123,293</u>	<u>30,024,018</u>
Totals				
Less accumulated depreciation for:				
Buildings	2,195,895	60,446	-	2,256,341
Improvements other than buildings	8,836,230	510,001	1,896	9,344,335
Machinery and equipment	3,725,927	288,001	108,816	3,905,112
	<u>14,758,052</u>	<u>858,448</u>	<u>110,712</u>	<u>15,505,788</u>
Totals				
Total capital assets, being depreciated, net	<u>14,693,922</u>	<u>(163,111)</u>	<u>12,581</u>	<u>14,518,230</u>
Total capital assets, net	<u>\$ 14,958,457</u>	<u>\$ 91,703</u>	<u>\$ 134,220</u>	<u>\$ 14,915,940</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Gas Utility:				
Capital assets, not being depreciated:				
Land	\$ 16,904	\$ -	\$ -	\$ 16,904
Construction in progress	4,400	53,043	26,534	30,909
Total capital assets, not being depreciated	21,304	53,043	26,534	47,813
Capital assets, being depreciated:				
Buildings	76,463	-	-	76,463
Improvements other than buildings	5,387,197	44,023	29,619	5,401,601
Machinery and equipment	732,198	29,787	15,660	746,325
Totals	6,195,858	73,810	45,279	6,224,389
Less accumulated depreciation for:				
Buildings	5,618	1,159	-	6,777
Improvements other than buildings	1,730,601	101,151	13,994	1,817,758
Machinery and equipment	404,647	28,836	15,526	417,957
Totals	2,140,866	131,146	29,520	2,242,492
Total capital assets, being depreciated, net	4,054,992	(57,336)	15,759	3,981,897
Total capital assets, net	\$ 4,076,296	\$ (4,293)	\$ 42,293	\$ 4,029,710

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

Water	\$ 470,717
Wastewater	607,770
Electric	855,073
Gas	131,146
Total depreciation expense	\$ 2,064,706

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

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2010	Committed	Required Future Funding
Water Utility - Business Ofc. Computer System	\$ 36,359	\$ 36,359	\$ -	\$ -
Water Utility - Beaver Creek Dam Upgrade	205,595	205,595	-	-
Wastewater Utility - Bus. Ofc. Computer Sys.	37,757	37,757	-	-
Wastewater Utility - Force Main Upgrade	12,473	12,473	-	-
Sewer Relining	71,625	71,625	-	-
Electric Utility - Business Ofc. Computer System	40,554	40,554	-	-
Electric Utility - Power Plant Biomass Study	226,306	226,306	-	-
Gas Utility - Business Ofc. Computer System	25,171	25,171	-	-
Gas Utility - Windsong I Gas Extension	5,738	5,738	-	-
Totals	<u>\$ 661,578</u>	<u>\$ 661,578</u>	<u>\$ -</u>	<u>\$ -</u>

E. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2010, is as follows:

Due To	Due From			Totals
	Water Utility	Wastewater Utility	Gas Utility	
Water Utility	\$ -	\$ 4,025	\$ -	\$ 4,025
Electric Utility	-	-	832,796	832,796
Gas Utility	14	-	-	14
Totals	<u>\$ 14</u>	<u>\$ 4,025</u>	<u>\$ 832,796</u>	<u>\$ 836,835</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.

An interfund loan from the Electric Utility to the Gas Utility of \$1,359,375 was made in 2006 to allow the Gas Utility to purchase the contracts with ANR Pipeline Company for pipeline rights to be used to transport gas. The term of the loan is five years, with a balloon payment due in September, 2011; however, the Common Council approved a similar loan, also for five years, on August 17, 2011 for the remaining principal due on the 2006 loan. The first monthly payment was made in October, 2006 with revenue generated through a debt tracker fee associated with the existing gas tracker system. The interest rate for the loan is based on the current month's investment rate earned by the Utilities. Principal and interest payments made in 2010 were \$140,054 and \$2,441, respectively. The interfund loan payable as of December 31, 2010, was \$832,796. This is classified as a noncurrent liability.

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

An interfund loan from the Electric Utility to the Water Utility was approved in 2009 in an amount not to exceed \$300,000. The purpose of the loan was to provide adequate fund balances in the Water Utility, until the new water rates produced sufficient revenues to maintain adequate cash balances. The interest rate for the loan was based on the current month's investment rate earned by the Utilities. At the beginning of 2010, the Electric Utility had loaned \$184,028 to the Water Utility, with an additional \$20,000 being advanced during 2010, bringing the total amount of the loan to \$204,028. The loan was repaid in its entirety in 2010, with principal and interest payments totaling \$204,028 and \$497, respectively.

2. Interfund Transfers

Interfund transfers at December 31, 2010, were as follows:

Transfer from	Transfer to General Fund
Water Utility	\$ 214,212
Electric Utility	\$ 170,687
Gas Utility	\$ 41,818
Total	\$ 426,717

The Utility typically uses transfers to fund ongoing operating subsidies.

