

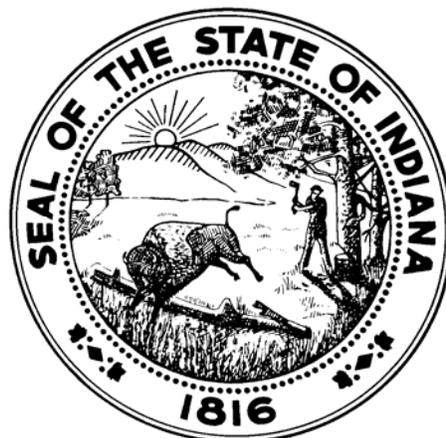
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2006

CITY OF HUNTINGTON MUNICIPAL UTILITIES

HUNTINGTON COUNTY, INDIANA



FILED
09/12/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Pamela J. Updike	01-01-04 to 12-31-07
Mayor	Terry R. Abbett	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Terry R. Abbett	01-01-04 to 12-31-07
President of the Common Council	Ervin R. Ebersole Joseph E. Blomeke	01-01-06 to 12-31-06 01-01-07 to 12-31-07
Office Manager	Todd A. Slusser	01-01-06 to 12-31-07
Superintendent of Water Utility Plant Distribution	Darold L. Harlan, Jr. Owen L. Kirby	01-01-06 to 12-31-07 01-01-06 to 12-31-07
Superintendent of Wastewater Utility	Collin E. Bullock	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF HUNTINGTON MUNICIPAL
UTILITIES, HUNTINGTON COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the City of Huntington Municipal Utilities (Utilities), departments of the City of Huntington, 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 Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Huntington 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 Utilities, 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.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

STATE BOARD OF ACCOUNTS

August 16, 2007

CITY OF HUNTINGTON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2006

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:		
Cash and cash equivalents	\$ 282,456	\$ 654,354
Accounts receivable - customers (net of allowance)	155,188	224,852
Accounts receivable - other	2,907	21,759
Interfund receivables:		
Interfund services provided and used	17,888	-
Inventories	<u>133,873</u>	<u>8,818</u>
Total current assets	<u>592,312</u>	<u>909,783</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Customer deposits	219,896	-
Revenue bond covenant accounts	-	1,105,308
Other restricted accounts	<u>53,688</u>	<u>-</u>
Total restricted assets	<u>273,584</u>	<u>1,105,308</u>
Deferred charges	<u>-</u>	<u>156,008</u>
Capital assets:		
Land, improvements to land and construction in progress	205,920	131,620
Other capital assets (net of accumulated depreciation)	<u>8,264,843</u>	<u>26,333,618</u>
Total capital assets	<u>8,470,763</u>	<u>26,465,238</u>
Total noncurrent assets	<u>8,744,347</u>	<u>27,726,554</u>
Total assets	<u>9,336,659</u>	<u>28,636,337</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	120,709	26,678
Interfund payables:		
Interfund services provided and used	-	17,888
Accrued wages payable	34,113	30,079
Contracts payable	17,400	-
Taxes payable	6,353	-
Capital leases payable	13,011	103,544
Current liabilities payable from restricted assets:		
Customer deposits	219,896	-
Revenue bonds payable	-	75,000
Accrued interest payable	<u>-</u>	<u>24,189</u>
Total current liabilities	<u>411,482</u>	<u>277,378</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized deferred loss on refunding)	-	7,681,613
Capital leases payable	22,640	22,639
Compensated absences	<u>7,067</u>	<u>8,337</u>
Total noncurrent liabilities	<u>29,707</u>	<u>7,712,589</u>
Total liabilities	<u>441,189</u>	<u>7,989,967</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	8,435,112	17,929,056
Restricted for debt service	-	1,105,308
Unrestricted	<u>460,358</u>	<u>1,612,006</u>
Total net assets	<u>\$ 8,895,470</u>	<u>\$ 20,646,370</u>

