

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

ANNUAL FINANCIAL REPORT

2006

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES

CITY OF JASPER

DUBOIS COUNTY, INDIANA



FILED

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Juanita S. Boehm	01-01-04 to 12-31-07
Mayor	William J. Schmitt	01-01-04 to 12-31-07
Presiding Officer of the Board of Public Works and Safety	William J. Schmitt	01-01-04 to 12-31-07
Presiding Officer of the Common Council	William J. Schmitt	01-01-04 to 12-31-07
Utilities' General Manager	Gerald Bud Hauersperger	01-01-06 to 12-31-07
Water Utility Manager	Michael A. Oeding	01-01-06 to 12-31-07
Wastewater Utility Manager	Thomas Lents	01-01-06 to 12-31-07
Electric Utility Generation Manager	Windell Toby	01-01-06 to 12-31-07
Electric Utility Distribution Manager	Jerry Schitter	01-01-06 to 12-31-07
Gas Utility Manager	Michael A. Oeding	01-01-06 to 12-31-07
Utility Business Manager	Kenneth R. Schultz	01-01-06 to 05-26-06
Utility Office Manager/ Controller	Linda K. McGovren	05-27-06 to 12-31-07
Chairman of the Utility Service Board	Greg Krodel Mike Harder	01-01-06 to 12-31-06 01-01-07 to 12-31-07



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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Water, Wastewater, Electric, and Gas Utilities (Utilities), departments of the City of Jasper, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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, 2006, 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, City of Jasper, as of December 31, 2006, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

June 21, 2007

**Water, Wastewater, Electric and Gas Utilities
City of Jasper, Indiana
Management's Discussion and Analysis
December 31, 2006**

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, 2006. 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, 2006 were \$63,424,348. Of this amount, \$10,359,500 is unrestricted and may be used to meet the Utilities' ongoing obligations to its customers and users.
- The Utilities' unrestricted cash and cash equivalents decreased by \$579,748, while restricted cash and cash equivalents increased by \$1,002,311, for a net cash increase of \$422,563.
- The Utilities' total capital assets, net of accumulated depreciation, decreased by \$651,874.
- The Utilities long-term debt decreased by \$512,978. This decrease represents principal payment of \$1,872,352 during 2006, plus the addition of an interfund loan from the Electric Utility to the Gas Utility in the amount of \$1,359,375.

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 table below provides a summary of the revenues, expenses and changes in net assets for the year ended December 31, 2006, along with comparative figures from 2005:

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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Operating revenues	\$ 2,939	\$ 2,891	\$ 2,892	\$ 2,999	\$20,688	\$19,456	\$ 9,670	\$ 9,112	\$36,189	\$34,458
Operating expenses	2,107	1,919	2,892	2,708	19,693	18,085	8,759	9,926	33,451	32,638
Operating income (loss)	832	972	-	291	995	1,371	911	(814)	2,738	1,820
Non-operating revenues (expenses)	(301)	(379)	47	(120)	352	156	51	56	149	(287)
Income (loss) before contributions and transfers	531	593	47	171	1,347	1,527	962	(758)	2,887	1,533
Capital contributions	41	373	177	568	-	1	110	85	328	1,027
Transfers out	(150)	(139)	-	-	(121)	(119)	(28)	(31)	(299)	(289)
Change in net assets	422	827	224	739	1,226	1,409	1,044	(704)	2,916	2,271
Total net assets - begin	11,160	10,333	22,330	21,591	22,785	21,376	4,233	4,937	60,508	58,237
Total net assets - end	\$ 11,582	\$ 11,160	\$22,554	\$22,330	\$24,011	\$22,785	\$ 5,277	\$ 4,233	\$63,424	\$60,508

The following table outlines the composition of the Utilities' total net assets as of December 31, 2006, with comparative figures from 2005:

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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 2,856	\$ 2,833	\$ 3,472	\$ 3,425	\$11,288	\$10,137	\$ 4,024	\$ 2,767	\$21,640	\$19,162
Capital assets	21,092	21,316	21,037	21,362	15,543	15,824	3,882	3,703	61,554	62,205
Total Assets	23,948	24,149	24,509	24,787	26,831	25,961	7,906	6,470	83,194	81,367
Long-term liabilities outstanding	11,974	12,625	1,442	1,896	328	1,016	1,343	-	15,087	15,537
Other liabilities	392	363	513	560	2,491	2,160	1,286	2,238	4,682	5,321
Total Liabilities	12,366	12,988	1,955	2,456	2,819	3,176	2,629	2,238	19,769	20,858
Net assets:										
Invested in capital assets net of related debt	9,118	8,691	19,286	19,132	14,808	14,364	3,882	3,703	47,094	45,890
Restricted	1,918	1,719	1,050	777	3,003	2,296	-	-	5,971	4,792
Unrestricted	546	750	2,218	2,421	6,200	6,125	1,395	530	10,359	9,826
Total Net Assets	\$11,582	\$11,160	\$22,554	\$22,330	\$24,011	\$22,785	\$ 5,277	\$ 4,233	\$63,424	\$60,508