F. Long-Term Liabilities

1. State Revolving Loan Fund

Wastewater Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of sewer lines to Whoderville/Eastown and Southwest area of the City. Funds were loaned to the City as construction costs accrued to the maximum allowed. The 2001 loan established a maximum draw of \$1,010,000. At the completion of construction, the outstanding principal balance of \$1,010,000 was amortized over a period of 20 years. Annual debt service requirements to maturity for this loan, including interest of \$138,600, are as follows:

2011	\$ 36,375
2012	71,437
2013	69,688
2014	72,850
2015	70,925
2016-2020	358,650
2021-2022	<u>108,675</u>
Total	<u>\$ 788,600</u>

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

Water Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of a water treatment plant and transmission mains. Funds were loaned to the City as construction costs accrued to the maximum allowed. The 1999 loan established a maximum draw of \$15,000,000. At the completion of construction, the outstanding principal balance of \$15,000,000 was amortized over a period of twenty years. Annual debt service requirements to maturity for this loan, including interest of \$ 1,776,775, are as follows:

2011	\$	153,650
2012		1,044,175
2013		1,042,487
2014		1,039,925
2015		1,041,400
2016-2020		5,197,288
2021		<u>1,037,850</u>
 Total		 <u>\$ 10,556,775</u>

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance improvements to the south water tower and clearwell conversion. Funds were loaned to the City as construction costs accrued to the maximum allowed. The 2003 loan established a maximum draw of \$600,000. At the completion of construction, the outstanding principal balance of \$530,763 was amortized over a period of twenty years. Annual debt service requirements to maturity for this loan, including interest of \$ 99,080, are as follows:

2011	\$	7,200
2012		37,920
2013		38,920
2014		39,840
2015		38,720
2016-2020		186,120
2021-2023		<u>110,360</u>
 Total		 <u>\$ 459,080</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, 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:					
Loans payable	\$ 9,883,000	\$ -	\$ 743,000	\$ 9,140,000	\$ -
Wastewater Utility:					
Loans payable	700,000	-	50,000	650,000	25,000

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

G. Restricted Assets

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

Water Utility:	
Debt service reserve account	\$ 1,096,375
Depreciation account	355,175
Computer account	35,598
Customer deposit account	66,920
In lieu of taxes reserve account	320,392
Self-insurance liability reserve account	<u>200,000</u>
Total restricted assets	\$ 2,074,460
Wastewater Utility:	
Debt service reserve account	\$ 74,062
Depreciation account	514,883
Computer account	34,342
Customer deposit account	108,589
Self-insurance liability reserve account	261,750
Industrial pretreatment account	173,206
Plant expansion account	1,186,243
Interceptor improvement account	<u>357,888</u>
Total restricted assets	\$ 2,710,963
Electric Utility:	
Depreciation account	\$ 3,507,908
Computer account	30,732
Customer deposit account	361,353
In lieu of taxes reserve account	251,854
Self-insurance liability reserve account	<u>1,027,512</u>
Total restricted assets	\$ 5,179,359
Gas Utility:	
Depreciation account	\$ 27,677
Computer account	38,070
Customer deposit account	106,941
In lieu of taxes reserve account	66,423
Self-insurance liability reserve account	<u>200,000</u>
Total restricted assets	\$ 439,111

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES  
CITY OF JASPER  
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 medical benefits to employees, retirees, and dependents. 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 \$75,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon the percentage of each fund's current year number of employees as it relates to the total number of full-time employees, and are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

B. Contingent Liabilities

USEPA Claim

The United States Environmental Protection Agency (USEPA) has filed a claim against the City of Jasper for activities of PCB Treatment, Inc., during or about the 1980s involving the improper and illegal disposal of PCB materials. The USEPA has alleged that the City of Jasper was a potentially responsible party ("PRP") because of PCB contaminated materials allegedly contributed by the City of Jasper, through the Jasper Municipal Utilities, to the sites. The Jasper Municipal Utilities had, in fact, contracted with PCB Treatment, Inc., during or about the 1980's to properly and legally dispose of Jasper's PCB contaminated materials. There are approximately 1,500 PRP's in addition to the City of Jasper.

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

The City of Jasper received a letter from the USEPA in June 2001 advising them that they could enter into a de minimis settlement in this matter. The City had two choices of a premium: I) a 100% premium with no cost reopener and II) a 50% premium with a reopener if there are cost overruns that exceed the estimated removal action costs of \$34,752,000 and reach \$60,000,000. Option I would cost the City \$85,707 and option II would cost \$64,280. The Utility Service Board entered into an Administrative Order of Consent, on July 16, 2001, and chose Option II. The amount of \$64,280 was paid on October 19, 2001, to the USEPA's special account. Because the City chose Option II, the reopener could be triggered at a later date and more money could be owed. If the reopener is triggered, the parties who selected Option II will owe their individual percentage share of the allocated weight, multiplied by the amount of removal costs incurred that exceed the \$60,000,000. The City of Jasper's individual percentage share is .12%.

