

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

EXAMINATION REPORT
OF
CITY OF HUNTINGTON MUNICIPAL UTILITIES
HUNTINGTON COUNTY, INDIANA
January 1, 2008 to December 31, 2008



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Christi A. Scher	01-01-08 to 12-31-11
Mayor	Steven D. Updike	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Steven D. Updike	01-01-08 to 12-31-11
President of the Common Council	Brooks L. Fetters Ervin R. Ebersole	01-01-08 to 12-31-08 01-01-09 to 12-31-09
Office Manager	Pamela J. Updike	01-01-08 to 12-31-09
Operations Manager	Ruth A. Marsh	01-01-08 to 12-31-09
Superintendent of Water Utility	Darold L. Harlan, Jr.	01-01-08 to 12-31-09
Superintendent of Wastewater Utility	Collin E. Bullock	01-01-08 to 12-31-09



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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the City of Huntington Municipal Utilities (Utilities), departments of the City of Huntington (City), as of and for the year ended December 31, 2008. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination 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, 2008, 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, 2008, 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 examine the information and express no opinion on it.

The Utilities have 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 10, 2009

CITY OF HUNTINGTON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:		
Cash and cash equivalents	\$ 231,351	\$ 61,193
Accounts receivable - customers (net of allowance)	186,194	227,917
Accounts receivable - other	1,558	12,928
Inventories	156,004	14,732
Prepaid items	<u>20,132</u>	<u>20,132</u>
Total current assets	<u>595,239</u>	<u>336,902</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	32,759	100,986
Bond and interest cash and investments	112	659,471
Debt service reserve cash and investments	-	792,000
Customer deposits cash and investments	<u>252,866</u>	<u>-</u>
Total restricted assets	<u>285,737</u>	<u>1,552,457</u>
Deferred charges	<u>-</u>	<u>225,132</u>
Capital assets:		
Land, improvements to land and construction in progress	2,181,847	288,820
Other capital assets (net of accumulated depreciation)	<u>8,220,362</u>	<u>25,518,278</u>
Total capital assets	<u>10,402,209</u>	<u>25,807,098</u>
Total noncurrent assets	<u>10,687,946</u>	<u>27,584,687</u>
Total assets	<u>11,283,185</u>	<u>27,921,589</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	78,193	79,440
Accrued wages payable	50,867	43,027
Taxes payable	11,368	-
Capital leases payable	13,927	9,196
Current liabilities payable from restricted assets:		
Accounts payable	-	742
Customer deposits	252,866	-
Capital leases payable	48,035	-
Revenue bonds payable	-	520,000
Accrued interest payable	<u>-</u>	<u>139,471</u>
Total current liabilities	<u>455,256</u>	<u>791,876</u>
Noncurrent liabilities:		
Capital leases payable	22,881	-
Compensated absences	10,828	17,914
Loans payable	-	81,157
Revenue bonds payable (net of unamortized deferred loss on refunding)	<u>-</u>	<u>6,201,023</u>
Total noncurrent liabilities	<u>33,709</u>	<u>6,300,094</u>
Total liabilities	<u>488,965</u>	<u>7,091,970</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	10,317,366	18,995,722
Restricted for debt service	-	1,451,471
Restricted for other purposes	285,737	100,986
Unrestricted	<u>191,117</u>	<u>281,440</u>
Total net assets	<u>\$ 10,794,220</u>	<u>\$ 20,829,619</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, 2008

