

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, 2011 to December 31, 2011



FILED
06/08/2012

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	7-21
Required Supplementary Information:	
Schedule of Funding Progress	22
Exit Conference.....	23

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Juanita S. Boehm	01-01-08 to 12-31-15
Mayor	William J. Schmitt Terry Seitz	01-01-08 to 12-31-11 01-01-12 to 12-31-15
Presiding Officer of the Board of Public Works and Safety	William J. Schmitt Terry Seitz	01-01-08 to 12-31-11 01-01-12 to 12-31-15
Presiding Officer of the Common Council	William J. Schmitt Terry Seitz	01-01-08 to 12-31-11 01-01-12 to 12-31-15
Utilities' General Manager	Gerald Hauersperger	01-01-11 to 12-31-12
Water Utility Manager	Michael A. Oeding	01-01-11 to 12-31-12
Wastewater Utility Manager	Greg E. Hollinden	01-01-11 to 12-31-12
Electric Utility Generation Manager	Windell Toby	01-01-11 to 12-31-12
Electric Utility Distribution Manager	Jerald L. Schitter	01-01-11 to 12-31-12
Gas Utility Manager	Michael A. Oeding	01-01-11 to 12-31-12
Utility Controller	Linda K. McGovren	01-01-11 to 12-31-12
Chairman of the Utility Service Board	Wayne Schuetter	01-01-11 to 12-31-12



STATE OF INDIANA
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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, for the period of January 1, 2011 to December 31, 2011. 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, 2011, 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 presents 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, 2011, 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.

STATE BOARD OF ACCOUNTS

May 17, 2012

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF JASPER
STATEMENT OF NET ASSETS
December 31, 2011

<u>Assets</u>	2011			
	Water	Wastewater	Electric	Gas
Current assets:				
Cash and cash equivalents	\$ 638,470	\$ 1,043,789	\$ 12,024,850	\$ 536,554
Accounts receivable (net of allowance)	234,192	186,462	1,560,119	406,970
Accounts receivable - other	10,316	7,004	45,807	2,231
Interfund receivables:				
Interfund loans	-	-	885,231	-
Interfund services provided and used	991	1,309	3,247	1,721
Grants receivable	198,010	-	-	-
Inventories	179,572	134,169	1,257,222	209,212
Prepaid items	56,833	70,783	192,026	11,558
Total current assets	1,318,384	1,443,516	15,968,502	1,168,246
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Debt service reserve	1,096,375	74,063	-	-
Depreciation	734,619	504,526	3,693,576	99,552
Computer	39,464	38,182	34,518	4,112
In lieu of taxes reserve	330,050	-	258,114	68,001
Self-insurance liability reserve	200,000	285,750	1,027,533	-
Industrial pretreatment	-	202,447	-	-
Plant expansion	-	1,220,068	-	-
Interceptor improvement	-	362,167	-	-
Customer deposits	71,694	114,147	382,429	114,190
Contractor retainage	35,521	-	-	-
Total restricted assets	2,507,723	2,801,350	5,396,170	285,855
Intangible assets - pipeline rights	-	-	-	685,231
Capital assets:				
Land, improvements to land and construction in progress	1,398,996	336,043	749,658	48,449
Other capital assets (net of accumulated depreciation)	19,742,051	19,608,198	13,989,408	3,951,318
Total capital assets	21,141,047	19,944,241	14,739,066	3,999,767
Total noncurrent assets	23,648,770	22,745,591	20,135,236	4,970,853
Total assets	24,967,154	24,189,107	36,103,738	6,139,099
Liabilities				
Current liabilities:				
Contracts payable (including retainage payable)	412,461	-	-	-
Accounts payable	411,246	122,007	3,585,220	568,665
Interfund payables:				
Interfund services provided and used	2,798	2,239	1,399	831
Taxes payable	11,021	-	67,545	11,844
Current liabilities payable from restricted assets:				
Customer deposits	71,694	114,147	382,429	114,190
Performance deposits	-	-	-	1,400
Loans payable	-	25,000	-	-
Total current liabilities	909,220	263,393	4,036,593	696,930
Noncurrent liabilities:				
Interfund loans	-	-	-	885,231
Loans payable	8,366,000	575,000	-	-
Total noncurrent liabilities	8,366,000	575,000	-	885,231
Total liabilities	9,275,220	838,393	4,036,593	1,582,161
Net Assets				
Invested in capital assets, net of related debt	12,362,586	19,344,241	14,739,066	3,114,536
Restricted for debt service	1,830,994	578,589	-	-
Unrestricted	1,498,354	3,427,884	17,328,079	1,442,402
Total net assets	\$ 15,691,934	\$ 23,350,714	\$ 32,067,145	\$ 4,556,938

