

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

ANNUAL FINANCIAL REPORT

2007

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES

CITY OF HUNTINGBURG

DUBOIS COUNTY, INDIANA



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Thomas A. Dippel	01-01-04 to 12-31-11
Mayor	Gail Kemp Marvin R. Belcher	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Gail Kemp Marvin R. Belcher	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Ken Sparrow	01-01-07 to 12-31-08
Water, Gas, and Electric Operations Superintendent	Ron McDonald	01-01-07 to 12-31-08
Wastewater Utility Superintendent	Ron Hall	01-01-07 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER, WASTEWATER, ELECTRIC, AND GAS
UTILITIES, CITY OF 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, 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 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 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 Huntingburg 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 Water, Wastewater, Electric, and Gas 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.

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 4, 2008

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
STATEMENT OF NET ASSETS
December 31, 2007

<u>Assets</u>	Water Utility	Wastewater Utility	Electric Utility	Gas Utility
Current assets:				
Operating cash and cash equivalents	\$ 158,733	\$ 116,873	\$ 1,214,647	\$ 909,414
Reserve cash and cash equivalents	15,000	-	-	355,000
Investments	-	-	2,550,000	-
Interest receivable	1,336	1,017	4,827	2,955
Accounts receivable (net of allowance)	52,951	52,825	188,232	245,422
Interfund receivables:				
Interfund loans	-	-	115,000	-
Interfund services provided and used	109	181	-	338
Inventories	98,717	16,543	718,991	952,402
Prepaid items	<u>12,663</u>	<u>9,900</u>	<u>11,149</u>	<u>6,314</u>
Total current assets	<u>339,509</u>	<u>197,339</u>	<u>4,802,846</u>	<u>2,471,845</u>
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Customer deposits cash and investments	31,055	46,120	95,575	72,045
Bond and interest cash and investments	29,517	152,157	-	-
Debt service reserve cash and investments	707,500	340,000	-	-
Interest receivable	<u>1,710</u>	<u>4,516</u>	<u>-</u>	<u>96</u>
Total restricted assets	<u>769,782</u>	<u>542,793</u>	<u>95,575</u>	<u>72,141</u>
Deferred charges	<u>9,238</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets:				
Land, improvements to land and construction in progress	98,398	275,613	170,572	1,009,724
Other capital assets (net of accumulated depreciation)	<u>11,153,475</u>	<u>10,027,772</u>	<u>5,817,632</u>	<u>1,586,568</u>
Total capital assets	<u>11,251,873</u>	<u>10,303,385</u>	<u>5,988,204</u>	<u>2,596,292</u>
Total noncurrent assets	<u>12,030,893</u>	<u>10,846,178</u>	<u>6,083,779</u>	<u>2,668,433</u>
Total assets	<u>12,370,402</u>	<u>11,043,517</u>	<u>10,886,625</u>	<u>5,140,278</u>
Liabilities				
Current liabilities:				
Accounts payable	50,859	28,370	797,350	549,422
Interfund payables:				
Interfund loans	115,000	-	-	-
Interfund services provided and used	-	-	628	-
Contracts payable	-	5,741	-	-
Taxes payable	6,285	-	22,946	19,422
Accrued wages payable	8,222	13,093	10,792	8,262
Compensated absences	31,214	44,435	53,448	40,876
Current liabilities payable from restricted assets:				
Customer deposits	31,055	46,120	95,575	72,045
Loans payable	-	144,000	-	-
Revenue bonds payable	-	38,000	-	-
Lease payable	29,935	8,017	-	-
Accrued interest payable	<u>-</u>	<u>42,956</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>272,570</u>	<u>370,732</u>	<u>980,739</u>	<u>690,027</u>
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	440,447	1,871,000	-	-
Capital leases payable	31,343	-	-	-
Loans payable	<u>6,439,000</u>	<u>2,304,000</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>6,910,790</u>	<u>4,175,000</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>7,183,360</u>	<u>4,545,732</u>	<u>980,739</u>	<u>690,027</u>
Net Assets				
Invested in capital assets, net of related debt	4,256,595	5,938,368	5,988,203	2,596,291
Restricted for debt service	737,017	492,157	-	-
Unrestricted	<u>193,430</u>	<u>67,260</u>	<u>3,917,683</u>	<u>1,853,960</u>
Total net assets	<u>\$ 5,187,042</u>	<u>\$ 6,497,785</u>	<u>\$ 9,905,886</u>	<u>\$ 4,450,251</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, 2007

