

B37140

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, 2009 to December 31, 2009



FILED
06/21/2010

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
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	7-19
Required Supplementary Information:	
Schedule of Funding Progress	20
Exit Conference.....	21

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	Ervin R. Ebersole	01-01-09 to 12-31-10
Office Manager	Pamela J. Updike Vacant	01-01-09 to 11-03-09 11-04-09 to 12-31-09
Operations Manager	Ruth A. Marsh	01-01-09 to 12-31-10
Superintendent of Water Utility	Darold L. Harlan, Jr.	01-01-09 to 12-31-10
Superintendent of Wastewater Utility	Collin E. Bullock	01-01-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2009. 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, 2009, 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, 2009, 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

June 8, 2010

CITY OF HUNTINGTON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2009

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:		
Cash and cash equivalents	\$ 299,472	\$ 192,287
Accounts receivable - customers (net of allowance)	154,589	138,757
Accounts receivable - other	831	10,234
Interfund receivables:		
Interfund loans	30,583	-
Inventories	215,539	20,021
Prepaid items	<u>20,132</u>	<u>20,132</u>
 Total current assets	 <u>721,146</u>	 <u>381,431</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	30,436	55,101
Bond and interest cash and investments	112	830,841
Debt service reserve cash and investments	-	841,827
Construction cash and investments	-	594,139
Customer deposits cash and investments	<u>270,760</u>	<u>-</u>
 Total restricted assets	 <u>301,308</u>	 <u>2,321,908</u>
Deferred charges	<u>-</u>	<u>205,021</u>
Capital assets:		
Land, improvements to land and construction in progress	764,728	3,671,361
Other capital assets (net of accumulated depreciation)	<u>10,717,789</u>	<u>24,961,249</u>
 Total capital assets	 <u>11,482,517</u>	 <u>28,632,610</u>
 Total noncurrent assets	 <u>11,783,825</u>	 <u>31,159,539</u>
 Total assets	 <u>12,504,971</u>	 <u>31,540,970</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	64,014	54,847
Accrued wages payable	12,352	9,835
Taxes payable	11,599	-
Capital leases payable	2,150	-
Current liabilities payable from restricted assets:		
Customer deposits	270,760	-
Contracts payable	-	418,946
Capital leases payable	16,254	-
Revenue bonds payable	-	640,000
Loans payable	-	1,000
Accrued interest payable	<u>-</u>	<u>189,812</u>
 Total current liabilities	 <u>377,129</u>	 <u>1,314,440</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized deferred loss on refunding)	-	5,643,699
Loans payable	-	3,469,000
Compensated absences	<u>10,828</u>	<u>17,914</u>
 Total noncurrent liabilities	 <u>10,828</u>	 <u>9,130,613</u>
 Total liabilities	 <u>387,957</u>	 <u>10,445,053</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	11,464,113	17,678,664
Restricted for debt service	-	1,672,668
Restricted for other purposes	301,308	649,240
Unrestricted	<u>351,593</u>	<u>1,095,345</u>
 Total net assets	 <u>\$ 12,117,014</u>	 <u>\$ 21,095,917</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, 2009

	<u>Water Utility</u>	<u>Wastewater Utility</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 1,407,593	\$ -
Commercial	290,268	-
Industrial	164,773	-
Fire protection revenue	483,365	-
Penalties	19,070	74,156
Flat rate revenues	-	82,632
Measured revenue:		
Residential	-	1,706,571
Commercial	-	368,576
Industrial	-	1,225,693
Other	<u>74,667</u>	<u>51,318</u>
Total operating revenues	<u>2,439,736</u>	<u>3,508,946</u>
Operating expenses:		
Source of supply and expense - operations and maintenance	283,697	-
Water treatment expense - operations and maintenance	357,081	-
Transmission and distribution	710,070	-
Collection system - operations and maintenance	-	433,909
Treatment and disposal - operations and maintenance	-	1,013,999
Customer accounts	97,492	220,231
Administration and general	630,819	701,302
Depreciation and amortization	<u>353,288</u>	<u>582,283</u>
Total operating expenses	<u>2,432,447</u>	<u>2,951,724</u>
Operating income	<u>7,289</u>	<u>557,222</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	2,846	5,387
Loss on disposal of assets	-	(500)
Interest expense	(1,041)	(343,388)
Amortization of bond issue costs	<u>-</u>	<u>(20,111)</u>
Total nonoperating revenues (expenses)	<u>1,805</u>	<u>(358,612)</u>
Income before contributions	9,094	198,610
Capital contributions	<u>1,313,700</u>	<u>67,688</u>
Change in net assets	1,322,794	266,298
Total net assets - beginning	<u>10,794,220</u>	<u>20,829,619</u>
Total net assets - ending	<u>\$ 12,117,014</u>	<u>\$ 21,095,917</u>