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, 2011

	2011			
	Water	Wastewater	Electric	Gas
Operating revenues:				
Metered water revenue:				
Residential	\$ 1,924,924	\$ -	\$ -	\$ -
Residential sales	-	-	6,307,389	1,736,564
Commercial and industrial sales	1,512,779	-	19,803,968	4,066,672
Public street and highway lighting	-	-	181,393	-
Fire protection revenue	185,220	-	-	-
Penalties	11,060	26,467	38,947	7,516
Measured revenue:				
Residential	-	1,690,942	-	-
Commercial	-	1,086,668	-	-
Other	76,460	174,450	40,139	17,578
Total operating revenues	<u>3,710,443</u>	<u>2,978,527</u>	<u>26,371,836</u>	<u>5,828,330</u>
Operating expenses:				
Source of supply and expense - operations and maintenance	91,956	-	-	-
Water treatment expense - operations and maintenance	413,347	-	-	-
Production and supply	-	-	-	4,261,434
Power production	-	-	21,716,163	-
Transmission and distribution	401,366	-	956,096	278,190
Collection system - operations and maintenance	-	300,137	-	-
Pumping - operations and maintenance	-	223,581	-	-
Treatment and disposal - operations and maintenance	-	679,562	-	-
Customer accounts	28,516	29,591	39,031	19,592
Administration and general	891,449	1,132,656	1,816,157	526,946
Depreciation and amortization	472,486	519,965	851,126	133,106
Total operating expenses	<u>2,299,120</u>	<u>2,885,492</u>	<u>25,378,573</u>	<u>5,219,268</u>
Operating income (loss)	<u>1,411,323</u>	<u>93,035</u>	<u>993,263</u>	<u>609,062</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	4,455	5,852	23,470	586
Miscellaneous revenue (expense)	18,960	7,777	94,621	(1,622)
Interest expense	(321,700)	(22,313)	-	(1,090)
Total nonoperating revenues (expenses)	<u>(298,285)</u>	<u>(8,684)</u>	<u>118,091</u>	<u>(2,126)</u>
Income (loss) before contributions and transfers	1,113,038	84,351	1,111,354	606,936
Capital contributions	891,071	96,878	1,344	44,201
Transfers out	(215,494)	-	(169,900)	(44,733)
Change in net assets	1,788,615	181,229	942,798	606,404
Total net assets - beginning	<u>13,903,319</u>	<u>23,169,485</u>	<u>31,124,347</u>	<u>3,950,534</u>
Total net assets - ending	<u>\$ 15,691,934</u>	<u>\$ 23,350,714</u>	<u>\$ 32,067,145</u>	<u>\$ 4,556,938</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, 2011

