

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 HUNTINGBURG

DUBOIS COUNTY, INDIANA



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Thomas A. Dippel	01-01-04 to 12-31-07
Mayor	Gail Kemp	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Gail Kemp	01-01-04 to 12-31-07
President of the Common Council	Ken Sparrow	01-01-06 to 12-31-07
Water, Gas, and Electric Operations Superintendent	Ron McDonald	01-01-06 to 12-31-07
Superintendent of Wastewater Utility	Ron Hall	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER, WASTEWATER, ELECTRIC, AND GAS
UTILITIES, CITY OF HUNTINGBURG, 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 Huntingburg, 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 Huntingburg, 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 are attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Huntingburg 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, 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 Utilities' management has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

September 13, 2007



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REPORT COMMUNICATING INTERNAL CONTROL
RELATED MATTERS IDENTIFIED IN AN AUDIT

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

In planning and performing our audit of the financial statements of the business-type activities of the Water, Wastewater, Electric, and Gas Utilities (Utilities), departments of the City of Huntingburg, as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Utilities' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following Audit Result and Comment to represent a significant deficiency in internal control:

Personal Use of City Owned Property, (See page 22)

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following Audit Results and Comments constitute material weaknesses:

Expenditure of Utility Funds, (See page 23)
Record of Hours Worked, (See page 22)

This communication is intended solely for the information and use of management, the Common Council and the Board of Public Works and Safety, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

STATE BOARD OF ACCOUNTS

September 13, 2007

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
STATEMENT OF NET ASSETS
December 31, 2006

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>
Current assets:				
Operating cash and cash equivalents	\$ 66,102	\$ 131,558	\$ 717,752	\$ 945,703
Reserve cash and cash equivalents	15,000	-	100,000	80,000
Investments	-	-	1,800,000	150,000
Interest receivable	513	1,321	9,177	4,004
Accounts receivable (net of allowance)	32,467	33,035	64,271	206,782
Accounts receivable - other	-	-	-	100
Interfund receivables:				
Interfund loans	-	-	175,000	-
Interfund services provided and used	32	129	-	2,789
Inventories	113,627	20,557	745,149	722,040
Prepaid items	<u>16,682</u>	<u>13,582</u>	<u>15,313</u>	<u>8,023</u>
Total current assets	<u>244,423</u>	<u>200,182</u>	<u>3,626,662</u>	<u>2,119,441</u>
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Customer deposits cash and investments	31,255	46,800	84,000	67,120
Bond and interest cash and investments	16,235	149,364	-	-
Debt service reserve cash and investments	707,500	340,000	-	110,000
Interest receivable	<u>9,280</u>	<u>4,516</u>	<u>-</u>	<u>258</u>
Total restricted assets	<u>764,270</u>	<u>540,680</u>	<u>84,000</u>	<u>177,378</u>
Deferred charges	<u>11,548</u>	<u>-</u>	<u>-</u>	<u>6,230</u>
Capital assets:				
Land, improvements to land and construction in progress	98,398	268,749	1,702,205	1,009,724
Other capital assets (net of accumulated depreciation)	<u>11,384,337</u>	<u>10,242,065</u>	<u>4,453,178</u>	<u>1,659,304</u>
Total capital assets	<u>11,482,735</u>	<u>10,510,814</u>	<u>6,155,383</u>	<u>2,669,028</u>
Total noncurrent assets	<u>12,258,553</u>	<u>11,051,494</u>	<u>6,239,383</u>	<u>2,852,636</u>
Total assets	<u>12,502,976</u>	<u>11,251,676</u>	<u>9,866,045</u>	<u>4,972,077</u>
Liabilities				
Current liabilities:				
Accounts payable	48,384	28,408	340,807	649,023
Interfund payables:				
Interfund loans	175,000	-	-	-
Interfund services provided and used	2,619	-	331	-
Contracts payable	-	5,741	-	-
Taxes payable	5,714	-	16,695	22,401
Accrued wages payable	6,368	7,821	11,049	6,211
Compensated absences	27,099	47,114	49,499	31,506
Current liabilities payable from restricted assets:				
Customer deposits	31,255	46,800	84,000	67,120
Loans payable	-	140,000	-	-
Revenue bonds payable	-	36,000	-	100,000
Lease payable	-	7,643	-	-
Accrued interest payable	<u>-</u>	<u>43,764</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>296,439</u>	<u>363,291</u>	<u>502,381</u>	<u>876,261</u>
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	536,809	1,909,000	-	-
Capital leases payable	-	8,017	-	-
Loans payable	<u>6,808,000</u>	<u>2,448,000</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>7,344,809</u>	<u>4,365,017</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>7,641,248</u>	<u>4,728,308</u>	<u>502,381</u>	<u>876,261</u>
Net Assets				
Invested in capital assets, net of related debt	4,069,735	5,962,154	6,155,383	2,569,028
Restricted for debt service	723,735	489,364	-	110,000
Unrestricted	<u>68,258</u>	<u>71,850</u>	<u>3,208,281</u>	<u>1,416,788</u>
Total net assets	<u>\$ 4,861,728</u>	<u>\$ 6,523,368</u>	<u>\$ 9,363,664</u>	<u>\$ 4,095,816</u>