Total net assets increased in each of the utilities during 2006, due to the following:

- Income recorded by each utility (\$531,000 in water, \$47,000 in wastewater, \$1,347,000 in electric, and \$962,000 in gas), and
- Contributions to capital made by customers, developers and others (\$41,000 in water, \$177,000 in wastewater, \$0 in electric, and \$110,000 in gas), and
- Transfers to the City for payments in lieu of taxes (\$150,000 from water, \$0 from wastewater, \$121,000 from electric, and \$28,000 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 and cash equivalents increased by \$16,000 (0.7%) during the year.

- The operating and maintenance cash decreased by \$223,000. The final phase of a three-year water rate increase took effect in January, 2006; however, the increase in revenue was outpaced by increases in operating expenses, such as the replacement of four carbon caps for the treatment plant at a cost of approximately \$61,000.
- The depreciation fund increased by \$191,000 during 2006. Some of the larger expenditures made during 2006 were for the Mill Street water main relocation project and for costs associated with the meter replacement program.

Compared to the previous year, operating revenues in the water utility increased \$48,000, and operating expenses increased \$188,000, for a decrease in operating income of \$140,000 (14.4%). Water net assets increased by \$422,000 (3.8%).

The average number of water customers for 2006 was 5,983, an increase of 68 over the previous year's average.

Wastewater:

In total, the wastewater utility's cash and cash equivalents increased by \$47,000 (1.5%) during 2006.

- The operating and maintenance fund decreased by \$301,000. A decline in operating revenues, combined with increased lift station and treatment plant expenses, contributed to the decrease in this fund.
- The plant expansion cash increased by \$121,000 during 2006. Connection fees which are assessed to new wastewater customers, along with interest earned on investments, accounted for the increase.
- Depreciation cash increased by \$273,000 (54.4%) in 2006, due in large part to the cash settlement received from the Titan Contracting/Cincinnati Insurance lawsuit. Some of the larger expenditures made from this fund were for the sewer relining project, a mini-excavator and two loaders.

- The interceptor improvement fund decreased by \$91,000. Payments totaling approximately \$124,000 were made during the year for upgrades to two major lift stations (Northwood and Portersville).

Compared to the previous year, operating revenues in the wastewater utility decreased \$107,000, while operating expenses increased \$184,000, for a decrease in operating income of \$291,000 (100.0%). Wastewater net assets increased by \$224,000 (1.0%).

The average number of wastewater customers for 2006 was 6,244, an increase of 98 over the previous year's average.

Electric:

Total cash and cash equivalents for the electric utility decreased by \$244,000 (3.4%).

- The electric operating and maintenance cash decreased by \$998,000. Approximately \$1,176,000 of the loan made to the gas utility in 2006 originated from this fund.
- The electric utility's depreciation cash increased by \$707,000. Most of the capital spending during 2006 was for improvements and additions to the utility's distribution system, and for the meter replacement program.

Compared to the previous year, operating revenues in the electric utility increased \$1,232,000, while operating expenses increased \$1,608,000, for a decrease in operating income of \$376,000 (27.4%). Electric net assets increased by \$1,226,000 (5.4%).

The average number of electric customers for 2006 was 6,776, an increase of 44 over the previous year's average.

Gas:

The gas utility's total cash and cash equivalents increased by \$604,000, or 63.0%.

- The gas utility's operating and maintenance cash increased by \$943,000. Consumption for 2006 was down by 10.4% as compared to 2005. Cash position improved, in part by the lower cost of natural gas during the second half of 2006.
- The gas utility's depreciation cash decreased by \$371,000. The decrease came about as a result of interfund transfers and payments for capital expenditures, including costs associated with the meter replacement program.

Compared to the previous year, operating revenues in the gas utility increased \$558,000, while operating expenses decreased \$1,167,000, for an increase in operating income of \$1,725,000 (211.9%). Gas net assets increased by \$1,044,000 (24.7%).

The average number of gas customers for 2006 was 4,070, an increase of 52 over the previous year's average.

