

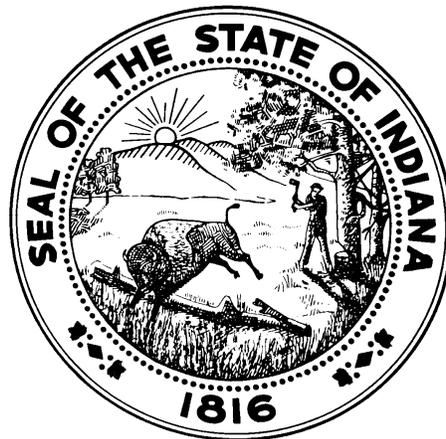
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2007

CITY OF HUNTINGTON MUNICIPAL UTILITIES

HUNTINGTON COUNTY, INDIANA



**FILED**  
08/22/2008



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Auditor's Report .....	3
Statement of Net Assets .....	4
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-17
Supplementary Information:	
Schedule of Funding Progress .....	18
Audit Results and Comments:	
Penalties, Interest, And Other Charges.....	19
Rate Ordinances.....	19
Delinquent Wastewater Accounts.....	20
Exit Conference.....	21

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Pamela J. Updike Christi A. Scher	01-01-04 to 12-31-07 01-01-08 to 12-31-11
Mayor	Terry R. Abbett Steven D. Updike	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Terry R. Abbett Steven D. Updike	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Joseph E. Blomeke Brooks L. Fetters	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Office Manager	Todd A. Slusser Pamela J. Updike	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Operations Manager	Ruth A. Marsh	01-01-08 to 12-31-08
Superintendent of Water Utility Plant Distribution	Darold L. Harlan, Jr. Owen L. Kirby Darold L. Harlan, Jr.	01-01-07 to 12-31-08 01-01-07 to 10-12-07 10-13-07 to 12-31-08
Superintendent of Wastewater Utility	Collin E. Bullock	01-01-07 to 12-31-08



**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, 2007. 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, 2007, 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, 2007, 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

July 21, 2008

CITY OF HUNTINGTON MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2007

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:		
Cash and cash equivalents	\$ 207,581	\$ 711,109
Accounts receivable - customers (net of allowance)	174,702	195,519
Accounts receivable - other	2,249	18,747
Interfund receivables:		
Interfund services provided and used	12,260	-
Inventories	104,048	20,705
Prepaid items	<u>20,132</u>	<u>20,132</u>
 Total current assets	 <u>520,972</u>	 <u>966,212</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Customer deposits	226,830	-
Revenue bond covenant accounts	-	1,105,344
Other restricted accounts	<u>53,688</u>	<u>-</u>
 Total restricted assets	 <u>280,518</u>	 <u>1,105,344</u>
 Deferred charges	 <u>-</u>	 <u>143,008</u>
Capital assets:		
Land, improvements to land and construction in progress	175,705	288,820
Other capital assets (net of accumulated depreciation)	<u>8,252,506</u>	<u>25,803,196</u>
 Total capital assets	 <u>8,428,211</u>	 <u>26,092,016</u>
 Total noncurrent assets	 <u>8,708,729</u>	 <u>27,340,368</u>
 Total assets	 <u>9,229,701</u>	 <u>28,306,580</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	84,784	61,535
Interfund payables:		
Interfund services provided and used	-	12,260
Contracts payable	4,991	11,582
Taxes payable	8,709	-
Accrued wages payable	38,105	34,058
Capital leases payable	13,438	13,438
Current liabilities payable from restricted assets:		
Customer deposits	226,830	-
Revenue bonds payable	-	75,000
Accrued interest payable	<u>-</u>	<u>23,289</u>
 Total current liabilities	 <u>376,857</u>	 <u>231,162</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized deferred loss on refunding)	-	7,156,062
Capital leases payable	9,199	9,199
Compensated absences	<u>9,080</u>	<u>6,188</u>
 Total noncurrent liabilities	 <u>18,279</u>	 <u>7,171,449</u>
 Total liabilities	 <u>395,136</u>	 <u>7,402,611</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	8,405,574	18,239,379
Restricted for debt service	-	1,105,344
Unrestricted	<u>428,991</u>	<u>1,559,246</u>
 Total net assets	 <u>\$ 8,834,565</u>	 <u>\$ 20,903,969</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, 2007