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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>
Operating revenues:				
Metered water revenue:				
Residential	\$ 522,546	\$ -	\$ -	\$ -
Commercial and industrial sales	1,417,883	-	-	-
Residential sales	-	-	1,593,604	1,993,118
Commercial and industrial sales	-	-	4,034,149	3,032,980
Public street and highway lighting	-	-	54,684	-
Fire protection revenue	112,240	-	-	-
Penalties	5,655	15,932	17,685	12,475
Measured revenue:				
Residential	-	468,004	-	-
Commercial	-	820,469	-	-
Other	25,118	85,359	17,559	44,824
	<u>2,083,442</u>	<u>1,389,764</u>	<u>5,717,681</u>	<u>5,083,397</u>
Total operating revenues				
Operating expenses:				
Source of supply and expense - operations and maintenance	442,657	-	-	-
Water treatment expense - operations and maintenance	166,689	-	-	-
Power production	-	-	4,162,100	-
Production and supply	-	-	-	3,565,813
Storage	-	-	-	42,811
Transmission and distribution	253,076	-	572,851	304,349
Collection system - operations and maintenance	-	217,889	-	-
Treatment and disposal - operations and maintenance	-	378,216	-	-
Customer accounts	31,667	31,944	33,588	32,573
Administration and general	359,732	352,779	517,538	428,140
Depreciation and amortization	374,891	278,285	298,648	140,717
	<u>1,628,712</u>	<u>1,259,113</u>	<u>5,584,725</u>	<u>4,514,403</u>
Total operating expenses				
Operating income	<u>454,730</u>	<u>130,651</u>	<u>132,956</u>	<u>568,994</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	46,525	25,194	126,224	64,235
Miscellaneous revenue	6,026	415	16,732	5,763
Interest expense	(257,345)	(165,315)	-	(9,882)
Miscellaneous expense	(2,417)	(26)	(57)	(3,796)
	<u>(207,211)</u>	<u>(139,732)</u>	<u>142,899</u>	<u>56,320</u>
Total nonoperating revenues (expenses)				
Income before contributions and transfers	247,519	(9,081)	275,855	625,314
Capital contributions	-	30,000	-	-
Transfers out	(66,558)	(60,271)	(204,890)	(187,618)
	<u>180,961</u>	<u>(39,352)</u>	<u>70,965</u>	<u>437,696</u>
Change in net assets				
Total net assets - beginning	<u>4,680,767</u>	<u>6,562,720</u>	<u>9,292,699</u>	<u>3,658,120</u>
Total net assets - ending	<u>\$ 4,861,728</u>	<u>\$ 6,523,368</u>	<u>\$ 9,363,664</u>	<u>\$ 4,095,816</u>