Overall, total operating revenue for the Utilities increased \$1,731,000 (5.0%) from the previous year, while total operating expenses rose by \$813,000 (2.5%). Total net assets of the Utilities increased \$2,916,000 (4.8%), to \$63,424,000.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity:

As of December 31, 2006, the Utilities had \$89,272,000 invested in capital assets, such as land, buildings, improvements, equipment, and electric, water, sewer, and gas lines. Total accumulated depreciation at the end of 2006 was \$27,719,000, resulting in net capital assets of \$61,553,000. The total capital assets of the Utilities are summarized by category as follows:

	(000's omitted)	
	2006	2005
Land	615	615
Buildings	21,103	21,010
Improvements	48,603	47,407
Equipment	18,815	18,737
Construction in Progress	136	527
Total	89,272	88,296
Less: Accumulated depreciation	(27,719)	(26,091)
Total capital assets, net	61,553	62,205

The Utilities recorded approximately \$946,000 for additions and on-going improvements to their respective distribution systems, with \$281,000 of this amount being contributed by developers and customers. Some of this expenditure allowed the Utilities to expand its service area, while a portion of the expenditure was for improvements to, or relocation of, existing distribution systems.

Other major capital additions during 2006 include the following:

- \$214,000 to replace older-style electric, water, and gas meters with meters that incorporate newer, more efficient technology. This multi-year project is continuing into 2007.
- \$105,000 for two new drying beds for the wastewater utility.
- \$170,000 for upgrades to the wastewater utility's lift stations.
- \$291,000 for four loaders and one excavator.
- \$96,000 for various paving projects.

See Note I.D.4, Note II.B. and Note II.C. in the attached financial statements for additional information.

Long-term Debt Activity:

As of December 31, 2006 and 2005 the Utilities' outstanding debt consisted of the following:

	<u>2006</u>	<u>2005</u>
• Water Utility	\$11,974,000	\$12,625,000
• Wastewater Utility	\$ 1,750,000	\$ 2,230,000
• Electric Utility	\$ 735,000	\$ 1,460,000
• Gas Utility	\$ 1,343,022	\$ -0-

During 2006, the Utilities made principal payments of \$1,872,353 and interest payments of \$567,256.

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

- In March 2007, a petition was filed with the Indiana Utility Regulatory Commission requesting that the City of Jasper take over as the electric provider in a portion of the Windsong Annexation area. The petition was granted, and the City's electric utility began supplying electric power to approximately 100 new customers in May, 2007. In connection with this takeover, the electric utility was required to pay initial severance damages to Dubois Rural Electric (REC) in the amount of \$365,602.49. This amount represents the depreciated value of REC's infrastructure, plus 2.5 times the annual revenue on those customers taken over by the City.
- In March 2007, a second petition was filed with the Indiana Utility Regulatory Commission for the takeover of electric territory for a portion of the Timber Creek Annexation area. This petition was also granted. Since there were no existing customers or infrastructure included in the takeover area, the electric utility was not required to pay initial severance damages.
- In May 2007, the Utility Service Board approved a motion to enter into natural gas management agreements with Utility Gas Management for a three year period beginning September 1, 2007. The terms of the gas management agreements remain the same as on the expiring agreements; however, there is a slight cost increase on the gas supply agreement for Texas Eastern.
- In May 2007, the Utility Service Board gave approval to enter into an agreement for an assessment needs study for a fiber broadband communication network plan for the utilities and the City. The study will identify the internal and external needs of the utilities and the City, along with providing cost estimates and possible funding sources. The study is expected to be completed in approximately ninety days.

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.