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, 2009

	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,472,068	\$ 3,600,800
Payments to suppliers and contractors	(881,849)	(968,851)
Payments to employees	<u>(1,294,916)</u>	<u>(1,454,458)</u>
Net cash provided by operating activities	<u>295,303</u>	<u>1,177,491</u>
Cash flows from noncapital financing activities:		
Interfund loans	<u>(30,583)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	-	3,388,843
Acquisition and construction of capital assets	(116,395)	(2,812,257)
Principal paid on capital debt	(66,438)	(529,196)
Interest paid on capital debt	<u>(1,041)</u>	<u>(329,723)</u>
Net cash used by capital and related financing activities	<u>(183,874)</u>	<u>(282,333)</u>
Cash flows from investing activities:		
Interest received	<u>2,846</u>	<u>5,387</u>
Net increase in cash and cash equivalents	83,692	900,545
Cash and cash equivalents, January 1	<u>517,088</u>	<u>1,613,650</u>
Cash and cash equivalents, December 31	<u>\$ 600,780</u>	<u>\$ 2,514,195</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 7,289</u>	<u>\$ 557,222</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	353,288	582,283
(Increase) decrease in assets:		
Accounts receivable - customers	31,605	89,160
Accounts receivable - other	727	2,694
Inventories	(59,535)	(5,289)
Increase (decrease) in liabilities:		
Accounts payable	(17,681)	(15,387)
Accrued wages payable	(38,515)	(33,192)
Taxes payable	231	-
Customer deposits	<u>17,894</u>	<u>-</u>
Total adjustments	<u>288,014</u>	<u>620,269</u>
Net cash provided by operating activities	<u>\$ 295,303</u>	<u>\$ 1,177,491</u>
Noncash investing, capital and financing activities:		
Contributions of capital assets from government	\$ 1,313,700	\$ 67,688
Purchase of equipment on account	3,502	418,946
Capital assets acquired through interest expense	-	119,352

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

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.

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

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

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

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

2. Inventories 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 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.

The financial statements report restricted net assets of \$301,308 and \$2,321,908 for the Water and Wastewater Utilities, respectively, of which, \$2,266,807 is restricted in the Wastewater Utility by enabling legislation.

4. Capital Assets

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

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

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

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

CITY OF HUNTINGTON MUNICIPAL UTILITIES
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. 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. The total interest expense incurred by the Wastewater Utility during the current year was \$462,740. Of the amount, \$119,352 was included as part of the cost of capital assets under construction in connection with the Northside Sewer Interceptor.

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.

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 one 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

1. 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

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

depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2009, the Utilities had deposit balances in the amount of \$3,114,975.

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.

2. Investments

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Utilities to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Utilities may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Utilities' purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utilities do not have a formal investment policy for custodial credit risk for investments.

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Utilities do not have a formal investment policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Utilities do not have a formal investment policy for credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Utilities do not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The Utilities do not have a formal policy in regards to foreign currency risk.

B. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 539,980	\$ -	\$ -	\$ 539,980
Construction in progress	1,641,867	1,264,754	2,681,873	224,748
Total capital assets, not being depreciated	2,181,847	1,264,754	2,681,873	764,728
Capital assets, being depreciated:				
Buildings	1,231,500	38,394	-	1,269,894
Improvements other than buildings	11,234,569	2,723,982	507,901	13,450,650
Machinery and equipment	2,200,098	88,339	-	2,288,437
Transportation equipment	498,196	-	79,588	418,608
Totals	15,164,363	2,850,715	587,489	17,427,589
Less accumulated depreciation for:				
Buildings	718,447	24,630	-	743,077
Improvements other than buildings	4,613,329	224,691	507,901	4,330,119
Machinery and equipment	1,323,516	48,560	-	1,372,076
Transportation equipment	288,709	55,407	79,588	264,528
Totals	6,944,001	353,288	587,489	6,709,800
Total capital assets, being depreciated, net	8,220,362	2,497,427	-	10,717,789
Total capital assets, net	\$ 10,402,209	\$ 3,762,181	\$ 2,681,873	\$ 11,482,517