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

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

	Water Utility	Wastewater Utility
Operating revenues:		
Metered water revenue:		
Residential	\$ 1,145,907	\$ -
Commercial	274,286	-
Industrial	181,279	-
Fire protection revenue	403,302	-
Penalties	17,257	71,966
Flat rate revenues	-	82,687
Measured revenue:		
Residential	-	1,521,422
Commercial	-	380,704
Industrial	-	1,370,641
Other	46,617	49,001
Total operating revenues	2,068,648	3,476,421
Operating expenses:		
Source of supply and expense - operations and maintenance:		
Salaries and wages	155,310	-
Purchased power	66,261	-
Materials and supplies	457	-
Contractual services	29,642	-
Transportation expenses	21,250	-
Rents	1,200	-
Miscellaneous expenses	1,980	-
Water treatment expense - operations and maintenance:		
Salaries and wages	157,190	-
Purchased power	102,478	-
Materials and supplies	39,710	-
Contractual services	113,084	-
Chemicals	4,845	-
Transportation expenses	98	-
Miscellaneous expenses	3,968	-
Transmission and distribution:		
Salaries and wages	308,760	-
Purchased power	42,627	-
Materials and supplies	194,082	-
Contractual services	74,620	-
Transportation expenses	16,161	-
Rents	3,225	-
Miscellaneous expenses	3,928	-
Collection system - operations and maintenance:		
Salaries and wages	-	232,766
Purchased power	-	14,409
Materials and supplies	-	80,717
Contractual services	-	72,195
Transportation expenses	-	42,909
Miscellaneous expenses	-	10,666

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

CITY OF HUNTINGTON MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006
(Continued)

	Water Utility	Wastewater Utility
Operating expenses (continued):		
Treatment and disposal - operations and maintenance:		
Salaries and wages	-	359,453
Purchased power	-	210,206
Sludge removal	-	22,119
Chemicals	-	127,049
Materials and supplies	-	117,498
Contractual services	-	8,279
Miscellaneous expenses	-	20,036
Customer accounts:		
Salaries and wages	71,045	170,549
Materials and supplies	47,651	33,077
Bad debt expense	844	7,165
Miscellaneous expenses	2,565	-
Administrative and general:		
Salaries and wages	141,320	206,247
Employee pensions and benefits	321,214	262,267
Materials and supplies	5,299	8,215
Contractual services	1,178	7,935
Miscellaneous expenses	57,613	46,602
Depreciation and amortization	322,839	664,168
Total operating expenses	2,312,444	2,724,527
Operating income (loss)	(243,796)	751,894
Nonoperating revenues (expenses):		
Interest and investment revenue	52,983	54,554
Interest expense	(1,742)	(457,093)
Amortization of bond issue costs	-	(13,000)
Total nonoperating revenues (expenses)	51,241	(415,539)
Income (loss) before contributions	(192,555)	336,355
Capital contributions	22,100	113,095
Change in net assets	(170,455)	449,450
Total net assets - beginning	9,065,925	20,196,920
Total net assets - ending	\$ 8,895,470	\$ 20,646,370

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

CITY OF HUNTINGTON MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,079,158	\$ 3,484,335
Payments to suppliers and contractors	(807,982)	(833,732)
Payments to employees	(1,153,694)	(1,230,223)
Interfund services provided (used)	(6,882)	6,882
Net cash provided by operating activities	110,600	1,427,262
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(120,006)	(121,950)
Principal paid on capital debt	(25,170)	(659,847)
Interest paid on capital debt	(1,742)	(403,394)
Net cash used by capital and related financing activities	(146,918)	(1,185,191)
Cash flows from investing activities:		
Interest received	52,983	54,554
Net increase in cash and cash equivalents	16,665	296,625
Cash and cash equivalents, January 1	539,375	1,463,037
Cash and cash equivalents, December 31	\$ 556,040	\$ 1,759,662
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (243,796)	\$ 751,894
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	322,839	664,168
(Increase) decrease in assets:		
Accounts receivable - customers	9,884	5,027
Accounts receivable - other	626	2,887
Interfund services provided and used	(6,882)	-
Allowance for uncollectible accounts	844	7,165
Inventories	(59,015)	-
Increase (decrease) in liabilities:		
Accounts payable	76,644	(11,820)
Accrued wages payable	2,196	263
Interfund services provided and used	-	6,882
Taxes payable	(669)	-
Compensated absences	(1,051)	796
Customer deposits	8,980	-
Total adjustments	354,396	675,368
Net cash provided by operating activities	\$ 110,600	\$ 1,427,262
Noncash investing, capital and financing activities:		
Contributions of capital assets from government	\$ 22,100	\$ 113,095
Purchase of equipment on account	17,400	-