CITY OF JASPER
STATEMENT OF NET ASSETS
December 31, 2006

	2006			
	Water	Wastewater	Electric	Gas
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,780	\$ 7,860	\$ 2,473,170	\$ 953,478
Accounts receivable (net of allowance)	192,550	180,675	1,464,229	831,180
Accounts receivable - other	4,983	3,227	10,308	37,823
Interfund receivables:				
Interfund loans	-	-	1,343,022	-
Interfund services provided and used	33,170	-	-	-
Inventories	179,082	137,409	1,347,524	238,452
Prepaid items	45,162	53,691	176,728	10,933
Total current assets	456,727	382,862	6,814,981	2,071,866
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Debt service reserve cash and investments	1,088,310	275,567	352,000	-
Depreciation cash and investments	830,047	774,036	2,650,895	293,719
Computer cash and cash equivalents	21,128	20,364	19,578	21,844
In lieu of taxes reserve cash and investments	243,199	-	195,569	44,650
Self-insurance liability reserve cash and investments	171,000	165,750	976,782	171,000
Industrial pretreatment cash and investments	-	37,660	-	-
Plant expansion cash and investments	-	1,408,489	-	-
Interceptor improvement cash and investments	-	317,522	-	-
Customer deposits	46,385	80,145	267,882	78,790
Total restricted assets	2,400,069	3,079,533	4,462,706	610,003
Deferred charges	-	10,120	9,600	-
Intangible assets - pipeline rights	-	-	-	1,343,022
Capital assets:				
Land, improvements to land and construction in progress	305,999	195,639	110,050	139,441
Other capital assets (net of accumulated depreciation)	20,785,524	20,840,942	15,433,328	3,742,070
Total capital assets	21,091,523	21,036,581	15,543,378	3,881,511
Total noncurrent assets	23,491,592	24,126,234	20,015,684	5,834,536
Total assets	23,948,319	24,509,096	26,830,665	7,906,402
Liabilities				
Current liabilities:				
Accounts payable	337,787	81,682	1,799,488	1,181,325
Interfund payables:				
Interfund services provided and used	-	32,692	-	478
Contracts payable	-	73,500	-	-
Taxes payable	8,055	-	58,887	23,037
Current liabilities payable from restricted assets:				
Customer deposits	46,385	80,145	267,882	78,790
Performance deposits	-	-	-	2,800
Revenue bonds payable	-	225,000	365,000	-
Loans payable	-	20,000	-	-
Total current liabilities	392,227	513,019	2,491,257	1,286,430
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	-	627,256	327,923	-
Interfund loans (see Note II.E)	-	-	-	1,343,022
Loans payable	11,974,000	815,000	-	-
Total noncurrent liabilities	11,974,000	1,442,256	327,923	1,343,022
Total liabilities	12,366,227	1,955,275	2,819,180	2,629,452
Net Assets				
Invested in capital assets, net of related debt	9,117,523	19,286,581	14,808,378	3,881,511
Restricted for debt service	1,918,357	1,049,603	3,002,895	-
Unrestricted	546,212	2,217,637	6,200,212	1,395,439
Total net assets	\$ 11,582,092	\$ 22,553,821	\$ 24,011,485	\$ 5,276,950

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

CITY OF JASPER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006

	2006			
	Water	Wastewater	Electric	Gas
Operating revenues:				
Metered water revenue:				
Residential	\$ 1,420,715	\$ -	\$ -	\$ -
Residential sales	-	-	4,423,276	2,783,025
Commercial and industrial sales	1,327,049	-	16,045,229	6,870,345
Public street and highway lighting	-	-	175,313	-
Fire protection revenue	134,316	-	-	-
Penalties	7,646	22,410	28,261	12,656
Measured revenue:				
Residential	-	1,530,497	-	-
Commercial	-	1,099,525	-	-
Other	49,313	239,580	16,200	4,364
Total operating revenues	<u>2,939,039</u>	<u>2,892,012</u>	<u>20,688,279</u>	<u>9,670,390</u>
Operating expenses:				
Source of supply and expense - operations and maintenance	94,995	-	-	-
Water treatment expense - operations and maintenance	415,645	-	-	-
Production and supply	-	-	-	7,777,243
Power production	-	-	16,064,325	-
Transmission and distribution	334,814	-	788,481	299,427
Collection system - operations and maintenance	-	247,025	-	-
Pumping - operations and maintenance	-	291,294	-	-
Treatment and disposal - operations and maintenance	-	677,123	-	-
Customer accounts	28,702	58,405	41,383	24,398
Administration and general	772,364	1,013,339	2,012,044	529,625
Depreciation and amortization	460,556	604,333	786,953	128,326
Total operating expenses	<u>2,107,076</u>	<u>2,891,519</u>	<u>19,693,186</u>	<u>8,759,019</u>
Operating income	<u>831,963</u>	<u>493</u>	<u>995,093</u>	<u>911,371</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	126,279	149,020	387,557	48,630
Miscellaneous revenue	20,882	7,140	53,528	22,909
Interest expense	(444,225)	(98,119)	(77,127)	(21,233)
Miscellaneous expense	(3,526)	(11,545)	(12,024)	-
Total nonoperating revenues (expenses)	<u>(300,590)</u>	<u>46,496</u>	<u>351,934</u>	<u>50,306</u>
Income before contributions and transfers	531,373	46,989	1,347,027	961,677
Capital contributions	40,841	176,473	-	110,248
Transfers out	(150,369)	-	(120,774)	(27,802)
Change in net assets	421,845	223,462	1,226,253	1,044,123
Total net assets - beginning	<u>11,160,247</u>	<u>22,330,359</u>	<u>22,785,232</u>	<u>4,232,827</u>
Total net assets - ending	<u>\$ 11,582,092</u>	<u>\$ 22,553,821</u>	<u>\$ 24,011,485</u>	<u>\$ 5,276,950</u>