	2011			
	Water	Wastewater	Electric	Gas
Cash flows from operating activities:				
Receipts from customers and users	\$ 3,682,180	\$ 2,952,119	\$ 26,040,038	\$ 5,686,174
Payments to suppliers and contractors	(665,455)	(825,060)	(23,328,302)	(4,861,018)
Payments to employees	(883,302)	(1,558,523)	(1,203,585)	(399,537)
Interfund services provided (used)	5,818	(3,095)	(1,848)	(876)
Other receipts	27,547	5,823	95,442	4,973
Net cash provided (used) by operating activities	<u>2,166,788</u>	<u>571,264</u>	<u>1,601,745</u>	<u>429,716</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(215,494)	-	(169,900)	(44,733)
Interfund loans	-	-	(920,354)	920,354
Interfund loans repayments	-	-	867,918	(867,918)
Interest on interfund loans	-	-	1,289	(1,289)
Net cash used by noncapital financing activities	<u>(215,494)</u>	<u>-</u>	<u>(221,047)</u>	<u>6,414</u>
Cash flows from capital and related financing activities:				
Capital contributions	693,061	96,878	1,344	44,201
Proceeds from the sale of capital assets	437	109,474	73,573	85,498
Acquisition and construction of capital assets	(1,054,865)	(415,540)	(748,645)	(195,058)
Principal paid on capital debt	(774,000)	(50,000)	-	-
Interest paid on capital debt	(321,700)	(22,312)	-	-
Net cash used by capital and related financing activities	<u>(1,457,067)</u>	<u>(281,500)</u>	<u>(673,728)</u>	<u>(65,359)</u>
Cash flows from investing activities:				
Interest received	4,455	5,852	22,181	586
Net increase in cash and cash equivalents	498,682	295,616	729,151	371,357
Cash and cash equivalents, January 1	2,647,511	3,549,523	16,691,869	451,052
Cash and cash equivalents, December 31	<u>\$ 3,146,193</u>	<u>\$ 3,845,139</u>	<u>\$ 17,421,020</u>	<u>\$ 822,409</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 1,411,323	\$ 93,035	\$ 993,263	\$ 609,062
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	472,486	519,965	851,126	133,106
Amortization expense (see Note II.B.)	-	-	-	147,565
Bad debt expense	212	(481)	6,665	3
Nonoperating revenue and expense	27,547	5,823	95,442	4,973
(Increase) decrease in assets:				
Accounts receivable	(29,409)	(27,005)	(337,012)	(144,014)
Interfund services provided or used	3,034	(1,309)	(3,247)	(1,707)
Grants receivable	-	-	-	-
Inventories	639	(1,153)	(29,135)	(2,437)
Prepaid items	(532)	1,148	(22,646)	2,516
Increase (decrease) in liabilities:				
Contracts payable	269,144	-	-	-
Accounts payable	12,756	(22,527)	23,106	(337,316)
Interfund payables	2,784	(1,786)	1,399	831
Taxes payable	(7,970)	(4)	1,708	10,685
Performance deposits	-	-	-	(800)
Customer deposits	4,774	5,558	21,076	7,249
Total adjustments	<u>755,465</u>	<u>478,229</u>	<u>608,482</u>	<u>(179,346)</u>
Net cash provided (used) by operating activities	<u>\$ 2,166,788</u>	<u>\$ 571,264</u>	<u>\$ 1,601,745</u>	<u>\$ 429,716</u>

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.

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 \$1,830,994 and \$578,589 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 \$321,700, \$22,313, \$0, and \$1,090, 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, 2011, the

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

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.

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 \$147,565. As of December 31, 2011, the value of the intangible assets – pipeline rights was \$685,231.

C. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 292,054	\$ -	\$ -	\$ 292,054
Construction in progress	241,954	880,137	15,148	1,106,943
	<u>534,008</u>	<u>880,137</u>	<u>15,148</u>	<u>1,398,997</u>
Total capital assets, not being depreciated				
	534,008	880,137	15,148	1,398,997
Capital assets, being depreciated:				
Buildings	10,473,758	-	-	10,473,758
Improvements other than buildings	11,077,392	193,722	47,606	11,223,508
Machinery and equipment	4,251,878	16,547	5,496	4,262,929
	<u>25,803,028</u>	<u>210,269</u>	<u>53,102</u>	<u>25,960,195</u>
Totals				
	25,803,028	210,269	53,102	25,960,195
Less accumulated depreciation for:				
Buildings	1,424,382	158,424	-	1,582,806
Improvements other than buildings	3,263,642	204,041	16,081	3,451,602
Machinery and equipment	1,081,320	110,021	7,604	1,183,737
	<u>5,769,344</u>	<u>472,486</u>	<u>23,685</u>	<u>6,218,145</u>
Totals				
	5,769,344	472,486	23,685	6,218,145
Total capital assets, being depreciated, net	<u>20,033,684</u>	<u>(262,217)</u>	<u>29,417</u>	<u>19,742,050</u>
Total capital assets, net	<u>\$ 20,567,692</u>	<u>\$ 617,920</u>	<u>\$ 44,565</u>	<u>\$ 21,141,047</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 195,639	\$ -	\$ -	\$ 195,639
Construction in progress	121,855	149,922	131,373	140,404
	<u>317,494</u>	<u>149,922</u>	<u>131,373</u>	<u>336,043</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	6,902,921	-	-	6,902,921
Improvements other than buildings	16,797,849	225,702	-	17,023,551
Machinery and equipment	7,341,660	172,476	155,528	7,358,608
	<u>31,042,430</u>	<u>398,178</u>	<u>155,528</u>	<u>31,285,080</u>
Totals				
Less accumulated depreciation for:				
Buildings	1,843,473	68,086	-	1,911,559
Improvements other than buildings	4,334,903	290,220	-	4,625,123
Machinery and equipment	5,025,361	161,659	46,820	5,140,200
	<u>11,203,737</u>	<u>519,965</u>	<u>46,820</u>	<u>11,676,882</u>
Totals				
Total capital assets, being depreciated, net				
	<u>19,838,693</u>	<u>(121,787)</u>	<u>108,708</u>	<u>19,608,198</u>
Total capital assets, net				
	<u>\$ 20,156,187</u>	<u>\$ 28,135</u>	<u>\$ 240,081</u>	<u>\$ 19,944,241</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	266,860	463,677	111,729	618,808
	<u>397,710</u>	<u>463,677</u>	<u>111,729</u>	<u>749,658</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	3,857,153	-	-	3,857,153
Improvements other than buildings	19,000,411	275,542	7,716	19,268,237
Machinery and equipment	7,166,454	121,590	104,028	7,184,016
	<u>30,024,018</u>	<u>397,132</u>	<u>111,744</u>	<u>30,309,406</u>
Totals				
Less accumulated depreciation for:				
Buildings	2,256,341	60,442	-	2,316,783
Improvements other than buildings	9,344,335	517,882	6,794	9,855,423
Machinery and equipment	3,905,112	272,802	30,122	4,147,792
	<u>15,505,788</u>	<u>851,126</u>	<u>36,916</u>	<u>16,319,998</u>
Totals				
Total capital assets, being depreciated, net	<u>14,518,230</u>	<u>(453,994)</u>	<u>74,828</u>	<u>13,989,408</u>
Total capital assets, net	<u>\$ 14,915,940</u>	<u>\$ 9,683</u>	<u>\$ 186,557</u>	<u>\$ 14,739,066</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	30,909	6,832	6,196	31,545
	<u>47,813</u>	<u>6,832</u>	<u>6,196</u>	<u>48,449</u>
Total capital assets, not being depreciated				
	<u>47,813</u>	<u>6,832</u>	<u>6,196</u>	<u>48,449</u>
Capital assets, being depreciated:				
Buildings	76,463	-	-	76,463
Improvements other than buildings	5,401,601	49,847	41,905	5,409,543
Machinery and equipment	746,325	153,792	114,804	785,313
	<u>6,224,389</u>	<u>203,639</u>	<u>156,709</u>	<u>6,271,319</u>
Totals				
	<u>6,224,389</u>	<u>203,639</u>	<u>156,709</u>	<u>6,271,319</u>
Less accumulated depreciation for:				
Buildings	6,777	1,157	-	7,934
Improvements other than buildings	1,817,758	100,988	22,279	1,896,467
Machinery and equipment	417,957	30,961	33,318	415,600
	<u>2,242,492</u>	<u>133,106</u>	<u>55,597</u>	<u>2,320,001</u>
Totals				
	<u>2,242,492</u>	<u>133,106</u>	<u>55,597</u>	<u>2,320,001</u>
Total capital assets, being depreciated, net				
	<u>3,981,897</u>	<u>70,533</u>	<u>101,112</u>	<u>3,951,318</u>
Total capital assets, net				
	<u>\$ 4,029,710</u>	<u>\$ 77,365</u>	<u>\$ 107,308</u>	<u>\$ 3,999,767</u>