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>
Operating revenues:				
Metered water revenue:				
Residential	\$ 556,525	\$ -	\$ -	\$ -
Commercial and industrial sales	1,642,386	-	-	-
Residential sales	-	-	2,109,714	2,008,858
Commercial and industrial sales	-	-	5,071,656	2,924,922
Public street and highway lighting	-	-	57,563	-
Fire protection revenue	114,740	-	-	-
Penalties	6,051	17,032	21,282	14,086
Measured revenue:				
Residential	-	488,281	-	-
Commercial	-	847,992	-	-
Other	<u>27,864</u>	<u>37,554</u>	<u>68,271</u>	<u>70,002</u>
 Total operating revenues	 <u>2,347,566</u>	 <u>1,390,859</u>	 <u>7,328,486</u>	 <u>5,017,868</u>
 Operating expenses:				
Source of supply and expense - operations and maintenance	469,393	-	-	-
Water treatment expense - operations and maintenance	212,362	-	-	-
Production and supply	-	-	-	3,505,935
Power production	-	-	5,180,278	-
Transmission and distribution	303,619	-	583,715	359,758
Collection system - operations and maintenance	-	188,299	-	-
Pumping - operations and maintenance	-	1,879	-	-
Treatment and disposal - operations and maintenance	-	387,850	-	-
Customer accounts	34,955	33,326	75,022	90,807
Administration and general	377,810	344,538	550,958	460,943
Depreciation and amortization	<u>380,700</u>	<u>268,061</u>	<u>334,466</u>	<u>129,648</u>
 Total operating expenses	 <u>1,778,839</u>	 <u>1,223,953</u>	 <u>6,724,439</u>	 <u>4,547,091</u>
 Operating income	 <u>568,727</u>	 <u>166,906</u>	 <u>604,047</u>	 <u>470,777</u>
 Nonoperating revenues (expenses):				
Interest and investment revenue	45,615	30,518	160,209	71,569
Miscellaneous revenue	25,542	1,036	36,218	6,909
Interest expense	(241,018)	(160,506)	-	(3,350)
Miscellaneous expense	<u>(3,058)</u>	<u>(17)</u>	<u>-</u>	<u>(6,230)</u>
 Total nonoperating revenues (expenses)	 <u>(172,919)</u>	 <u>(128,969)</u>	 <u>196,427</u>	 <u>68,898</u>
 Income before transfers	 395,808	 37,937	 800,474	 539,675
Transfers out	<u>(70,494)</u>	<u>(63,520)</u>	<u>(258,252)</u>	<u>(185,240)</u>
 Change in net assets	 325,314	 (25,583)	 542,222	 354,435
Total net assets - beginning	<u>4,861,728</u>	<u>6,523,368</u>	<u>9,363,664</u>	<u>4,095,816</u>
Total net assets - ending	<u>\$ 5,187,042</u>	<u>\$ 6,497,785</u>	<u>\$ 9,905,886</u>	<u>\$ 4,450,251</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, 2007