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 131,620	\$ -	\$ -	\$ 131,620
Construction in progress	<u>157,200</u>	<u>3,382,541</u>	<u>-</u>	<u>3,539,741</u>
Total capital assets, not being depreciated	<u>288,820</u>	<u>3,382,541</u>	<u>-</u>	<u>3,671,361</u>
Capital assets, being depreciated:				
Buildings	10,899,046	5,652	-	10,904,698
Improvements other than buildings	23,753,797	-	-	23,753,797
Machinery and equipment	1,430,004	20,102	-	1,450,106
Transportation equipment	<u>451,374</u>	<u>-</u>	<u>2,500</u>	<u>448,874</u>
Totals	<u>36,534,221</u>	<u>25,754</u>	<u>2,500</u>	<u>36,557,475</u>
Less accumulated depreciation for:				
Buildings	3,307,348	163,486	-	3,470,834
Improvements other than buildings	6,110,391	356,306	-	6,466,697
Machinery and equipment	1,296,958	13,305	-	1,310,263
Transportation equipment	<u>301,246</u>	<u>49,186</u>	<u>2,000</u>	<u>348,432</u>
Totals	<u>11,015,943</u>	<u>582,283</u>	<u>2,000</u>	<u>11,596,226</u>
Total capital assets, being depreciated, net	<u>25,518,278</u>	<u>(556,529)</u>	<u>500</u>	<u>24,961,249</u>
Total capital assets, net	<u>\$ 25,807,098</u>	<u>\$ 2,826,012</u>	<u>\$ 500</u>	<u>\$ 28,632,610</u>

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

	<u>2009</u>
Water Utility	\$ 353,288
Wastewater Utility	<u>582,283</u>
Total depreciation expense	<u>\$ 935,571</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2009</u>	<u>Committed</u>	<u>Required Future Funding</u>
Water Utility:				
North Plant Construction	<u>\$ 9,000,000</u>	<u>\$ 224,748</u>	<u>\$ -</u>	<u>\$ 8,775,252</u>
Wastewater Utility:				
Northside sewer interceptor	\$ 3,651,643	\$ 3,485,741	\$ 165,902	\$ -
Digester cover replacement	<u>900,000</u>	<u>54,000</u>	<u>846,000</u>	<u>-</u>
Totals	<u>\$ 4,551,643</u>	<u>\$ 3,539,741</u>	<u>\$ 1,011,902</u>	<u>\$ -</u>

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

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2009, is as follows:

Interfund Receivable	Interfund Payable	2009
Water Utility	Storm Water Bond Fund	\$ 20,865
Water Utility	1937 Firefighters' Pension Fund	9,718
Total		\$ 30,583

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

E. Leases

1. Operating Leases

The Wastewater Utility has entered into an operating lease having initial or remaining non-cancelable terms 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, 2009:

	Wastewater Utility
2010	\$ 4,008
2011	4,008
2012	3,674
Total	\$ 11,690

2. Capital Leases

The Water Utility has 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, 2009, are as follows:

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

	Water Utility
2010	\$ 18,463
Less amount representing interest	59
Present value of net minimum lease payments	\$ 18,404

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

	Water Utility
Machinery and equipment	\$ 111,183
Accumulated depreciation	11,118
Total	\$ 100,065

F. Long-Term Liabilities

1. Revenue Bonds

The Wastewater 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: Deferral on Refunding	Amount
2003 Wastewater refunding	3.45% to 4.75%	\$ 980,000	\$ 74,252	\$ 905,748
2008 Wastewater refunding	3.59%	6,085,000	707,049	5,377,951
Totals		\$ 7,065,000	\$ 781,301	\$ 6,283,699

Revenue bonds debt service requirements to maturity are as follows:

	Wastewater Utility	
	Principal	Interest
2010	\$ 640,000	\$ 249,173
2011	675,000	225,577
2012	705,000	200,574
2013	725,000	174,492
2014	760,000	147,270
2015-2019	3,560,000	299,357
Totals	\$ 7,065,000	\$ 1,296,443