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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Electric Utility	Gas Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,083,727	\$ 1,389,096	\$ 5,731,322	\$ 5,162,358
Payments to suppliers and contractors	(755,831)	(334,165)	(4,667,461)	(4,488,356)
Payments to employees	(500,842)	(622,715)	(561,654)	(464,392)
Interfund services provided (used)	2,121	(71)	182	(2,232)
Other receipts (payments)	5,918	389	16,675	5,706
Net cash provided by operating activities	<u>835,093</u>	<u>432,534</u>	<u>519,064</u>	<u>213,084</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(66,558)	(60,271)	(204,890)	(187,618)
Interfund loans	(57,000)	-	57,000	-
Net cash used by noncapital financing activities	<u>(123,558)</u>	<u>(60,271)</u>	<u>(147,890)</u>	<u>(187,618)</u>
Cash flows from capital and related financing activities:				
Capital contributions	-	30,000	-	-
Acquisition and construction of capital assets	(26,631)	(115,765)	(782,469)	(80,160)
Principal paid on capital debt	(463,000)	(170,000)	-	(95,000)
Interest paid on capital debt	(243,706)	(166,079)	-	(9,882)
Capital lease down payment	-	(8,410)	-	-
Net cash used by capital and related financing activities	<u>(733,337)</u>	<u>(430,254)</u>	<u>(782,469)</u>	<u>(185,042)</u>
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	-	-	400,000	600,000
Purchase of investments	-	(32,000)	(700,000)	(150,000)
Interest received	45,823	22,934	139,988	71,449
Net cash provided (used) by investing activities	<u>45,823</u>	<u>(9,066)</u>	<u>(160,012)</u>	<u>521,449</u>
Net increase (decrease) in cash and cash equivalents	24,021	(67,057)	(571,307)	361,873
Cash and cash equivalents, January 1	<u>86,571</u>	<u>368,779</u>	<u>1,418,059</u>	<u>689,950</u>
Cash and cash equivalents, December 31	<u>\$ 110,592</u>	<u>\$ 301,722</u>	<u>\$ 846,752</u>	<u>\$ 1,051,823</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 454,730	\$ 130,651	\$ 132,956	\$ 568,994
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	374,891	278,285	298,648	140,717
Nonoperating revenues	5,918	389	16,675	5,706
(Increase) decrease in assets:				
Accounts receivable	285	(668)	13,641	79,061
Accounts receivable - other	-	-	-	(100)
Interfund services provided or used	6	(71)	-	-
Inventories	2,522	(2,169)	48,092	(244,143)
Prepaid items	(258)	2,714	1,634	802
Increase (decrease) in liabilities:				
Accounts payable	(926)	24,095	(4,455)	(323,241)
Interfund services provided or used	2,115	-	182	(2,232)
Accrued wages payable	(198)	(451)	3,877	(254)
Taxes payable	(98)	-	427	(8,697)
Compensated absence payable	(3,319)	(141)	7,487	(2,229)
Customer deposits	(575)	(100)	(100)	(1,300)
Total adjustments	<u>380,363</u>	<u>301,883</u>	<u>386,108</u>	<u>(355,910)</u>
Net cash provided by operating activities	<u>\$ 835,093</u>	<u>\$ 432,534</u>	<u>\$ 519,064</u>	<u>\$ 213,084</u>
Noncash investing, capital and financing activities:				
Purchase of equipment through capital lease	\$ -	\$ 24,070	\$ -	\$ -

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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
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 Huntingburg (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 first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Water Utility			
Buildings	\$ 1,000	Straight-line	66.7 years
Improvements other than buildings	1,000	Straight-line	33.3 to 66.7 years
Machinery and equipment	1,000	Straight-line	10.0 years
Transportation equipment	1,000	Straight-line	10.0 years
Wastewater Utility			
Buildings	1,000	Straight-line	50.0 years
Improvements other than buildings	1,000	Straight-line	66.7 years
Machinery and equipment	1,000	Straight-line	10.0 years
Transportation equipment	1,000	Straight-line	10.0 years
Electric Utility			
Buildings	1,000	Straight-line	33.3 years
Improvements other than buildings	1,000	Straight-line	20.0 years
Machinery and equipment	1,000	Straight-line	10.0 years
Transportation equipment	1,000	Straight-line	10.0 years
Gas Utility			
Buildings	1,000	Straight-line	33.3 years
Improvements other than buildings	1,000	Straight-line	33.3 years
Machinery and equipment	1,000	Straight-line	20.0 years
Transportation equipment	1,000	Straight-line	10.0 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.