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

CITY OF HUNTINGTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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

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

2. Inventories

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

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

3. Restricted Assets

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

4. Capital Assets

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

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 5,000	Composite rate	1.5% to 2%
Improvements other than buildings	5,000	Composite rate	1.5% to 2%
Machinery and equipment	5,000	Composite rate	2% to 10%
Transportation equipment	5,000	Straight-line	5 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.

5. Compensated Absences

a. Sick Leave

Utility employees not covered by the collective bargaining agreement earn sick leave at the rate of ½ day per month. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave is not paid to employees upon termination.

Utility employees covered by the collective bargaining agreement earn sick leave at the rate of ½ day per month plus each employee shall receive 1½ day each January 1. Unused sick leave may be accumulated to a maximum of 80 days. Accumulated sick leave is not paid to employees upon termination of employment; however, employees may receive cash payments upon retirement.

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

b. Vacation Leave

Utility employees not covered by the collective bargaining agreement earn vacation leave at rates from 1 week to 6 weeks per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

Utility employees covered by the collective bargaining agreement earn vacation leave at rates from 1 week to 6 weeks per year based upon the number of years of service and the date of hire. Vacation leave may be accumulated to a maximum of 2 weeks. Accumulated vacation leave is paid to employees through cash payments upon termination of employment.

c. Personal Leave

Utility employees earn personal leave at the rate of 1 day per year. Personal leave does not accumulate from year to year.

Vacation and sick leave are accrued when incurred.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits and Investments

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

B. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 126,720	\$ -	\$ -	\$ 126,720
Construction in progress	<u>-</u>	<u>79,200</u>	<u>-</u>	<u>79,200</u>
 Total capital assets, not being depreciated	 <u>126,720</u>	 <u>79,200</u>	 <u>-</u>	 <u>205,920</u>

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

Wastewater Utility:

Capital assets, not being depreciated:				
Land	\$ 131,620	\$ -	\$ -	\$ 131,620
Capital assets, being depreciated:				
Improvements other than buildings	23,396,399	146,781	-	23,543,180
Buildings	10,899,046	-	-	10,899,046
Machinery and equipment	1,302,053	-	-	1,302,053
Transportation equipment	<u>307,101</u>	<u>88,264</u>	-	<u>395,365</u>
Totals	<u>35,904,599</u>	<u>235,045</u>	-	<u>36,139,644</u>
Less accumulated depreciation for:				
Improvements other than buildings	5,056,730	350,946	-	5,407,676
Buildings	2,816,890	163,486	-	2,980,376
Machinery and equipment	1,035,371	130,205	-	1,165,576
Transportation equipment	<u>232,867</u>	<u>19,531</u>	-	<u>252,398</u>
Totals	<u>9,141,858</u>	<u>664,168</u>	-	<u>9,806,026</u>
Total capital assets, being depreciated, net	<u>26,762,741</u>	<u>(429,123)</u>	-	<u>26,333,618</u>
Total capital assets, net	<u>\$ 26,894,361</u>	<u>\$ (429,123)</u>	<u>\$ -</u>	<u>\$ 26,465,238</u>

Wastewater Utility:

Capital assets, not being depreciated:				
Land	\$ 131,620	\$ -	\$ -	\$ 131,620
Capital assets, being depreciated:				
Improvements other than buildings	23,396,399	146,781	-	23,543,180
Buildings	10,899,046	-	-	10,899,046
Machinery and equipment	1,302,053	-	-	1,302,053
Transportation equipment	<u>307,101</u>	<u>88,264</u>	-	<u>395,365</u>
Totals	<u>35,904,599</u>	<u>235,045</u>	-	<u>36,139,644</u>
Less accumulated depreciation for:				
Improvements other than buildings	5,056,730	350,946	-	5,407,676
Buildings	2,816,890	163,486	-	2,980,376
Machinery and equipment	1,035,371	130,205	-	1,165,576
Transportation equipment	<u>232,867</u>	<u>19,531</u>	-	<u>252,398</u>
Totals	<u>9,141,858</u>	<u>664,168</u>	-	<u>9,806,026</u>
Total capital assets, being depreciated, net	<u>26,762,741</u>	<u>(429,123)</u>	-	<u>26,333,618</u>
Total capital assets, net	<u>\$ 26,894,361</u>	<u>\$ (429,123)</u>	<u>\$ -</u>	<u>\$ 26,465,238</u>

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

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

Water	\$ 322,839
Wastewater	<u>664,168</u>
 Total depreciation expense	 <u>\$ 987,007</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed
Water plant telemetry	\$ 102,600	\$ 53,600	\$ 49,000
State Street water main extension	<u>532,000</u>	<u>25,600</u>	<u>506,400</u>
 Totals	 <u>\$ 634,600</u>	 <u>\$ 79,200</u>	 <u>\$ 555,400</u>

D. Interfund Balances and Activity

Interfund Services Provided and Used

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

	Due From
	Wastewater
	Utility
	Due To
Water Utility	<u>\$ 17,888</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.

E. Leases

Capital Leases

The Utilities have entered into various capital leases for equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2006, are as follows:

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

	<u>Water Utility</u>	<u>Wastewater Utility</u>
2007	\$ 13,976	\$ 107,043
2008	13,977	13,977
2009	<u>9,318</u>	<u>9,318</u>
Total minimum lease payments	37,271	130,338
Less amount representing interest	<u>1,620</u>	<u>4,155</u>
Present value of net minimum lease payments	<u>\$ 35,651</u>	<u>\$ 126,183</u>

Assets acquired through capital leases still in effect are as follows:

	<u>Water Utility</u>	<u>Wastewater Utility</u>
Machinery and equipment	\$ -	\$ 261,800
Transportation equipment	<u>64,418</u>	<u>64,418</u>
Totals	64,418	326,218
Accumulated depreciation	<u>25,767</u>	<u>78,127</u>
Totals	<u>\$ 38,651</u>	<u>\$ 248,091</u>

F. Long-Term Liabilities

1. Revenue Bonds

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Balance at December 31</u>	<u>Less: Unamortized Deferred Loss on Refunding</u>	<u>Revenue Bonds</u>
1998 Wastewater plant improvement	4.10% to 4.90%	\$ 7,205,000	\$ 554,385	\$ 6,650,615
2003 Wastewater refunding	2.40% to 4.75%	<u>1,205,000</u>	<u>99,002</u>	<u>1,105,998</u>
Totals		<u>\$ 8,410,000</u>	<u>\$ 653,387</u>	<u>\$ 7,756,613</u>

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2007	\$ 75,000	\$ 211,069
2008	580,000	362,126
2009	605,000	338,046
2010	625,000	312,369
2011	660,000	284,912
2012-2016	3,790,000	944,610
2017-2019	<u>2,075,000</u>	<u>122,416</u>
Totals	<u>\$ 8,410,000</u>	<u>\$ 2,575,548</u>

2. Advance Refunding

In prior years, the Utilities defeased certain revenue 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 1995 outstanding Wastewater Utility bonds were called on October 31, 2006.