	Water Utility	Wastewater Utility
Operating revenues:		
Metered water revenue:		
Residential	\$ 1,371,565	\$ -
Commercial	304,970	-
Industrial	207,878	-
Fire protection revenue	469,946	-
Penalties	21,011	54,622
Flat rate revenues	-	79,125
Measured revenue:		
Residential	-	1,439,646
Commercial	-	323,496
Industrial	-	1,242,283
Other	85,699	17,438
Total operating revenues	2,461,069	3,156,610
Operating expenses:		
Source of supply and expense - operations and maintenance	375,065	-
Water treatment expense - operations and maintenance	315,492	-
Transmission and distribution	771,634	-
Collection system - operations and maintenance	-	554,765
Treatment and disposal - operations and maintenance	-	1,032,803
Customer accounts	109,993	213,908
Administration and general	666,232	722,531
Depreciation and amortization	319,438	554,665
Total operating expenses	2,557,854	3,078,672
Operating income (loss)	(96,785)	77,938
Nonoperating revenues (expenses):		
Interest and investment revenue	36,028	37,873
Interest expense	(1,554)	(234,426)
Amortization of bond issue costs	-	(8,581)
Total nonoperating revenues (expenses)	34,474	(205,134)
Loss before contributions	(62,311)	(127,196)
Capital contributions	2,021,966	52,846
Change in net assets	1,959,655	(74,350)
Total net assets - beginning	8,834,565	20,903,969
Total net assets - ending	\$ 10,794,220	\$ 20,829,619

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, 2008

	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,450,268	\$ 3,130,031
Payments to suppliers and contractors	(997,260)	(1,149,601)
Payments to employees	(1,256,498)	(1,350,621)
Interfund services provided (used)	<u>12,260</u>	<u>(12,260)</u>
Net cash provided by operating activities	<u>208,770</u>	<u>617,549</u>
Cash flows from capital and related financing activities:		
Bond issue costs paid	-	(67,356)
Defeasance of debt	-	(422,694)
Acquisition and construction of capital assets	(165,278)	(208,553)
Principal paid on capital debt	(48,977)	(88,441)
Interest paid on capital debt	(1,554)	(72,781)
Proceeds from sales of capital assets	<u>-</u>	<u>1,600</u>
Net cash used by capital and related financing activities	<u>(215,809)</u>	<u>(858,225)</u>
Cash flows from investing activities:		
Interest received	<u>36,028</u>	<u>37,873</u>
Net increase (decrease) in cash and cash equivalents	28,989	(202,803)
Cash and cash equivalents, January 1	<u>488,099</u>	<u>1,816,453</u>
Cash and cash equivalents, December 31	<u>\$ 517,088</u>	<u>\$ 1,613,650</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	<u>\$ (96,785)</u>	<u>\$ 77,938</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	319,438	554,665
(Increase) decrease in assets:		
Accounts receivable - customers	(11,492)	(32,398)
Accounts receivable - other	691	5,819
Interfund services provided or used	12,260	(12,260)
Inventories	(51,956)	5,973
Increase (decrease) in liabilities:		
Accounts payable	(6,591)	8,699
Accrued wages payable	12,762	8,969
Contracts payable	-	(11,582)
Taxes payable	2,659	-
Compensated absence payable	1,748	11,726
Customer deposits	<u>26,036</u>	<u>-</u>
Total adjustments	<u>305,555</u>	<u>539,611</u>
Net cash provided by operating activities	<u>\$ 208,770</u>	<u>\$ 617,549</u>
Noncash investing, capital and financing activities:		
Borrowing under capital lease	\$ 111,183	\$ -
Contributions of capital assets from government	2,021,966	52,846
Purchase of equipment on account	-	9,948
Bond issue costs paid with loan payable	-	81,157

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

CITY OF HUNTINGTON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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

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

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 65 days. 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 65 days.

