

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, 2010 to December 31, 2010



FILED
05/19/2011

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	7-18
Required Supplementary Information:	
Schedule of Funding Progress	19
Examination Results and Comments:	
General Ledger Account Adjustments.....	20
Bad Debts and Uncollectible Accounts	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 Stephen W. McIntyre	01-01-10 to 12-31-10 01-01-11 to 12-31-11
Operations Manager	Ruth A. Marsh	01-01-10 to 12-31-11
Superintendent of Water Utility	Darold L. Harlan, Jr.	01-01-10 to 12-31-11
Superintendent of Wastewater Utility	Collin E. Bullock	01-01-10 to 12-31-11



STATE OF INDIANA
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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, as of and for the year ended December 31, 2010. 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, 2010, 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, 2010, 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

April 20, 2011

CITY OF HUNTINGTON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2010

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:		
Cash and cash equivalents	\$ 437,203	\$ 366,738
Accounts receivable (net of allowance)	166,093	189,725
Accounts receivable - other	16	7,454
Inventories	225,391	22,175
Prepaid items	<u>20,132</u>	<u>20,132</u>
Total current assets	<u>848,835</u>	<u>606,224</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	93,656	45,396
Bond and interest cash and investments	112	854,391
Construction cash and investments	-	1,426,957
Debt service reserve cash and investments	-	891,653
Customer deposits	<u>296,114</u>	<u>-</u>
Total restricted assets	<u>389,882</u>	<u>3,218,397</u>
Deferred charges	<u>-</u>	<u>202,147</u>
Capital assets:		
Land, improvements to land and construction in progress	1,346,985	535,377
Other capital assets (net of accumulated depreciation)	<u>10,521,129</u>	<u>28,558,234</u>
Total capital assets	<u>11,868,114</u>	<u>29,093,611</u>
Total noncurrent assets	<u>12,257,996</u>	<u>32,514,155</u>
Total assets	<u>13,106,831</u>	<u>33,120,379</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	42,927	104,159
Accrued wages payable	12,351	9,834
Taxes payable	12,265	-
Compensated absences	10,828	17,914
Current liabilities payable from restricted assets:		
Customer deposits	296,114	-
Contracts payable	-	44,313
Loans payable	-	1,000
Note payable	-	2,000,000
Revenue bonds payable	-	675,000
Accrued interest payable	<u>-</u>	<u>210,329</u>
Total current liabilities	<u>374,485</u>	<u>3,062,549</u>
Noncurrent liabilities:		
Loans payable	-	3,468,000
Revenue bonds payable (net of unamortized deferred loss on refunding)	<u>-</u>	<u>5,051,375</u>
Total noncurrent liabilities	<u>-</u>	<u>8,519,375</u>
Total liabilities	<u>374,485</u>	<u>11,581,924</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	11,868,114	17,155,298
Restricted for debt service	-	1,746,044
Restricted for other purposes	389,882	1,472,353
Unrestricted	<u>474,351</u>	<u>1,164,760</u>
Total net assets	<u>\$ 12,732,347</u>	<u>\$ 21,538,455</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, 2010

	Water Utility	Wastewater Utility
Operating revenues:		
Metered water revenue:		
Residential	\$ 1,372,053	\$ -
Commercial	293,074	-
Industrial	165,394	-
Fire protection revenue	502,240	-
Penalties	18,309	80,585
Flat rate revenues	-	90,114
Measured revenue:		
Residential	-	1,867,142
Commercial	-	374,622
Industrial	-	1,285,372
Other	84,020	11,193
 Total operating revenues	 2,435,090	 3,709,028
 Operating expenses:		
Source of supply and expense - operations and maintenance	322,111	-
Water treatment expense - operations and maintenance	334,917	-
Transmission and distribution	711,745	-
Collection system - operations and maintenance	-	462,700
Treatment and disposal - operations and maintenance	-	1,037,839
Customer accounts	83,417	175,155
Administration and general	582,864	657,309
Bad debt expense	22,000	39,000
Depreciation	391,172	568,464
 Total operating expenses	 2,448,226	 2,940,467
 Operating income (loss)	 (13,136)	 768,561
 Nonoperating revenues (expenses):		
Interest and investment revenue	4,843	5,221
Gain on trade-in of assets	20,230	-
Interest expense	(59)	(379,910)
Amortization of bond issue costs	-	(50,903)
 Total nonoperating revenues (expenses)	 25,014	 (425,592)
 Income before contributions	 11,878	 342,969
Capital contributions	603,455	99,569
 Change in net assets	 615,333	 442,538
Total net assets - beginning	12,117,014	21,095,917
Total net assets - ending	\$ 12,732,347	\$ 21,538,455