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

CITY OF JASPER
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2006

	2006			
	Water	Wastewater	Electric	Gas
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,925,413	\$ 2,899,347	\$ 20,649,755	\$ 10,356,280
Payments to suppliers and contractors	(850,770)	(980,491)	(17,376,604)	(9,207,389)
Payments to employees	(762,089)	(1,369,097)	(1,229,813)	(353,180)
Interfund services provided (used)	642	(3,306)	3,303	(639)
Other receipts	20,882	7,140	53,528	22,909
Net cash provided by operating activities	1,334,078	553,593	2,100,169	817,981
Cash flows from noncapital and related financing activities:				
Transfer to other funds	(150,369)	-	(120,774)	(27,802)
Interfund loans	-	-	(1,321,789)	1,321,789
Acquisition of noncapital assets	-	-	-	(1,359,375)
Net cash used by noncapital financing activities	(150,369)	-	(1,442,563)	(65,388)
Cash flows from capital and related financing activities:				
Capital contributions	40,841	176,473	-	110,248
Acquisition and construction of capital assets	(359,251)	(371,278)	(508,417)	(384,634)
Principal paid on capital debt	(651,000)	(480,000)	(725,000)	-
Interest paid on capital debt	(444,225)	(66,748)	(35,050)	-
Proceeds from sales of capital assets	119,480	85,779	157	77,434
Net cash used by capital and related financing activities	(1,294,155)	(655,774)	(1,268,310)	(196,952)
Cash flows from investing activities:				
Interest received	126,279	149,020	366,324	48,630
Net increase (decrease) in cash and cash equivalents	15,833	46,839	(244,380)	604,271
Cash and cash equivalents, January 1	2,386,016	3,040,554	7,180,256	959,210
Cash and cash equivalents, December 31	\$ 2,401,849	\$ 3,087,393	\$ 6,935,876	\$ 1,563,481
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 831,963	\$ 493	\$ 995,093	\$ 911,371
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	460,556	604,333	786,953	128,326
Amortization expense (see Note I.D.4)	-	-	-	16,353
Bad debt expense	3,565	280	12,854	6,752
Nonoperating revenue and expense	20,882	7,140	53,528	22,909
(Increase) decrease in assets:				
Accounts receivable	(13,626)	7,335	(38,524)	685,890
Interfund services provided or used	-	(3,306)	3,303	-
Inventories	13,552	10,430	(31,110)	1,924
Prepaid items	(13,374)	(24,093)	(8,169)	(4,287)
Increase (decrease) in liabilities:				
Accounts payable	52,232	(38,451)	425,149	(905,801)
Interfund payables	642	-	-	(639)
Contracts payable	(24,852)	(13,338)	(108,600)	-
Taxes payable	367	-	6,359	(48,216)
Performance deposits	-	-	-	(3,450)
Customer deposits	2,171	2,770	3,333	6,849
Total adjustments	502,115	553,100	1,105,076	(93,390)
Net cash provided by operating activities	\$ 1,334,078	\$ 553,593	\$ 2,100,169	\$ 817,981

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, represent a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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 governmental funds are recorded as expenditures when consumed rather than when purchased.

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

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

3. Restricted Assets

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

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 1,000	Straight-line	67 years
Improvements other than building	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 \$444,225, \$98,119, \$77,127, and \$21,233, respectively. None of the interest expense incurred was included as part of the cost of capital assets under construction.

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

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

II. Detailed Notes on All Funds

A. Deposits

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. At December 31, 2006, 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.

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 \$16,353. As of December 31, 2006, the intangible asset – pipeline rights are \$1,343,022.