	Water Utility	Wastewater Utility
Operating revenues:		
Metered water revenue:		
Residential	\$ 1,191,414	\$ -
Commercial	268,454	-
Industrial	173,659	-
Fire protection revenue	405,818	-
Penalties	17,095	66,500
Flat rate revenues	-	79,424
Measured revenue:		
Residential	-	1,543,536
Commercial	-	359,479
Industrial	-	1,369,483
Other	43,910	8,109
	2,100,350	3,426,531
Operating expenses:		
Source of supply and expense - operations and maintenance:		
Salaries and wages	163,022	-
Purchased power	77,903	-
Contractual services	9,413	-
Transportation expenses	26,208	-
Rents	1,358	-
Water treatment expense - operations and maintenance:		
Salaries and wages	163,007	-
Purchased power	91,916	-
Materials and supplies	37,652	-
Contractual services	47,616	-
Chemicals	2,635	-
Miscellaneous expenses	5,209	-
Transmission and distribution:		
Salaries and wages	356,706	-
Purchased power	19,615	-
Materials and supplies	256,147	-
Contractual services	82,112	-
Transportation expenses	17,906	-
Miscellaneous expenses	4,551	-
Collection system - operations and maintenance:		
Salaries and wages	-	267,467
Purchased power	-	37,004
Materials and supplies	-	73,110
Contractual services	-	144,070
Transportation expenses	-	55,257
Miscellaneous expenses	-	855
Treatment and disposal - operations and maintenance:		
Salaries and wages	-	382,638
Purchased power	-	168,548
Sludge removal	-	56,194
Chemicals	-	86,004
Materials and supplies	-	148,001
Contractual services	-	8,235
Miscellaneous expenses	-	7,146
Customer accounts:		
Salaries and wages	74,535	177,381
Materials and supplies	18,516	27,228
Administrative and general:		
Salaries and wages	170,936	218,763
Employee pensions and benefits	372,541	300,459
Materials and supplies	3,903	18,073
Contractual services	12,691	22,614
Miscellaneous expenses	124,183	58,057
Depreciation and amortization	305,585	683,663
	2,445,866	2,940,767
Total operating expenses	2,445,866	2,940,767
Operating income (loss)	(345,516)	485,764
Nonoperating revenues (expenses):		
Interest and investment revenue	57,651	59,313
Interest expense	(964)	(431,678)
Amortization of bond issue costs	-	(13,000)
	56,687	(385,365)
Total nonoperating revenues (expenses)	56,687	(385,365)
Income (loss) before contributions	(288,829)	100,399
Capital contributions	227,924	157,200
Change in net assets	(60,905)	257,599
Total net assets - beginning	8,895,470	20,646,370
Total net assets - ending	\$ 8,834,565	\$ 20,903,969

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, 2007

	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,081,494	\$ 3,458,876
Payments to suppliers and contractors	(856,476)	(895,976)
Payments to employees	(1,294,742)	(1,344,878)
Interfund services provided (used)	5,628	(5,628)
Net cash provided (used) by operating activities	(64,096)	1,212,394
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(47,518)	(153,241)
Principal paid on capital debt	(13,014)	(683,546)
Interest paid on capital debt	(964)	(378,129)
Net cash used by capital and related financing activities	(61,496)	(1,214,916)
Cash flows from investing activities:		
Interest received	57,651	59,313
Net increase (decrease) in cash and cash equivalents	(67,941)	56,791
Cash and cash equivalents, January 1	556,040	1,759,662
Cash and cash equivalents, December 31	\$ 488,099	\$ 1,816,453
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (345,516)	\$ 485,764
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	305,585	683,663
(Increase) decrease in assets:		
Accounts receivable - customers	(19,514)	29,333
Accounts receivable - other	658	3,012
Interfund services provided and used	5,628	-
Inventories	29,825	(11,887)
Prepaid items	(20,132)	(20,132)
Increase (decrease) in liabilities:		
Accounts payable	(35,925)	34,857
Accrued wages payable	3,992	3,979
Interfund services provided and used	-	(5,628)
Contracts payable	-	11,582
Taxes payable	2,356	-
Compensated absence payable	2,013	(2,149)
Customer deposits	6,934	-
Total adjustments	281,420	726,630
Net cash provided by operating activities	\$ (64,096)	\$ 1,212,394
Noncash investing, capital and financing activities:		
Contributions of capital assets from government	\$ 227,924	\$ 157,200
Purchase of equipment on account	4,991	-

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 (Indiana Code 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.