	Water Utility	Wastewater Utility	Electric Utility	Gas Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,321,073	\$ 1,366,332	\$ 7,159,964	\$ 4,918,234
Payments to suppliers and contractors	(824,839)	(334,083)	(5,216,396)	(4,212,571)
Payments to employees	(539,547)	(607,501)	(620,633)	(458,665)
Interfund services provided (used)	(2,696)	(52)	297	2,451
Other receipts	24,794	1,019	36,218	6,909
Net cash provided by operating activities	<u>978,785</u>	<u>425,715</u>	<u>1,359,450</u>	<u>256,358</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(70,494)	(63,520)	(258,252)	(185,240)
Interfund loans	(60,000)	-	60,000	-
Net cash used by noncapital financing activities	<u>(130,494)</u>	<u>(63,520)</u>	<u>(198,252)</u>	<u>(185,240)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(88,560)	(60,632)	(170,086)	(56,912)
Principal paid on capital debt	(479,000)	(183,643)	-	(100,000)
Proceeds from sale of capital assets	-	-	2,799	-
Interest paid on capital debt	(227,380)	(161,314)	-	(3,350)
Net cash used by capital and related financing activities	<u>(794,940)</u>	<u>(405,589)</u>	<u>(167,287)</u>	<u>(160,262)</u>
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	767,500	-	4,350,000	260,000
Purchase of investments	(767,500)	-	(5,100,000)	-
Interest received	52,362	30,822	164,559	72,780
Net cash provided (used) by investing activities	<u>52,362</u>	<u>30,822</u>	<u>(585,441)</u>	<u>332,780</u>
Net increase (decrease) in cash and cash equivalents	105,713	(12,572)	408,470	243,636
Cash and cash equivalents, January 1	<u>110,592</u>	<u>301,722</u>	<u>846,752</u>	<u>1,051,823</u>
Cash and cash equivalents, December 31	<u>\$ 216,305</u>	<u>\$ 289,150</u>	<u>\$ 1,255,222</u>	<u>\$ 1,295,459</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 568,727	\$ 166,906	\$ 604,047	\$ 470,777
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	380,700	268,061	334,466	129,648
Bad debt expense	6,009	4,737	44,561	61,094
Nonoperating revenues and expenses	24,794	1,019	36,218	6,909
(Increase) decrease in assets:				
Accounts receivable	(26,493)	(24,527)	(168,522)	(99,734)
Accounts receivable - other	-	-	-	100
Interfund services provided or used	(77)	(52)	-	2,451
Inventories	14,910	4,014	26,158	(230,362)
Prepaid items	4,019	3,682	4,164	1,709
Increase (decrease) in liabilities:				
Accounts payable	2,475	(38)	456,543	(99,601)
Interfund services provided or used	(2,619)	-	297	-
Accrued wages payable	1,854	5,272	(257)	2,051
Taxes payable	571	-	6,251	(2,979)
Compensated absence payable	4,115	(2,679)	3,949	9,370
Customer deposits	(200)	(680)	11,575	4,925
Total adjustments	<u>410,058</u>	<u>258,809</u>	<u>755,403</u>	<u>(214,419)</u>
Net cash provided by operating activities	<u>\$ 978,785</u>	<u>\$ 425,715</u>	<u>\$ 1,359,450</u>	<u>\$ 256,358</u>
Noncash investing, capital and financing activities:				
Acquisition of capital asset by capital lease	\$ 61,278	\$ -	\$ -	\$ -
Construction in progress transferred to other capital assets	-	-	1,531,633	-

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.

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

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.

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

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

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.

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.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 98,398	\$ -	\$ -	\$ 98,398
Capital assets, being depreciated:				
Buildings	5,414,555	-	-	5,414,555
Improvements other than buildings	7,445,328	19,253	-	7,464,581
Machinery and equipment	1,647,288	78,390	16,050	1,709,628
Transportation equipment	183,954	52,195	-	236,149
Less accumulated depreciation for:				
Buildings	(219,594)	(80,468)	-	(300,062)
Improvements other than buildings	(2,308,174)	(155,030)	-	(2,463,204)
Machinery and equipment	(634,690)	(132,352)	(16,050)	(750,992)
Transportation equipment	(144,330)	(12,850)	-	(157,180)
Total Water Utility capital assets, net	<u>\$ 11,482,735</u>	<u>\$ (230,862)</u>	<u>\$ -</u>	<u>\$ 11,251,873</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 234,249	\$ -	\$ -	\$ 234,249
Construction in progress	34,500	6,864	-	41,364
Capital assets, being depreciated:				
Buildings	1,418,844	4,850	-	1,423,694
Improvements other than buildings	10,869,258	33,487	-	10,902,745
Machinery and equipment	1,170,799	15,431	-	1,186,230
Transportation equipment	88,382	-	-	88,382
Less accumulated depreciation for:				
Buildings	(341,572)	(28,409)	-	(369,981)
Improvements other than buildings	(2,074,263)	(163,176)	-	(2,237,439)
Machinery and equipment	(832,730)	(72,199)	-	(904,929)
Transportation equipment	(56,653)	(4,277)	-	(60,930)
Total Wastewater Utility capital assets, net	<u>\$ 10,510,814</u>	<u>\$ (207,429)</u>	<u>\$ -</u>	<u>\$ 10,303,385</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 169,827	\$ -	\$ -	\$ 169,827
Construction in progress	1,532,378	-	1,531,633	745
Capital assets, being depreciated:				
Buildings	739,515	-	-	739,515
Improvements other than buildings	6,605,643	1,558,153	-	8,163,796
Machinery and equipment	2,329,058	46,122	-	2,375,180
Transportation equipment	520,649	97,444	25,857	592,236