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

5. Compensated Absences

- a. Sick Leave – The Utilities' employees earn 30 hours of sick leave on January 1 and an additional 26 hours on July 1 of each year. Unused sick leave may be accumulated to a maximum of 172 hours. Accumulated sick leave is paid to employees upon separation from employment if the employee is not terminated for cause.
- b. Vacation Leave – The Utilities' employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave must be used before the next employment anniversary date with the exception that 5 days of vacation leave, not taken by the employment anniversary date, may be carried over to the next 12 months. Unused vacation leave is paid to employees upon separation from employment.
- c. Personal Leave – The Utilities' employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

Vacation and sick leave is accrued when incurred.

No liability is reported for personal leave.

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

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The 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. Capital Assets

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

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 98,398	\$ -	\$ -	\$ 98,398
Construction in progress	252,100	-	252,100	-
Capital assets, being depreciated:				
Buildings	5,262,024	152,531	-	5,414,555
Improvements other than buildings	7,354,422	90,906	-	7,445,328
Machinery and equipment	1,611,994	35,294	-	1,647,288
Transportation equipment	183,954	-	-	183,954
Less accumulated depreciation for:				
Buildings	(139,513)	(80,081)	-	(219,594)
Improvements other than buildings	(2,154,019)	(154,155)	-	(2,308,174)
Machinery and equipment	(501,869)	(132,821)	-	(634,690)
Transportation equipment	(136,496)	(7,834)	-	(144,330)
Total Water Utility capital assets, net	<u>\$ 11,830,995</u>	<u>\$ (96,160)</u>	<u>\$ 252,100</u>	<u>\$ 11,482,735</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 234,249	\$ -	\$ -	\$ 234,249
Construction in progress	2,250	32,250	-	34,500
Capital assets, being depreciated:				
Buildings	1,418,844	-	-	1,418,844
Improvements other than buildings	10,794,216	75,042	-	10,869,258
Machinery and equipment	1,162,325	8,474	-	1,170,799
Transportation equipment	64,312	24,070	-	88,382
Less accumulated depreciation for:				
Buildings	(313,196)	(28,376)	-	(341,572)
Improvements other than buildings	(1,911,876)	(162,387)	-	(2,074,263)
Machinery and equipment	(747,679)	(85,051)	-	(832,730)
Transportation equipment	(54,181)	(2,472)	-	(56,653)
Total Wastewater Utility capital assets, net	<u>\$ 10,649,264</u>	<u>\$ (138,450)</u>	<u>\$ -</u>	<u>\$ 10,510,814</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 169,827	\$ -	\$ -	\$ 169,827
Construction in progress	1,210,943	321,435	-	1,532,378
Capital assets, being depreciated:				
Buildings	739,515	-	-	739,515
Improvements other than buildings	6,559,976	45,667	-	6,605,643
Machinery and equipment	1,916,489	412,569	-	2,329,058
Transportation equipment	517,849	2,800	-	520,649
Less accumulated depreciation for:				
Buildings	(458,691)	(22,241)	-	(480,932)
Improvements other than buildings	(2,972,881)	(197,999)	-	(3,170,880)
Machinery and equipment	(1,550,270)	(45,398)	-	(1,595,668)
Transportation equipment	(461,195)	(33,012)	-	(494,207)
Total Electric Utility capital assets, net	<u>\$ 5,671,562</u>	<u>\$ 483,821</u>	<u>\$ -</u>	<u>\$ 6,155,383</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Gas Utility:				
Capital assets, not being depreciated:				
Land	\$ 14,324	\$ -	\$ -	\$ 14,324
Gas storage leases and rights*	995,400	-	-	995,400
Capital assets, being depreciated:				
Buildings	282,699	-	-	282,699
Improvements other than buildings	3,697,563	38,193	-	3,735,756
Machinery and equipment	725,885	-	-	725,885
Transportation equipment	147,344	41,968	-	189,312
Cushion gas in place*	493,253	-	-	493,253
Less accumulated depreciation for:				
Buildings	(115,846)	(8,502)	-	(124,348)
Improvements other than buildings	(2,801,150)	(83,739)	-	(2,884,889)
Machinery and equipment	(578,500)	(32,186)	-	(610,686)
Transportation equipment	(121,487)	(11,341)	-	(132,828)
Cushion gas in place*	(9,900)	(4,950)	-	(14,850)
Total Gas Utility capital assets, net	<u>\$ 2,729,585</u>	<u>\$ (60,557)</u>	<u>\$ -</u>	<u>\$ 2,669,028</u>