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

C. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 292,314	\$ -	\$ -	\$ 292,314
Construction in progress	<u>-</u>	<u>208,702</u>	<u>195,017</u>	<u>13,685</u>
Total capital assets, not being depreciated	<u>292,314</u>	<u>208,702</u>	<u>195,017</u>	<u>305,999</u>
Capital assets, being depreciated:				
Buildings	10,427,252	-	-	10,427,252
Improvements other than buildings	10,171,418	218,055	93,586	10,295,887
Machinery and equipment	<u>4,118,624</u>	<u>127,511</u>	<u>108,154</u>	<u>4,137,981</u>
Totals	<u>24,717,294</u>	<u>345,566</u>	<u>201,740</u>	<u>24,861,120</u>
Less accumulated depreciation for:				
Buildings	633,770	157,789	-	791,559
Improvements other than buildings	2,398,692	185,656	36,225	2,548,123
Machinery and equipment	<u>661,312</u>	<u>117,110</u>	<u>42,508</u>	<u>735,914</u>
Totals	<u>3,693,774</u>	<u>460,555</u>	<u>78,733</u>	<u>4,075,596</u>
Total capital assets, being depreciated, net	<u>21,023,520</u>	<u>(114,989)</u>	<u>123,007</u>	<u>20,785,524</u>
Total Water Utility capital assets, net	<u>\$ 21,315,834</u>	<u>\$ 93,713</u>	<u>\$ 318,024</u>	<u>\$ 21,091,523</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 195,639	\$ -	\$ -	\$ 195,639
Construction in progress	<u>414,414</u>	<u>358,454</u>	<u>772,868</u>	<u>-</u>
Total capital assets, not being depreciated	<u>610,053</u>	<u>358,454</u>	<u>772,868</u>	<u>195,639</u>
Capital assets, being depreciated:				
Buildings	6,898,962	-	-	6,898,962
Improvements other than buildings	15,352,872	506,353	-	15,859,225
Machinery and equipment	<u>7,092,803</u>	<u>279,340</u>	<u>122,306</u>	<u>7,249,837</u>
Totals	<u>29,344,637</u>	<u>785,693</u>	<u>122,306</u>	<u>30,008,024</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility (continued):				
Less accumulated depreciation for:				
Buildings	1,383,603	92,079	-	1,475,682
Improvements other than buildings	2,887,352	269,455	-	3,156,807
Machinery and equipment	<u>4,321,835</u>	<u>242,798</u>	<u>30,040</u>	<u>4,534,593</u>
 Totals	 <u>8,592,790</u>	 <u>604,332</u>	 <u>30,040</u>	 <u>9,167,082</u>
 Total capital assets, being depreciated, net	 <u>20,751,847</u>	 <u>181,361</u>	 <u>92,266</u>	 <u>20,840,942</u>
 Total Wastewater Utility capital assets, net	 <u>\$ 21,361,900</u>	 <u>\$ 539,815</u>	 <u>\$ 865,134</u>	 <u>\$ 21,036,581</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 110,050	\$ -	\$ -	\$ 110,050
Construction in progress	<u>113,098</u>	<u>211,441</u>	<u>324,539</u>	<u>-</u>
 Total capital assets, not being depreciated	 <u>223,148</u>	 <u>211,441</u>	 <u>324,539</u>	 <u>110,050</u>
 Capital assets, being depreciated:				
Buildings	3,672,670	93,550	-	3,766,220
Improvements other than buildings	17,079,212	515,447	56,852	17,537,807
Machinery and equipment	<u>6,820,033</u>	<u>12,518</u>	<u>126,399</u>	<u>6,706,152</u>
 Totals	 <u>27,571,915</u>	 <u>621,515</u>	 <u>183,251</u>	 <u>28,010,179</u>
 Less accumulated depreciation for:				
Buildings	1,970,466	64,184	833	2,033,817
Improvements other than buildings	7,090,718	459,243	56,703	7,493,258
Machinery and equipment	<u>2,909,383</u>	<u>264,359</u>	<u>123,966</u>	<u>3,049,776</u>
 Totals	 <u>11,970,567</u>	 <u>787,786</u>	 <u>181,502</u>	 <u>12,576,851</u>
 Total capital assets, being depreciated, net	 <u>15,601,348</u>	 <u>(166,271)</u>	 <u>1,749</u>	 <u>15,433,328</u>
 Total Electric Utility capital assets, net	 <u>\$ 15,824,496</u>	 <u>\$ 45,170</u>	 <u>\$ 326,288</u>	 <u>\$ 15,543,378</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>
Gas Utility:				
Capital assets, not being depreciated:				
Land	\$ 16,904	\$ -	\$ -	\$ 16,904
Construction in progress	<u>-</u>	<u>170,108</u>	<u>47,571</u>	<u>122,537</u>
 Total capital assets, not being depreciated	 <u>16,904</u>	 <u>170,108</u>	 <u>47,571</u>	 <u>139,441</u>
Capital assets, being depreciated:				
Buildings	10,926	-	-	10,926
Improvements other than buildings	4,803,581	158,987	52,463	4,910,105
Machinery and equipment	<u>705,512</u>	<u>103,110</u>	<u>87,967</u>	<u>720,655</u>
 Totals	 <u>5,520,019</u>	 <u>262,097</u>	 <u>140,430</u>	 <u>5,641,686</u>
Less accumulated depreciation for:				
Buildings	4,813	181	-	4,994
Improvements other than buildings	1,480,089	89,808	26,261	1,543,636
Machinery and equipment	<u>349,384</u>	<u>38,337</u>	<u>36,735</u>	<u>350,986</u>
 Totals	 <u>1,834,286</u>	 <u>128,326</u>	 <u>62,996</u>	 <u>1,899,616</u>
 Total capital assets, being depreciated, net	 <u>3,685,733</u>	 <u>133,771</u>	 <u>77,434</u>	 <u>3,742,070</u>
 Total Gas Utility capital assets, net	 <u>\$ 3,702,637</u>	 <u>\$ 303,879</u>	 <u>\$ 125,005</u>	 <u>\$ 3,881,511</u>