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Utility (continued):				
Less accumulated depreciation for:				
Buildings	(480,932)	(22,241)	-	(503,173)
Improvements other than buildings	(3,170,880)	(245,174)	-	(3,416,054)
Machinery and equipment	(1,595,668)	(59,920)	-	(1,655,588)
Transportation equipment	(494,207)	(7,131)	(23,058)	(478,280)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Electric Utility capital assets, net	<u>\$ 6,155,383</u>	<u>\$ 1,367,253</u>	<u>\$ 1,534,432</u>	<u>\$ 5,988,204</u>
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	3,619	-	286,318
Improvements other than buildings	3,735,756	13,844	-	3,749,600
Machinery and equipment	725,885	38,050	-	763,935
Transportation equipment	189,312	1,399	-	190,711
Cushion gas in place*	493,253	-	-	493,253
Less accumulated depreciation for:				
Buildings	(124,348)	(8,549)	-	(132,897)
Improvements other than buildings	(2,884,889)	(85,170)	-	(2,970,059)
Machinery and equipment	(610,686)	(24,292)	-	(634,978)
Transportation equipment	(132,828)	(6,687)	-	(139,515)
Cushion gas in place*	(14,850)	(4,950)	-	(19,800)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Gas Utility capital assets, net	<u>\$ 2,669,028</u>	<u>\$ (72,736)</u>	<u>\$ -</u>	<u>\$ 2,596,292</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	\$ 380,700
Wastewater	268,061
Electric	334,466
Gas	<u>129,648</u>
Total depreciation expense	<u>\$ 1,112,875</u>

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

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007	Committed	Required Future Funding
Wastewater Utility:				
Storm water study	\$ 34,500	\$ 34,500	\$ -	\$ -
Facilities planning	6,864	6,864	-	-
Electric Utility:				
Transmission line project	745	745	-	-
Totals	<u>\$ 42,109</u>	<u>\$ 42,109</u>	<u>\$ -</u>	<u>\$ -</u>

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

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

Due To	Due From		
	Water Utility	Electric Utility	Totals
Water Utility	\$ -	\$ 109	\$ 109
Wastewater Utility	-	181	181
Electric Utility	115,000	-	115,000
Gas Utility	-	338	338
Totals	<u>\$ 115,000</u>	<u>\$ 628</u>	<u>\$ 115,628</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.

2. Interfund Transfers

Interfund transfers at December 31, 2007, were as follows:

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

Transfer From	Transfer To General Fund
Water Utility	\$ 70,494
Wastewater Utility	63,520
Electric Utility	258,252
Gas Utility	185,240
Total	\$ 577,506

The Utility typically uses transfers to fund ongoing operating subsidies.

E. Leases

Capital Leases

The Wastewater and Water Utilities have entered into various capital leases for a truck, backhoe/loader, and service truck. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2007, are as follows:

	Water Utility	Wastewater Utility
2008	\$ 32,817	\$ 8,409
2009	32,817	-
Total minimum lease payments	65,634	8,409
Less amount representing interest	4,356	392
Present value of net minimum lease payments	\$ 61,278	\$ 8,017

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

	Water Utility	Wastewater Utility
Machinery and equipment	\$ 68,300	\$ -
Transportation equipment	50,795	24,070
Totals	119,095	24,070
Accumulated depreciation	(7,153)	(3,009)
Totals	\$ 111,942	\$ 21,061