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

b. Vacation Leave

Employees earn vacation leave at rates from 5 days to 30 days per year based upon the number of years of service. Employees may carryover up to 5 days 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, 2008, 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	\$ 413,260	\$ -	\$ 539,980
Construction in progress	<u>48,985</u>	<u>1,592,882</u>	<u>-</u>	<u>1,641,867</u>
 Total capital assets, not being depreciated	 <u>175,705</u>	 <u>2,006,142</u>	 <u>-</u>	 <u>2,181,847</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Capital assets, being depreciated:				
Buildings	1,200,551	30,949	-	1,231,500
Improvements other than buildings	11,219,353	15,216	-	11,234,569
Machinery and equipment	2,164,873	60,325	25,100	2,200,098
Transportation equipment	<u>387,064</u>	<u>180,804</u>	<u>69,672</u>	<u>498,196</u>
Totals	<u>14,971,841</u>	<u>287,294</u>	<u>94,772</u>	<u>15,164,363</u>
Less accumulated depreciation for:				
Buildings	694,436	24,011	-	718,447
Improvements other than buildings	4,388,942	224,387	-	4,613,329
Machinery and equipment	1,304,083	44,533	25,100	1,323,516
Transportation equipment	<u>331,874</u>	<u>26,507</u>	<u>69,672</u>	<u>288,709</u>
Totals	<u>6,719,335</u>	<u>319,438</u>	<u>94,772</u>	<u>6,944,001</u>
Total capital assets, being depreciated, net	<u>8,252,506</u>	<u>(32,144)</u>	<u>-</u>	<u>8,220,362</u>
Total capital assets, net	<u>\$ 8,428,211</u>	<u>\$ 1,973,998</u>	<u>\$ -</u>	<u>\$ 10,402,209</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 131,620	\$ -	\$ -	\$ 131,620
Construction in progress	<u>157,200</u>	<u>-</u>	<u>-</u>	<u>157,200</u>
Total capital assets, not being depreciated	<u>288,820</u>	<u>-</u>	<u>-</u>	<u>288,820</u>
Capital assets, being depreciated:				
Buildings	10,899,046	-	-	10,899,046
Improvements other than buildings	23,685,210	68,587	-	23,753,797
Machinery and equipment	1,307,553	122,451	-	1,430,004
Transportation equipment	<u>395,365</u>	<u>80,309</u>	<u>24,300</u>	<u>451,374</u>
Totals	<u>36,287,174</u>	<u>271,347</u>	<u>24,300</u>	<u>36,534,221</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility (continued):				
Less accumulated depreciation for:				
Buildings	3,143,862	163,486	-	3,307,348
Improvements other than buildings	5,755,113	355,278	-	6,110,391
Machinery and equipment	1,295,781	1,177	-	1,296,958
Transportation equipment	289,222	34,724	22,700	301,246
 Totals	 10,483,978	 554,665	 22,700	 11,015,943
 Total capital assets, being depreciated, net	 25,803,196	 (283,318)	 1,600	 25,518,278
 Total capital assets, net	 \$ 26,092,016	 \$ (283,318)	 \$ 1,600	 \$ 25,807,098

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

Water Utility	\$ 319,438
Wastewater Utility	554,665
 Total depreciation expense	 \$ 874,103

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed
Water Utility:			
State street water main extension	\$ 509,411	\$ 483,386	\$ 26,025
Water system improvements	145,000	33,717	111,283
Raw water feeder main	426,432	67,710	358,722
Park 24 infrastructure	380,000	82,400	297,600
Water tank rehabilitation	1,268,653	974,654	293,999
 Total Water Utility	 \$ 2,729,496	 \$ 1,641,867	 \$ 1,087,629
 Wastewater Utility:			
Northside sewer interceptor	\$ 3,000,000	\$ 157,200	\$ 2,842,800

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

D. Leases

1. Operating Leases

The Utility has entered into an operating lease having an initial or remaining noncancelable term exceeding one year for a copier. Rental expenditures for this lease were \$4,008. The following is a schedule by years of future minimum rental payments as of December 31, 2008:

	Wastewater Utility
2009	\$ 4,008
2010	4,008
2011	4,008
2012	3,674
Total	\$ 15,698

2. Capital Leases

The Utilities have entered into various capital leases for equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2008, are as follows:

	Water Utility	Wastewater Utility
2009	\$ 62,984	\$ 9,318
2010	22,971	-
Total minimum lease payments	85,955	9,318
Less amount representing interest	1,112	122
Present value of net minimum lease payments	\$ 84,843	\$ 9,196

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

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

	Water Utility	Wastewater Utility
Machinery and equipment	\$ 111,183	\$ -
Transportation equipment	64,418	64,418
Totals	175,601	64,418
Accumulated depreciation	51,534	51,534
Totals	\$ 124,067	\$ 12,884

E. 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
2003 Wastewater refunding	3.15 % to 4.75%	\$ 1,055,000	\$ 82,502	\$ 972,498
2008 Wastewater refunding	3.59%	6,530,000	781,475	5,748,525
Totals		\$ 7,585,000	\$ 863,977	\$ 6,721,023