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

Water	\$ 472,486
Wastewater	519,965
Electric	851,126
Gas	<u>133,106</u>
Total depreciation expense	<u>\$ 1,976,683</u>

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, 2011	Committed	Required Future Funding
Water Utility - Business Ofc. Computer System	\$ 45,309	\$ 45,309	\$ -	\$ -
Water Utility - Beaver Creek Dam Upgrade	1,044,888	1,044,888	-	-
Water Utility - Sludge Utilization Study	15,066	15,066	-	-
Water Utility - Miscellaneous	1,680	1,680	-	-
Wastewater Utility - Bus. Ofc. Computer Sys.	47,052	47,052	-	-
Wastewater Utility - Force Main Upgrade	84,485	84,485	-	-
Wastewater Utility - Generator Study	8,867	8,867	-	-
Electric Utility - Business Ofc. Computer System	50,537	50,537	-	-
Electric Utility - Power Plant Biomass Study	538,520	538,520	-	-
Electric Utility - Central Tie Substation	29,750	29,750	-	-
Gas Utility - Business Ofc. Computer System	31,368	31,368	-	-
Gas Utility - Miscellaneous	177	177	-	-
Totals	\$ 1,897,699	\$ 1,897,699	\$ -	\$ -

E. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2011, is as follows:

Due To	Water Utility	Wastewater Utility	Electric Utility	Gas Utility	Totals
Water Utility	\$ -	\$ 683	\$ 86	\$ 222	\$ 991
Wastewater Utility	-	-	1,309	-	1,309
Electric Utility	1,081	1,556	-	885,841	888,478
Gas Utility	1,717	-	4	-	1,721
Totals	\$ 2,798	\$ 2,239	\$ 1,399	\$ 886,063	\$ 892,499

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.

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

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 2006 loan was for a term five years, with a balloon payment due in September, 2011. The Common Council approved a similar loan, also for five years, on August 17, 2011 \$720,353, which was the amount of the balloon payment. Funds to repay these loans are made 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 2011 were \$147,545 and \$2,441, respectively. The interfund loan payable as of December, 2011, was \$685,231. This is classified as a noncurrent liability.

An interfund loan from the Electric Utility to the Gas Utility was approved in 2011 in an amount not to exceed \$1,000,000. The purpose of the loan is to provide adequate fund balances in the Gas Utility, until the new gas rate structure produces sufficient revenues to maintain adequate cash balances. The interest rate for the loan is based on the current month's investment rate earned by the Utilities. During 2011, the Electric Utility loaned \$200,000 to the Gas Utility. No principal or interest payments were made during 2011. Repayment of this loan is due by December 31, 2015, and is classified as a noncurrent liability.

2. Interfund Transfers

Interfund transfers at December 31, 2011, were as follows:

Transfer from	Transfer to General Fund
Water Utility	\$ 215,494
Electric Utility	169,900
Gas Utility	44,733
Total	\$ 430,127

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

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

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 \$116,288, are as follows:

	Principal	Interest
2012	\$ 25,000	\$ 10,500
2013	50,000	19,687
2014	55,000	17,850
2015	55,000	15,925
2016	60,000	14,000
2017-2021	320,000	37,713
2022	<u>35,000</u>	<u>613</u>
Total	<u>\$ 600,000</u>	<u>\$ 116,288</u>

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 \$ 1,469,475 are as follows:

	Principal	Interest
2012	\$ 0	\$ 140,525
2013	775,000	267,487
2014	800,000	239,925
2015	830,000	211,400
2016	860,000	181,825
2017-2021	<u>4,765,000</u>	<u>428,313</u>
Total	<u>\$ 8,030,000</u>	<u>\$ 1,469,475</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 \$ 84,680, are as follows:

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

	Principal	Interest
2012	\$ 0	\$ 6,720
2013	26,000	12,920
2014	28,000	11,840
2015	28,000	10,720
2016	28,000	9,600
2017-2021	155,000	30,020
2022-2023	<u>71,000</u>	<u>2,860</u>
 Total	 <u>\$ 336,000</u>	 <u>\$ 84,680</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Loans payable	\$ 9,140,000	\$ -	\$ 774,000	\$ 8,366,000	\$ -
Wastewater Utility:					
Loans payable	650,000	-	50,000	600,000	25,000

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	734,619
Computer account	39,464
Customer deposit account	71,694
In lieu of taxes reserve account	330,050
Retainage account	35,521
Self-insurance liability reserve account	<u>200,000</u>
Total restricted assets	\$ 2,507,723
Wastewater Utility:	
Debt service reserve account	\$ 74,063
Depreciation account	504,526
Computer account	38,182
Customer deposit account	114,147
Self-insurance liability reserve account	285,750
Industrial pretreatment account	202,447
Plant expansion account	1,220,068
Interceptor improvement account	<u>362,167</u>
Total restricted assets	\$ 2,801,350

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

Electric Utility:	
Depreciation account	\$ 3,693,576
Computer account	34,518
Customer deposit account	382,429
In lieu of taxes reserve account	258,114
Self-insurance liability reserve account	<u>1,027,533</u>
Total restricted assets	\$ 5,396,170
Gas Utility:	
Depreciation account	\$ 99,552
Computer account	4,112
Customer deposit account	114,190
In lieu of taxes reserve account	<u>68,001</u>
Total restricted assets	\$ 285,855

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 \$80,000 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.

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

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.

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

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 assist the Wastewater Utility in financing sanitary sewer improvements in certain areas in the City's north side. The City approved a contract with Infrastructure Systems, Inc. in the amount of \$750,045, and work on the project began on March 16, 2012. This project is expected to be substantially completed in July, 2012.

Power Plant Lease / Biomass Lawsuit

The City of Jasper was named a defendant in a lawsuit filed in 2011 by Healthy Dubois County, Inc. alleging that the City had violated the State's Open Door Laws in meetings concerning the lease of the Electric Utility's generating plant. The lawsuit was heard in Perry County, Indiana Circuit Court by Judge Lucy Goffinet in December, 2011. On January 3, 2012, Judge Goffinet ruled in favor of the City. The City has since received a Notice of Appeal, giving Healthy Dubois County, Inc. the option to appeal the decision.

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

Purchase of Real Estate

On March 30, 2012, the City signed an agreement to purchase 1.3 acres of real estate located adjacent to the City's Electric Generating Plant. The purchase price of the property is \$315,000 which will be paid from Electric Utility funds.

D. Lease of City of Jasper Electric Generating Plant

After much research and due diligence, the Utility Service 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 City's electric generating 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.

The agreement for the lease, improvement, and operation of the Jasper Clean Energy facility was executed on December 29, 2011. Jasper Clean Energy, LLC will modify the City's existing 14.5 megawatt coal-fired power plant to operate using regionally grown miscanthus grass. The facility will also include the addition of a 48 megawatt natural gas-fired combustion turbine generator. The agreement between the City of Jasper and Jasper Clean Energy, LLC will be for a period of approximately 22 years, plus options for 10 additional years.

Annual rent payments will start at \$425,000 with an annual inflation adjustment factor. A royalty of \$1.50 per megawatt hour of produced energy from the modified boiler, with an annual adjustment factor, will be included. An operational biomass facility will be returned to the City at the end of the lease.

E. 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.

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

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.

F. 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 and can be amended by the Board of Trustees of PERF.

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.

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)
06-30-09	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%)
06-30-11	6,965,943	12,885,845	(5,919,902)	54%	7,022,503	(84%)

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

The contents of this report were discussed on May 17, 2012, with Gerald Hauersperger, Utilities' General Manager; Juanita S. Boehm, Clerk-Treasurer; and Terry Seitz, Mayor. Our examination disclosed no material items that warrant comment at this time.