*Gas storage leases and rights include the development of the gas storage field including all leases, easements, storage rights and equipment. Cushion gas in place is an amount of gas needed to be maintained in order to maintain enough gas pressure to operate the Gas Utility.

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

Water	\$ 374,891
Wastewater	278,285
Electric	298,648
Gas	<u>140,717</u>
Total depreciation expense	<u>\$ 1,092,541</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Wastewater Utility:				
Stormwater study	\$ 34,500	\$ 34,500	\$ -	\$ -
Electric Utility:				
Line extension contract	704,048	704,048	-	-
Substation	827,585	827,585	-	-
Transmission line project	<u>745</u>	<u>745</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 1,566,878</u>	<u>\$ 1,566,878</u>	<u>\$ -</u>	<u>\$ -</u>

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

D. 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		Totals
	Water Utility	Electric Utility	
Water Utility	\$ -	\$ 32	\$ 32
Wastewater Utility	-	129	129
Electric Utility	175,000	-	175,000
Gas Utility	2,619	170	2,789
Totals	\$ 177,619	\$ 331	\$ 177,950

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.

2. Interfund Transfers

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

Transfer From	Transfer To General Fund
Water Utility	\$ 66,558
Wastewater Utility	60,271
Electric Utility	204,890
Gas Utility	187,618
Total	\$ 519,337

The Utility typically uses transfers to fund ongoing operating subsidies.

E. Leases

Capital Leases

The Wastewater Utility has entered into a capital lease for a truck. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2006, are as follows:

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

2007	\$	8,409
2008		<u>8,409</u>
Total minimum lease payments		16,818
Less amount representing interest		<u>1,158</u>
Present value of net minimum lease payments		<u><u>\$ 15,660</u></u>

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

		<u>Wastewater Utility</u>
Transportation equipment	\$	24,070
Accumulated depreciation		<u>(602)</u>
Total	<u>\$</u>	<u><u>24,672</u></u>

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
1998 Waterworks refunding revenue bonds	4.95%	\$ 605,000
1994 Wastewater improvement revenue bonds, treatment plant	4.50%	1,945,000
1991 Gas expansion revenue bonds, gas storage field	6.70%	<u>100,000</u>
Total		<u><u>\$ 2,650,000</u></u>

Revenue bonds debt service requirements to maturity are as follows:

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

Year Ended December 31	Water Utility		Wastewater Utility		Gas Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ -	\$ 14,974	\$ 36,000	\$ 87,526	\$ 100,000	\$ 3,350
2008	110,000	27,225	38,000	85,906	-	-
2009	115,000	21,656	39,000	84,196	-	-
2010	120,000	15,840	41,000	82,442	-	-
2011	125,000	9,776	43,000	80,596	-	-
2012-2016	135,000	3,341	245,000	372,294	-	-
2017-2021	-	-	305,000	312,080	-	-
2022-2026	-	-	383,000	236,660	-	-
2027-2031	-	-	476,000	142,384	-	-
2032-2036	-	-	339,000	30,962	-	-
Totals	<u>\$ 605,000</u>	<u>\$ 92,812</u>	<u>\$ 1,945,000</u>	<u>\$ 1,515,046</u>	<u>\$ 100,000</u>	<u>\$ 3,350</u>