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

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

Certain proceeds of 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
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

Employees earn sick leave at the rate of 7 days per year. Unused sick leave may be accumulated to a maximum of 120 days for employees not covered by the collective bargaining agreement and 80 days for employees covered by the collective bargaining agreement. Accumulated sick leave is not paid to employees upon termination of employment, but is paid upon retirement with at least 20 years of continuous service through cash payments for any unused sick leave days up to a maximum of 80 days.

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

b. Vacation Leave

Employees earn vacation leave at rates from 1 week to 6 weeks per year based upon the number of years of service. Employees may carryover up to 1 week of vacation to the following year. Accumulated vacation leave is paid to employees through cash payments upon termination of employment.

c. Personal Leave

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, 2007, 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>79,200</u>	<u>74,804</u>	<u>105,019</u>	<u>48,985</u>
 Total capital assets, not being depreciated	 <u>205,920</u>	 <u>74,804</u>	 <u>105,019</u>	 <u>175,705</u>
 Capital assets, being depreciated:				
Improvements other than buildings	11,100,911	142,958	24,516	11,219,353
Buildings	1,200,551	-	-	1,200,551
Machinery and equipment	2,014,583	150,290	-	2,164,873
Transportation equipment	<u>387,064</u>	<u>-</u>	<u>-</u>	<u>387,064</u>
 Totals	 <u>14,703,109</u>	 <u>293,248</u>	 <u>24,516</u>	 <u>14,971,841</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for				
Improvements other than buildings	4,191,440	222,018	24,516	4,388,942
Buildings	670,425	24,011	-	694,436
Machinery and equipment	1,272,484	31,599	-	1,304,083
Transportation equipment	303,917	27,957	-	331,874
 Totals	 6,438,266	 305,585	 24,516	 6,719,335
 Total capital assets, being depreciated, net	 8,264,843	 (12,337)	 -	 8,252,506
 Total capital assets, net	 \$ 8,470,763	 \$ 62,467	 \$ 105,019	 \$ 8,428,211
 Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 131,620	\$ -	\$ -	\$ 131,620
Construction in progress	-	157,200	-	157,200
 Total capital assets, not being depreciated	 131,620	 157,200	 -	 288,820
 Capital assets, being depreciated:				
Improvements other than buildings	23,543,180	147,741	5,711	23,685,210
Buildings	10,899,046	-	-	10,899,046
Machinery and equipment	1,302,053	5,500	-	1,307,553
Transportation equipment	395,365	-	-	395,365
 Totals	 36,139,644	 153,241	 5,711	 36,287,174
 Less accumulated depreciation for:				
Improvements other than buildings	5,407,676	353,148	5,711	5,755,113
Buildings	2,980,376	163,486	-	3,143,862
Machinery and equipment	1,165,576	130,205	-	1,295,781
Transportation equipment	252,398	36,824	-	289,222
 Totals	 9,806,026	 683,663	 5,711	 10,483,978
 Total capital assets, being depreciated, net	 26,333,618	 (530,422)	 -	 25,803,196
 Total capital assets, net	 \$ 26,465,238	 \$ (373,222)	 \$ -	 \$ 26,092,016

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

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

Water	\$ 305,585
Wastewater	<u>683,663</u>
 Total depreciation expense	 <u><u>\$ 989,248</u></u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007	Committed
Water Utility:			
State street water main extension	\$ 532,000	\$ 28,800	\$ 503,200
Water system improvements	<u>145,000</u>	<u>20,185</u>	<u>124,815</u>
 Total Water Utility	 <u><u>\$ 677,000</u></u>	 <u><u>\$ 48,985</u></u>	 <u><u>\$ 628,015</u></u>
Wastewater Utility:			
Northside sewer interceptor	<u>\$ 3,000,000</u>	<u>\$ 157,200</u>	<u>\$ 2,842,800</u>

D. Interfund Balances and Activity

Interfund Services Provided and Used

The composition of interfund balances as of December 31, 2007, is as follows:

	Due From Wastewater Utility
Due To	
Water Utility	<u><u>\$ 12,260</u></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.