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

2. Loans Payable

The Wastewater Utility has entered into a loan. Annual debt service requirements to maturity for the loan, including interest of \$1,321,442, are as follows:

	Principal	Interest
2010	\$ 1,000	\$ 119,004
2011	1,000	118,970
2012	1,000	118,935
2013	1,000	118,901
2014	1,000	118,867
2015-2019	646,000	582,825
2020-2024	2,819,000	143,940
Totals	\$ 3,470,000	\$ 1,321,442

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Capital leases payable	\$ 84,843	\$ -	\$ 66,439	\$ 18,404	\$ 18,404
Compensated absences	10,828	-	-	10,828	-
Total Water Utility long-term liabilities	95,671	-	66,439	29,232	18,404
Wastewater Utility:					
Revenue bonds payable	7,585,000	-	520,000	7,065,000	640,000
Less deferred amount on refunding	863,977	-	82,676	781,301	-
Total revenue bonds payable (net)	6,721,023	-	437,324	6,283,699	640,000
Capital leases payable	9,196	-	9,196	-	-
Compensated absences	17,914	-	-	17,914	-
Loans payable	81,157	3,388,843	-	3,470,000	1,000
Total Wastewater Utility long-term liabilities	6,829,290	3,388,843	446,520	9,771,613	641,000
Total long-term liabilities	\$ 6,924,961	\$ 3,388,843	\$ 512,959	\$ 9,800,845	\$ 659,404

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	\$ 270,760	\$ -
Internally restricted	112	-
Bond and interest	-	830,841
Debt reserve	-	841,827
Depreciation	30,436	55,101
Construction account	-	594,139
 Total restricted assets	 \$ 301,308	 \$ 2,321,908

H. Revenues Pledged

Wastewater Utility Revenues Pledged

The Utility has pledged future operating revenues, net of specified operating expenditures, to repay revenue bonds issued in 2003 and 2008. Proceeds from the bonds provided financing for refunding of prior bond issues. The bonds are payable solely from net operating revenues and are payable through 2019. Annual principal and interest payments are expected to require less than 80 percent of net operating revenues.

I. Accounts Receivable – Customers

During 2009, the account of a large industrial utility customer had incurred billing errors. To correct the errors, credits were issued to the customer in the amount of \$80,082 for the Wastewater Utility and \$21,148 for the Water Utility. As of December 31, 2009, the customer's remaining credit balances included in Accounts Receivable – Customers were \$63,880 for Wastewater and \$12,963 for Water.

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

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

excess policy through commercial insurance covers individual claims in excess of \$70,000 per year. 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.

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 6,690 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on November 10, 2008. The Utility has 6,671 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:

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

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 and the City, including the Utilities, are established and may be amended by the PERF Board of Trustees. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

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

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	276,881
Interest on net pension obligation		(2,023)
Adjustment to annual required contribution		2,306
Annual pension cost		277,164
Contributions made		280,287
Decrease in net pension obligation		(3,123)
Net pension obligation, beginning of year		(27,906)
Net pension obligation, end of year	\$	(31,029)
Contribution rates:		
Utilities		7%
Plan members		3%
Actuarial valuation date		07-01-09
Actuarial cost method		Entry age normal cost
Amortization method		Level dollar, closed amortization period
Amortization period		30 years
Amortization period (from date)		07-01-07
Asset valuation method		75% of expected actuarial value plus 25% of market value

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

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	4.00%
Cost-of-living adjustments	1.50%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-07	\$ 237,534	100%	\$ (22,198)
	06-30-08	254,594	102%	(27,906)
	06-30-09	277,164	101%	(31,029)

D. Subsequent Events

The Wastewater Utility is in the planning phase of a construction project to separate storm water and wastewater lines. The total project is estimated to cost \$11,300,000 and will be financed with a bond issue. The project is expected to begin in the fall of 2010 and the Wastewater Utility anticipates increasing rates by 20%.

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)
07-01-07	\$ 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%)
07-01-09	4,484,271	5,445,231	(960,960)	82%	4,348,916	(22%)

CITY OF HUNTINGTON MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on June 8, 2010, with Christi A. Scher, Clerk-Treasurer; Ruth A. Marsh, Operations Manager; Ervin R. Ebersole, President of the Common Council; and Steven D. Updike, Mayor. Our examination disclosed no material items that warrant comment at this time.