2. State Revolving Loan Fund

Waterworks 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 improvements to the waterworks system including a water treatment plant and a water tower. Funds were loaned to the Water Utility as construction costs accrued to the maximum allowed. The 2000 loan established a maximum draw of \$8,500,000. At the completion of construction, the outstanding principal balance of \$8,500,000 was amortized over a period of 20 years. Annual debt service requirements to maturity for the loan, including interest of \$1,684,697, are as follows:

2007	\$ 98,716
2008	561,082
2009	560,235
2010	560,085
2011	560,601
2012-2016	2,798,768
2017-2021	2,795,235
2022-2025	<u>557,975</u>
Total	<u>\$ 8,492,697</u>

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 sanitary sewers to areas adjacent to the City. Funds were loaned to the Wastewater Utility as construction costs accrued to the maximum allowed. The 1999 loan established a maximum draw of \$3,230,000. At the completion of construction, the outstanding principal balance of \$3,230,000 was amortized over a period of 20 years. Annual debt service requirements to maturity for this loan, including \$602,910 in interest, are as follows:

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

2007	\$ 177,526
2008	214,992
2009	214,816
2010	215,524
2011	215,087
2012-2016	1,076,327
2017-2021	<u>1,076,638</u>
 Total	 <u>\$ 3,190,910</u>

3. Advance Refunding

In prior years, the Water Utility defeased certain serial 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 Water Utility's financial statements. The following outstanding bonds, at December 31, 2006, were considered defeased:

	<u>Amount</u>
1990 Waterworks revenue bonds, Series A and B	<u>\$ 740,000</u>

4. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable:					
Gas Utility	\$ 195,000	\$ -	\$ 95,000	\$ 100,000	\$ 100,000
Wastewater Utility	1,979,000	-	34,000	1,945,000	36,000
Water Utility	710,000	-	105,000	605,000	-
Less unamortized discount	9,775	-	1,630	8,145	-
Less deferred amount on refunding	<u>72,055</u>	<u>-</u>	<u>12,009</u>	<u>60,046</u>	<u>-</u>
 Total revenue bonds payable	 2,802,170	 -	 220,361	 2,581,809	 136,000
Loans payable:					
Water Utility	7,166,000	-	358,000	6,808,000	-
Wastewater Utility	<u>2,724,000</u>	<u>-</u>	<u>136,000</u>	<u>2,588,000</u>	<u>140,000</u>
 Total long-term liabilities	 <u>\$ 12,692,170</u>	 <u>\$ -</u>	 <u>\$ 714,361</u>	 <u>\$ 11,977,809</u>	 <u>\$ 276,000</u>

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
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	Electric Utility	Gas Utility
Customer deposits	\$ 31,255	\$ 46,800	\$ 84,000	\$ 67,120
Bond and interest	16,235	149,364	-	-
Debt service reserve	707,500	340,000	-	110,000
 Total restricted assets	 \$ 754,990	 \$ 536,164	 \$ 84,000	 \$ 177,120

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 accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$45,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds 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 affected fund and are reported as quasi-external interfund transactions.

Job Related Illnesses and Injuries to Employees

During 1991, the Utilities joined with other governmental entities in the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for the 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 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.

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

B. Subsequent Events

On February 12, 2007, St. Joseph Hospital of Huntingburg, Inc., filed bankruptcy. As a result, the following unpaid Utility bills were written off in May, 2007: Electric \$35,435.09; Water \$4,301.92; Gas \$59,688.13; and Wastewater \$4,228.65.

C. Rate Structure

1. Water Utility

On March 18, 1986, the City Council adopted Ordinance No. 86-8 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the City Council on August 24, 2000. The Utility has 2,469 customers.

2. Wastewater Utility

The current rate structure was approved by the City Council on May 20, 2004. The Utility has 2,545 customers.