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2009	\$ 520,000	\$ 269,773
2010	640,000	249,173
2011	675,000	225,577
2012	705,000	200,574
2013	725,000	174,492
2014-2018	4,060,000	441,293
2019	260,000	5,334
Totals	\$ 7,585,000	\$ 1,566,216

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

2. State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank. The proceeds are set aside to finance the separation of storm water from wastewater. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The loan established a maximum draw of \$3,427,000. As of December 31, 2008, the loan principal balance was \$81,157. Annual debt service requirements for the loan will not be determined until the construction project is completed.

3. Advance Refunding

On May 20, 2008, the City of Huntington Wastewater Utility issued \$6,530,000 in refunding revenue bonds with an average interest rate of 3.59% to advance refund \$6,700,000 of outstanding 1998 Wastewater Plant Improvement series bonds with an average interest rate of 4.55%. The net proceeds of \$6,481,025 (after payment of \$48,975 in bond discount) and local contributions of \$422,694 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 Wastewater Plant Improvement series bonds. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets. The refunding resulted in the accounting loss of \$781,475, which has been recognized on the Statement of Net Assets as Deferred Loss on Refunding. This amount will be amortized using the straight-line method and charged to interest expense over the next 11 years. The City of Huntington Wastewater Utility in effect decreased its aggregate debt service payment by \$242,374 over the next 11 years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$137,230.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Capital leases payable	\$ 22,637	\$ 111,183	\$ 48,977	\$ 84,843	\$ 61,962
Compensated absences	9,080	1,748	-	10,828	-
Total Water Utility long-term liabilities	<u>31,717</u>	<u>112,931</u>	<u>48,977</u>	<u>95,671</u>	<u>61,962</u>
Wastewater Utility:					
Revenue bonds payable	7,830,000	6,530,000	6,775,000	7,585,000	520,000
Capital leases payable	22,637	-	13,441	9,196	9,196
Compensated absences	6,188	11,726	-	17,914	-
Loans payable	-	81,157	-	81,157	-
Total Wastewater Utility long-term liabilities	<u>7,858,825</u>	<u>6,622,883</u>	<u>6,788,441</u>	<u>7,693,267</u>	<u>529,196</u>
Total long-term liabilities	<u>\$ 7,890,542</u>	<u>\$ 6,735,814</u>	<u>\$ 6,837,418</u>	<u>\$ 7,788,938</u>	<u>\$ 591,158</u>

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

F. Restricted Assets

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

	Water Utility	Wastewater Utility
Customer deposits	\$ 252,866	\$ -
Bond and interest	-	659,471
Debt reserve	-	792,000
Internally restricted	112	-
Depreciation	32,759	100,986
 Total restricted assets	 \$ 285,737	 \$ 1,552,457

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

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

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.

B. Rate Structure

1. Water Utility

On May 14, 1991, the Common Council adopted Ordinance No. 9-C-91 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Common Council on October 30, 2007. The Utility has 6,634 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on November 10, 2008. The Utility has 6,641 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 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 three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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

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	\$ 254,369
Interest on net pension obligation	(1,609)
Adjustment to annual required contribution	1,834
Annual pension cost	254,594
Contributions made	260,302
Decrease in net pension obligation	(5,708)
Net pension obligation, beginning of year	(22,198)
Net pension obligation, end of year	\$ (27,906)
Contribution rates:	
Utilities	6.75%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 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	06-30-06	\$ 213,758	101%	\$ (22,045)
	06-30-07	237,534	100%	(22,198)
	06-30-08	254,594	102%	(27,906)

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)
07-01-06	\$ 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%)
07-01-08	4,645,831	5,078,265	(432,434)	91%	3,955,441	(11%)

CITY OF HUNTINGTON MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on September 10, 2009, with Christi A. Scher, Clerk-Treasurer; Ruth A. Marsh, Operations Manager; and Steven D. Updike, Mayor. Our examination disclosed no material items that warrant comment at this time.