C. Subsequent Events

Beaver Creek Lake Dam Project

Two bids have been received for the construction portion of the Water Utility's Beaver Creek Lake Dam rehabilitation project. The bids, in the amount of \$3,272,162 and \$3,991,507, were taken under advisement by the Utility Service Board on August 15, 2011. Much of the funding for the project will be provided by two grants that were awarded to the City during 2010. The Economic Development Administration has granted \$2,228,640 in federal funds, while the Indiana Office of Community and Rural Affairs grant award is \$760,360. Funds for the balance of the project, which is expected to be completed in 2012, will come from local sources.

North Side Sewer Improvement Project

On June 3, 2011 the City of Jasper was awarded an Indiana Office of Community and Rural Affairs grant of \$535,565 to help the Wastewater Utility fund sewer improvements in the City's north side. Bids for the project have not yet been advertised, but preliminary cost figures estimate the project will cost approximately \$786,565. Work on the project must be completed within eighteen months of the award date.

Electric Generating Plant

On October 25, 2010 the Mayor and Common Council authorized disposal of the City's electric generating plant ("power plant") using the alternate lease procedure under Indiana Code 36-1-11-12. Accordingly, on October 27, 2010 the Utility Service Board requested proposals for alternate solutions for utilization of the plant using the alternate lease procedure.

In December, 2010 the Board and Council chose the proposal submitted by Twisted Oak Corporation for further research and consideration. Under this proposal, Twisted Oak Corporation would operate the power plant through an Indiana legal liability company known as Jasper Clean Energy LLC, and would convert the existing coal-fired boiler to a biomass boiler burning a renewable energy crop, miscanthus grass, along with adding a natural gas turbine. Under the terms of the proposed lease agreement, the City would receive annual rental payments, in addition to royalty payments based on the quantity of electric power produced from the boiler during the operational phase of the lease. These revenues would flow to the City's electric utility.

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

After much due diligence regarding the economic analysis and potential health impacts of the proposed lease agreement, the Board adopted Resolution No. USB 2011-7 on August 5, 2011. This resolution approved a lease agreement between the City and Jasper Clean Energy LLC for the Jasper power plant, and agreed to forward the lease to the Jasper Common Council for approval, as required by Indiana Code 36-1-11-3(c)(2) and Indiana Code 36-1-11-10(f). At the same meeting, the Common Council of the City of Jasper adopted Resolution No. 2011-10, giving its approval of said lease agreement.

D. Rate Structure

1. Water Utility

On September 24, 1984, the City Council adopted Ordinance 1156 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on October 21, 2009. The Utility has 6,195 customers.

2. Wastewater Utility

The current rate structure was approved by the Council on April 23, 2008. The Utility has 6,500 customers.

3. Electric Utility

On June 12, 1991, the City Council adopted Ordinance 1991-15 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on February 18, 2009. The Utility has 7,053 customers.

4. Gas Utility

On June 12, 1991, the City Council adopted Ordinance 1991-14 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on December 17, 2003. On July 20, 2011 the Common Council approved Ordinance 2011-7, which revises the rates and charges for the sale of gas by the Gas Utility, effective for billings due on and after October 10, 2011. The Utility has 4,162 customers.

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

E. 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 Utility authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

Public Employees' Retirement Fund  
One North Capitol, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

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.

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.

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual required contribution	\$ 669,819
Interest on net pension obligation	(15,066)
Adjustment to annual required contribution	<u>17,169</u>
Annual pension cost	671,922
Contributions made	<u>587,241</u>
Increase in net pension obligation	84,681
Net pension obligation, beginning of year	<u>( 207,805)</u>
Net pension obligation, end of year	<u>\$ (123,124)</u>

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

Contribution rates:	
Utilities	8.25%
Plan members	3%
Actuarial valuation date	06-30-2010
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 years
Amortization period (from date)	07-01-98
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.00%
Projected future salary increases	4%
Cost-of-living adjustments	1%

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 06-30-08	540,089	103%	(215,875)
06-30-09	586,570	99%	(207,805)
06-30-10	671,922	87%	(123,124)

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

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess / (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
06-30-08	9,818,611	11,711,523	(1,892,912)	84%	7,083,467	(27%)
06-30-09	9,185,488	12,510,382	(3,324,894)	73%	7,345,262	(45%)
06-30-10	8,605,741	13,922,461	(5,316,721)	62%	7,257,680	(73%)

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES  
CITY OF JASPER  
EXIT CONFERENCE

The contents of this report were discussed on August 31, 2011, with Gerald W. Huersperger, Utilities' General Manager; William J. Schmitt, Mayor; Juanita S. Boehm, Clerk-Treasurer; and Linda K. McGovren, Utility. Our examination disclosed no material items that warrant comment at this time.