3. Electric Utility

On March 18, 1986, the City Council adopted Ordinance No. 86-8 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the City Council on December 12, 2006. The Utility has 3,320 customers.

4. Gas Utility

On March 18, 1986, the City Council adopted Ordinance No. 86-8 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the City Council on October 25, 2001, and amended on November 29, 2001, and on September 15, 2005. The Utility has 3,298 customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utility authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

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

Funding Policy and Annual Pension Cost

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

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 172,403
Interest on net pension obligation	(4,331)
Adjustment to annual required contribution	4,936
Annual pension cost	173,008
Contributions made	110,480
Increase in net pension obligation	62,528
Net pension obligation, beginning of year	(59,739)
Net pension obligation, end of year	\$ 2,789
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	4 year smoothed market

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

Actuarial Assumptions	PERF
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	\$ 108,722	101%	\$ (62,741)
	06-30-05	123,543	98%	(59,739)
	06-30-06	173,008	89%	2,789

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
 CITY OF HUNTINGBURG
 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	\$ 2,084,159	\$ 2,441,086	\$ (356,927)	85%	\$ 2,042,448	(17%)
07-01-05	2,179,725	3,071,915	(892,190)	71%	2,060,821	(43%)
07-01-06	2,628,661	2,987,873	(359,212)	88%	1,927,084	(19%)

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
AUDIT RESULTS AND COMMENTS

PERSONAL USE OF CITY OWNED PROPERTY

Cellular phones are provided to several employees. Logs are not maintained to document the nature of calls made which could result in personal calls being made in violation of the City's personnel policy.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment appeared in prior reports.

CONTRACTS

The Electric Utility paid for contractual services to R.W. Beck, for engineering. No contracts were presented for audit.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment appeared in the prior report.

RECORD OF HOURS WORKED

Several officials and employees were paid salaries from more than one fund and/or department. A record of hours worked for each was not presented for audit.

Indiana Code 5-11-9-4(b) states in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

A similar comment appeared in prior reports.

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
AUDIT RESULTS AND COMMENTS
(Continued)

EXPENDITURE OF UTILITY FUNDS

The City used an internal service fund, City Office, to accumulate all disbursements throughout the year for expenses to operate the City Hall which houses both City and Utility offices. These expenses were prorated between City and Utilities' expense accounts monthly. The percentage used in calculating the proration depends on the account number the expense was posted to within the City Office Account. Based on a review of the disbursements between City and Utilities' expense accounts, the following items were noted:

- (1) The four Utilities paid the Utility bills for the City Hall building with the exception of \$3,000 per year that was paid from the Transportation Fund (transit van). Utility expenses for 2006 totaled \$8,454.
- (2) Charges for routine maintenance of computer software and hardware were paid 80% from the Utility funds and 20% from the City. The charges to the Utilities for these items were \$31,914 for 2006. In addition, charges to fix specific problems were charged to the department that incurred the problem.
- (3) Charges for computer supplies, software, purchase of a new server used for offsite backups and aerial photos, and the purchase of a new printer for payroll were also paid 80% from the Utility funds and 20% from the City. The charges to the Utilities for these items were \$32,570 for 2006.

The total costs charged to the City Office Account during 2006 were \$144,054. Of this amount, the Utilities paid \$110,970 or 77%.

There was no documentation to support the calculation of the percentages used for prorating expenses.

The above expenses paid by the Utilities were in addition to the residual equity transfers that were made from the Utilities' cash reserve funds to the City General Fund for 2006 that amounted to \$175,000 from the Electric Utility and \$175,000 from the Gas Utility and payments in lieu of taxes from all four Utilities, totaling \$169,337.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, the utility funds should not be used to pay for personal items. The cost of shared employees and equipment by two or more utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Establishment of a cash reserve fund permits transfer of surplus utility funds to the city and town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment appeared in prior reports.

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

The contents of this report were discussed on September 13, 2007, with Thomas A. Dippel, Clerk-Treasurer; and Gail Kemp, Mayor. The officials concurred with our audit findings.