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

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%	\$ 495,000
1994 Wastewater improvement revenue bonds, treatment plant	4.50%	<u>1,909,000</u>
Total		<u>\$ 2,404,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2008	\$ -	\$ 12,251	\$ 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	135,000	3,341	44,000	78,662
2013-2017	-	-	256,000	361,268
2018-2022	-	-	320,000	298,354
2023-2027	-	-	400,000	219,426
2028-2032	-	-	497,000	120,964
2033-2037	-	-	231,000	15,706
Totals	<u>\$ 495,000</u>	<u>\$ 62,864</u>	<u>\$ 1,909,000</u>	<u>\$ 1,427,520</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 \$1,487,265, are as follows:

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

2008	\$	93,366
2009		560,235
2010		560,085
2011		560,601
2012		559,784
2013-2017		2,798,330
2018-2022		<u>2,793,864</u>
Total		<u>\$ 7,926,265</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 \$529,888 in interest, are as follows:

2008	\$	179,496
2009		214,816
2010		215,524
2011		215,087
2012		215,534
2013-2017		1,076,474
2018-2022		<u>860,957</u>
Total		<u>\$ 2,977,888</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, 2007, were considered defeased:

		<u>Amount</u>
1990 Waterworks revenue bonds, Series A and B	\$	<u>640,000</u>

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

4. 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
Revenue bonds payable:					
Gas Utility	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -
Wastewater Utility	1,945,000	-	36,000	1,909,000	38,000
Water Utility	605,000	-	110,000	495,000	-
Less unamortized discount	8,145	-	1,629	6,516	-
Less deferred amount on refunding	<u>60,046</u>	<u>-</u>	<u>12,009</u>	<u>48,037</u>	<u>-</u>
Total revenue bonds payable	2,581,809	-	232,362	2,349,447	38,000
Loans payable:					
Water Utility	6,808,000	-	369,000	6,439,000	-
Wastewater Utility	<u>2,588,000</u>	<u>-</u>	<u>140,000</u>	<u>2,448,000</u>	<u>144,000</u>
Total long-term liabilities	<u>\$ 11,977,809</u>	<u>\$ -</u>	<u>\$ 741,362</u>	<u>\$ 11,236,447</u>	<u>\$ 182,000</u>

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	\$ 31,055	\$ 46,120	\$ 95,575	\$ 72,045
Bond and interest	29,517	152,157	-	-
Debt service reserve	<u>707,500</u>	<u>340,000</u>	<u>-</u>	<u>-</u>
Total restricted assets	<u>\$ 768,072</u>	<u>\$ 538,277</u>	<u>\$ 95,575</u>	<u>\$ 72,045</u>

III. Other Information

A. Risk Management

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

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

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 together 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 pays 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.

B. 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 2,468 customers.

2. Wastewater Utility

The current rate structure was approved by the City Council on May 20, 2004. The Utility has 2,551 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 3,314 customers.

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

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 3,341 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.

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 135,140
Interest on net pension obligation	202
Adjustment to annual required contribution	(230)
Annual pension cost	135,112
Contributions made	122,446
Increase in net pension obligation	12,666
Net pension obligation, beginning of year	2,789
Net pension obligation, end of year	\$ 15,455
Contribution rates:	
Utilities	8%
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	4 year smoothed market

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-05	\$ 123,543	98%	\$ (59,739)
	06-30-06	173,008	64%	2,789
	06-30-07	135,112	91%	15,455

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)
07-01-05	\$ 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%)
07-01-07	2,718,897	3,022,206	(303,309)	90%	1,872,711	(16%)

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

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 2007 totaled \$11,008.
- (2) Charges for routine maintenance of computer software and hardware were paid 80% from the Utility funds and 20% from the City. The charge to the Utilities for these items was \$25,514 for 2007. In addition, charges to fix specific problems were charged to the department that incurred the problem.
- (3) Charges for computer and office supplies, software, copier repair, purchase of a new e-server, a GIS editor license and software upgrade, Indiana code books, and a digital recorder were also paid 80% from the Utility funds and 20% from the City. The charge to the Utilities for these items was \$31,799 for 2007.

The total cost charged to the City Office account during 2007 was \$154,945. Of this amount, the Utilities paid \$124,505 or 80%.

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

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

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 2007 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 \$227,506.

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.

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
EXIT CONFERENCE

The contents of this report were discussed on September 4, 2008, with Thomas A. Dippel, Clerk-Treasurer; Marvin R. Belcher, Mayor; and Ken Sparrow, President of the Common Council. The officials concurred with our audit findings.