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

E. Leases

Capital Leases

The Utilities have entered into a capital lease for a dump truck. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2007, are as follows:

	Water Utility	Wastewater Utility
2008	\$ 13,977	\$ 13,977
2009	9,318	9,318
Total minimum lease payments	23,295	23,295
Less amount representing interest	658	658
Present value of net minimum lease payments	\$ 22,637	\$ 22,637

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

	Water Utility	Wastewater Utility
Transportation equipment	\$ 64,418	\$ 64,418
Accumulated depreciation	38,651	38,651
Totals	\$ 25,767	\$ 25,767

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:

Purpose	Interest Rates	Balance at December 31	Less: Unamortized Deferred Loss on Refunding	Revenue Bonds
1998 Wastewater plant improvement	4.20% to 4.90%	\$ 6,700,000	\$ 508,186	\$ 6,191,814
2003 Wastewater refunding	2.75% to 4.75%	1,130,000	90,752	1,039,248
Totals		\$ 7,830,000	\$ 598,938	\$ 7,231,062

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
2008	\$ 75,000	\$ 198,533
2009	605,000	338,046
2010	625,000	312,369
2011	660,000	284,913
2012	695,000	255,428
2013-2017	3,960,000	767,773
2018-2019	1,210,000	43,824
Totals	<u>\$ 7,830,000</u>	<u>\$ 2,200,886</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Capital leases payable	\$ 35,651	\$ -	\$ 13,014	\$ 22,637	\$ 13,438
Compensated absences	7,067	2,013	-	9,080	-
Total Water Utility long-term liabilities	42,718	2,013	13,014	31,717	13,438
Wastewater Utility:					
Revenue bonds payable	8,410,000	-	580,000	7,830,000	75,000
Capital leases payable	126,183	-	103,546	22,637	13,438
Compensated absences	8,337	-	2,149	6,188	-
Total Wastewater Utility long-term liabilities	8,544,520	-	685,695	7,858,825	88,438
Total long-term liabilities	<u>\$ 8,587,238</u>	<u>\$ 2,013</u>	<u>\$ 698,709</u>	<u>\$ 7,890,542</u>	<u>\$ 101,876</u>

G. Restricted Assets

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

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

	Water Utility	Wastewater Utility
Customer deposits	\$ 226,830	\$ -
Bond and interest	-	101,506
Debt reserve	-	1,003,838
Internally restricted	112	-
Depreciation	53,576	-
 Total restricted assets	 \$ 280,518	 \$ 1,105,344

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 \$70,000 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. Subsequent Event

On May 20, 2008, the Wastewater Utility issued \$6,530,000 in refunding revenue bonds and paid \$422,694 that was deposited into an escrow trust fund to refund \$6,700,000 of outstanding 1998 revenue bonds.

C. 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 October 30, 2007. The Utility has 6,710 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on October 26, 2004. The Utility has 6,721 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 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.

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

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	\$ 237,311
Interest on net pension obligation	(1,598)
Adjustment to annual required contribution	1,821
Annual pension cost	237,534
Contributions made	237,687
Decrease in net pension obligation	(153)
Net pension obligation, beginning of year	(22,045)
Net pension obligation, end of year	\$ (22,198)
Contribution rates:	
Utilities	6.25%
Plan members	3%
Actuarial valuation date	07-01-07
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%

CITY OF HUNTINGTON MUNICIPAL UTILITIES  
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	06-30-05	\$ 198,606	107%	\$ (20,361)
	06-30-06	213,758	101%	(22,045)
	06-30-07	237,534	100%	(22,198)

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)
07-01-05	\$ 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%)
07-01-07	4,250,336	4,782,488	(532,152)	89%	3,798,876	(14%)

CITY OF HUNTINGTON MUNICIPAL UTILITIES  
AUDIT RESULTS AND COMMENTS

PENALTIES, INTEREST, AND OTHER CHARGES

Penalties and interest totaling \$3,435 and \$1,204, respectively, were paid to the Indiana Department of Revenue on September 7, 2007 for not paying sales tax and utility receipts tax on hydrant rental charged to customers. The period involved for sales tax was January 1, 2006 through July 31, 2007 and the period involved for utility receipts tax was for the year 2006. Penalties of \$2,997 assessed for the under reporting of sales tax was refunded by the Indiana Department of Revenue on October 22, 2007.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RATE ORDINANCES

The Utilities have ordinances establishing rates and charges for water usage and wastewater treatment. In several instances, the Utilities did not apply rates and charges accurately. Some instances involved customers being charged slightly more than the amount of usage, other instances involved charging incorrect amounts for minimum usage and monthly hydrant rental. Minimum bills and hydrant rental are both based on the size of the water meter; however, several customers had incorrect meter sizes recorded in the billing computer software.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (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 B30474.

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 July 21, 2008, with Christi A. Scher, Clerk-Treasurer; Pamela J. Updike, former Clerk-Treasurer; Steven D. Updike, Mayor; and Terry R. Abbett, former Mayor.