3. 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:					
Capital leases payable	\$ 60,821	\$ -	\$ 25,170	\$ 35,651	\$ 13,011
Compensated absences	<u>8,118</u>	<u>-</u>	<u>1,051</u>	<u>7,067</u>	<u>-</u>
Total Water Utility long-term liabilities	<u>68,939</u>	<u>-</u>	<u>26,221</u>	<u>42,718</u>	<u>13,011</u>
Wastewater Utility:					
Revenue bonds payable	8,970,000	-	560,000	8,410,000	75,000
Capital leases payable	226,030	-	99,847	126,183	103,544
Compensated absences	<u>7,541</u>	<u>796</u>	<u>-</u>	<u>8,337</u>	<u>-</u>
Total Wastewater Utility long-term liabilities	<u>9,203,571</u>	<u>796</u>	<u>659,847</u>	<u>8,544,520</u>	<u>178,544</u>
Total long-term liabilities	<u>\$ 9,272,510</u>	<u>\$ 796</u>	<u>\$ 686,068</u>	<u>\$ 8,587,238</u>	<u>\$ 191,555</u>

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

G. Restricted Assets

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

	Water Utility	Wastewater Utility	
Customer deposits	\$ 219,896	\$ -	
Bond and interest	-	101,470	
Debt reserve	-	1,003,838	
Internally restricted	112	-	
Depreciation	53,576	-	
 Total restricted assets	 \$ 273,584	 \$ 1,105,308	

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

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Self-Insurance Fund on the City's records, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$60,000 to \$200,000 per year, depending on the individual. 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 an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions.

Job Related Illnesses or Injuries to Employees

During 2002, the Utilities joined the Indiana Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Utilities pay an annual premium to the risk pool for its job related illnesses or injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

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

B. Rate Structure

1. Water Utility

On May 14, 1991, the Common Council adopted ordinance No. 9-C-91 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Common Council on September 14, 2004. The Utility has 6,704 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on October 26, 2004. The Utility has 6,717 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 213,552
Interest on net pension obligation	(1,476)
Adjustment to annual required contribution	1,682
Annual pension cost	213,758
Contributions made	215,442
Decrease in net pension obligation	(1,684)
Net pension obligation, beginning of year	(20,361)
Net pension obligation, end of year	\$ (22,045)
 Contribution rates:	
Utilities	6%
Plan members	3%
Actuarial valuation date	07-01-06
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	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 195,645	104%	\$ (6,383)
	06-30-05	198,606	107%	(20,361)
	06-30-06	213,758	108%	(22,045)

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

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 3,716,849	\$ 4,268,061	\$ (551,212)	87%	\$ 3,561,407	(15%)
07-01-05	3,885,195	4,576,809	(691,614)	85%	3,488,256	(20%)
07-01-06	3,854,630	4,416,630	(562,000)	87%	3,626,801	(15%)

CITY OF HUNTINGTON MUNICIPAL UTILITIES
AUDIT RESULTS AND COMMENTS

SALES TAX

A monthly fee is assessed to each customer for hydrant rent. The Indiana Department of Revenue has ruled that hydrant rental fees paid by Water Utility customers are subject to retail sales tax. The Water Utility did not collect or remit sales tax to the Indiana Department of Revenue for fire protection (hydrant rental) billings charged to customers of the City of Huntington. Total fire protection billed in 2006 was \$314,546.

Collections by a city or town from the retail sale of tangible property, utility service, or commodities in the performance of private or proprietary activities are subject to sales tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All questions concerning the law or procedure for paying and collecting sales tax should be directed to the Indiana Department of Revenue, Sales Tax Division. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY RECEIPTS TAX

A monthly fee is assessed to each customer for hydrant rent. The Indiana Department of Revenue has ruled that hydrant rental fees paid by Water Utility customers are subject to utility receipts tax. The Water Utility did not include fire protection (hydrant rental) receipts from customers in the calculation of Utility Receipts Tax due to the Indiana Department of Revenue during the audit period.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to IC 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF HUNTINGTON MUNICIPAL UTILITIES
AUDIT RESULTS AND COMMENTS
(Continued)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property. A similar comment appeared in prior Report B27645.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . ."

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

CITY OF HUNTINGTON MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on August 16, 2007, with Terry R. Abbett, Mayor; and Pamela J. Updike, Clerk-Treasurer.