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

Water	\$ 460,556
Wastewater	604,333
Electric	786,953
Gas	<u>128,326</u>
 Total depreciation expense	 <u>\$ 1,980,168</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, 2006	Committed	Required Future Funding
Water Utility:				
Windsong Estates	\$ 13,685	\$ 13,685	\$ -	\$ -
Gas Utility:				
Windsong Estates Gas Line	52,341	52,341	-	-
Decora Gas Main	<u>70,196</u>	<u>70,196</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 136,222</u>	<u>\$ 136,222</u>	<u>\$ -</u>	<u>\$ -</u>

E. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2006, is as follows:

Due To	Due From		
	Wastewater Utility	Gas Utility	Total
Water Utility	\$ 32,692	\$ 478	\$ 33,170
Electric Utility	<u>-</u>	<u>1,343,022</u>	<u>1,343,022</u>
Totals	<u>\$ 32,692</u>	<u>\$ 1,343,500</u>	<u>\$ 1,376,192</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 for five years with the option to extend the loan for an additional five years. 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 local certificate of deposit rates. Principal and interest payments made in 2006 were \$16,353 and \$21,233, respectively. The interfund loan payable as of December 31, 2006, was \$1,343,022 and was classified as a noncurrent liability since the term of the loan exceeds one year.

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

2. Interfund Transfers

Interfund transfers at December 31, 2006, were as follows:

Transfer From	Transfer To General Fund
Water Utility	\$ 150,369
Wastewater Utility	120,774
Electric Utility	27,802
Total	\$ 298,945

The Utilities typically uses transfers to fund ongoing operating subsidies.

F. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Amount
2003 Wastewater refunding bonds (Wastewater additions, extensions and improvements)	2.65% to 3.35%	\$ 915,000
2003 Electric refunding bonds (power plant renovations)	2.65% to 3.15%	735,000
Total		\$ 1,650,000

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility		Electric Utility	
	Principal	Interest	Principal	Interest
2007	\$ 225,000	\$ 14,084	\$ 365,000	\$ 10,664
2008	455,000	18,661	370,000	5,827
2009	235,000	3,936	-	-
Totals	\$ 915,000	\$ 36,681	\$ 735,000	\$ 16,491

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

2. 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 the 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 \$244,563, are as follows:

2007	\$	34,613
2008		73,087
2009		71,512
2010		74,938
2011		73,187
2012-2016		358,900
2017-2021		357,713
2022		<u>35,613</u>
Total	\$	<u>1,079,563</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 20 years. Annual debt service requirements to maturity for this loan, including interest of \$3,250,275, are as follows:

2007	\$	201,688
2008		1,042,000
2009		1,043,812
2010		1,044,750
2011		1,039,900
2012-2016		5,209,813
2017-2021		<u>5,193,312</u>
Total	\$	<u>14,775,275</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

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

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 20 years. Annual debt service requirements to maturity for this loan, including interest of \$165,640, are as follows:

2007	\$	8,980
2008		39,520
2009		38,640
2010		37,760
2011		37,860
2012-2016		193,000
2017-2021		185,020
2022-2023		<u>73,860</u>
 Total	 \$	 <u><u>614,640</u></u>

3. Advance Refunding

In prior years, the Wastewater and Electric Utilities defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utilities' financial statements. The following outstanding bonds, at December 31, 2006, were considered defeased:

	Amount
Wastewater Utility	\$ 1,285,000
Electric Utility	1,295,000

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Loans payable	<u>\$ 12,625,000</u>	<u>\$ -</u>	<u>\$ 651,000</u>	<u>\$ 11,974,000</u>	<u>\$ -</u>
Wastewater Utility:					
Revenue bonds payable	\$ 1,355,000	\$ -	\$ 440,000	\$ 915,000	\$ 225,000
Less unamortized discount	11,293	-	3,764	7,529	-
Less deferred amount on refunding	<u>82,822</u>	<u>-</u>	<u>27,607</u>	<u>55,215</u>	<u>-</u>
Total revenue bonds payable	1,260,885	-	408,629	852,256	225,000
Loans payable	<u>875,000</u>	<u>-</u>	<u>40,000</u>	<u>835,000</u>	<u>20,000</u>
Total long-term liabilities	<u>\$ 2,135,885</u>	<u>\$ -</u>	<u>\$ 448,629</u>	<u>\$ 1,687,256</u>	<u>\$ 245,000</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Electric Utility:					
Revenue bonds payable	\$ 1,460,000	\$ -	\$ 725,000	\$ 735,000	\$ 365,000
Less unamortized discount	12,069	-	6,035	6,034	-
Less deferred amount on refunding	<u>72,085</u>	<u>-</u>	<u>36,042</u>	<u>36,043</u>	<u>-</u>
Total revenue bonds payable	<u>\$ 1,375,846</u>	<u>\$ -</u>	<u>\$ 682,923</u>	<u>\$ 692,923</u>	<u>\$ 365,000</u>

G. Restricted Assets

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

Water Utility:	
Debt service reserve account	\$ 1,088,310
Depreciation account	830,047
Computer account	21,128
Customer deposit account	46,385
In lieu of taxes reserve account	243,199
Self-insurance liability reserve account	<u>171,000</u>
Total restricted assets	<u>\$ 2,400,069</u>
Wastewater Utility:	
Debt service reserve account	\$ 275,567
Depreciation account	774,036
Computer account	20,364
Customer deposit account	80,145
Self-insurance liability reserve account	165,750
Industrial pretreatment account	37,660
Plant expansion account	1,408,489
Interceptor improvement account	<u>317,522</u>
Total restricted assets	<u>\$ 3,079,533</u>
Electric Utility:	
Debt service reserve account	\$ 352,000
Depreciation account	2,650,895
Computer account	19,578
Customer deposit account	267,882
In lieu of taxes reserve account	195,569
Self-insurance liability reserve account	<u>976,782</u>
Total restricted assets	<u>\$ 4,462,706</u>

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF JASPER
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(Continued)

Gas Utility:	
Depreciation account	\$ 293,719
Computer account	21,844
Customer deposit account	78,790
In lieu of taxes reserve account	44,650
Self-insurance liability reserve account	<u>171,000</u>
 Total restricted assets	 <u>\$ 610,003</u>

III. Other Information

A. Risk Management

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

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

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.

Job Related Illnesses and Injuries to Employees

During 1995, the Utilities joined together with other governmental entities in the Indiana Public Employer's Plan Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses and injuries to employees. The Utilities pay an annual premium to the risk pool for its job related illnesses and injuries to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

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

B. Subsequent Events

Job Related Illnesses and Injuries to Employees Coverage

Beginning January 1, 2007, the Utilities changed their job related illnesses and injuries coverage from Indiana Public Employer's Plan Inc., a public entity risk pool, to Bituminous, commercial insurance coverage.

C. 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 1980's, 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%.

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 January 21, 2004. The Utility has 6,033 customers.

2. Wastewater Utility

The current rate structure was approved by the City Council on December 17, 1997, and amended on May 22, 2002, and April 19, 2006. The Utility has 6,283 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 May 22, 1996, and amended on August 17, 2005. The Utility has 6,832 customers.

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

4. Gas Utility

On June 12, 1991, the City Council adopted Ordinance No. 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. The Utility has 4,093 customers.

E. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

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
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 526,326
Interest on net pension obligation	(16,644)
Adjustment to annual required contribution	18,967
Annual pension cost	528,649
Contributions made	487,829
Increase in net pension obligation	40,820
Net pension obligation, beginning of year	(229,571)
Net pension obligation, end of year	\$ (188,751)
Contribution rates:	
Utilities	7.50%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

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

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

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-04	\$ 387,626	119%	\$ (183,806)
	06-30-05	426,854	111%	(229,571)
	06-30-06	528,649	114%	(188,751)

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)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 7,176,693	\$ 8,961,627	\$ (1,784,934)	80%	\$ 6,224,567	(29%)
07-01-05	7,551,061	10,250,137	(2,699,076)	74%	6,497,215	(42%)
07-01-06	8,135,268	10,248,737	(2,113,469)	79%	6,445,174	(33%)

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

The contents of this report were discussed on June 21, 2007, with William J. Schmitt, Mayor; Juanita S. Boehm, Clerk-Treasurer; and Gerald Bud Huersperger, Utilities' General Manager. Our audit disclosed no material items that warrant comment at this time.