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, 2010

	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,424,401	\$ 3,660,840
Payments to suppliers and contractors	(763,893)	(1,067,062)
Payments to employees	<u>(1,294,578)</u>	<u>(1,257,783)</u>
Net cash provided by operating activities	<u>365,930</u>	<u>1,335,995</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	-	1,981,000
Acquisition and construction of capital assets	(156,586)	(1,332,789)
Principal paid on capital debt	(18,404)	(641,000)
Interest paid on capital debt	(59)	(368,176)
Debt issuance costs paid	-	(29,030)
Proceeds from sale of capital assets	<u>-</u>	<u>119,719</u>
Net cash used by capital and related financing activities	<u>(175,049)</u>	<u>(270,276)</u>
Cash flows from investing activities:		
Interest received	<u>4,843</u>	<u>5,221</u>
Net increase in cash and cash equivalents	226,307	1,070,940
Cash and cash equivalents, January 1	<u>600,780</u>	<u>2,514,195</u>
Cash and cash equivalents, December 31	<u>\$ 827,087</u>	<u>\$ 3,585,135</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	<u>\$ (13,136)</u>	<u>\$ 768,561</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	391,172	568,464
(Increase) decrease in assets:		
Accounts receivable - customers	(11,504)	(50,968)
Accounts receivable - other	815	2,780
Inventories	(9,852)	(2,154)
Increase (decrease) in liabilities:		
Accounts payable	(17,585)	49,312
Taxes payable	666	-
Customer deposits	<u>25,354</u>	<u>-</u>
Total adjustments	<u>379,066</u>	<u>567,434</u>
Net cash provided by operating activities	<u>\$ 365,930</u>	<u>\$ 1,335,995</u>
Noncash investing, capital and financing activities:		
Bond issue costs deducted from proceeds	\$ -	\$ 19,000
Contributions of capital assets from government	603,455	99,569
Purchase of equipment on account	-	44,313
Capital asset trade-ins	20,230	-
Capital assets acquired through interest expense	-	91,459

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 \$389,822 and \$3,218,397 for the Water and Wastewater Utilities, respectively, of which \$3,173,001 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 \$471,369. Of the amount, \$91,459 was included as part of the cost of capital assets under construction in connection with the Northside Sewer Interceptor and the Digester Cover Replacement.

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 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.

E. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

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

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 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, 2010, the Utilities had deposit balances in the amount of \$4,412,220.

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 Utility 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.

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

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.

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, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 539,980	\$ -	\$ -	\$ 539,980
Construction in progress	224,748	582,257	-	807,005
Total capital assets, not being depreciated	764,728	582,257	-	1,346,985
Capital assets, being depreciated:				
Buildings	1,269,894	-	-	1,269,894
Improvements other than buildings	13,450,650	148,283	-	13,598,933
Machinery and equipment	2,288,437	-	84,293	2,204,144
Transportation equipment	418,608	46,230	36,306	428,532
Totals	17,427,589	194,513	120,599	17,501,503

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for:				
Buildings	743,077	25,398	-	768,475
Improvements other than buildings	4,330,119	269,013	-	4,599,132
Machinery and equipment	1,372,076	55,439	84,293	1,343,222
Transportation equipment	264,528	41,323	36,306	269,545
Totals	6,709,800	391,173	120,599	6,980,374
Total capital assets, being depreciated, net	10,717,789	(196,660)	-	10,521,129
Total capital assets, net	\$ 11,482,517	\$ 385,597	\$ -	\$ 11,868,114
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 131,620	\$ -	\$ -	\$ 131,620
Construction in progress	3,539,741	790,762	3,926,746	403,757
Total capital assets, not being depreciated	3,671,361	790,762	3,926,746	535,377
Capital assets, being depreciated:				
Buildings	10,904,698	-	-	10,904,698
Improvements other than buildings	23,753,797	3,807,026	-	27,560,823
Machinery and equipment	1,450,106	358,423	-	1,808,529
Transportation equipment	448,874	-	37,893	410,981
Totals	36,557,475	4,165,449	37,893	40,685,031
Less accumulated depreciation for:				
Buildings	3,470,834	163,570	-	3,634,404
Improvements other than buildings	6,466,697	356,307	-	6,823,004
Machinery and equipment	1,310,263	13,985	-	1,324,248
Transportation equipment	348,432	34,602	37,893	345,141
Totals	11,596,226	568,464	37,893	12,126,797
Total capital assets, being depreciated, net	24,961,249	3,596,985	-	28,558,234
Total capital assets, net	\$ 28,632,610	\$ 4,387,747	\$ 3,926,746	\$ 29,093,611

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

	2010
Water Utility	\$ 391,172
Wastewater Utility	568,464
Total depreciation expense	\$ 959,636

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

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, 2010</u>	<u>Committed</u>	<u>Required Future Funding</u>
Water Utility:				
North Plant Construction	\$ 9,957,000	\$ 807,005	\$ -	\$ 9,149,995
Wastewater Utility:				
South digester cover	\$ 1,367,800	\$ 102,984	\$ 1,264,816	\$ -
Interceptor - segments #2 and #3	7,815,000	31,647	-	7,783,353
Treatment plant improvements	11,010,834	269,126	-	10,741,708
Totals	<u>\$ 20,193,634</u>	<u>\$ 403,757</u>	<u>\$ 1,264,816</u>	<u>\$ 18,525,061</u>

D. Leases

Operating Leases

The Wastewater Utility has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for a copier. Rental expenditures for this lease was \$4,008. The following is a schedule by years of future minimum rental payments as of December 31, 2010:

	<u>Wastewater Utility</u>
2011	\$ 4,008
2012	<u>3,674</u>
Total	<u>\$ 7,682</u>

E. Short-Term Liabilities

The Wastewater Utility may use short-term notes and loans to finance a variety of public projects, including the Digester Cover Replacement, the Frederick Street Interceptor Sewer and the Treatment Plant Improvement Project.

Short-term debt activity for the year ended December 31, 2010, was as follows:

<u>2010</u>	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed/ Repayments</u>	<u>Ending Balance</u>
Wastewater bond anticipation note	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000

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

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: Unamortized Deferred Loss on Refunding	Amount
2003 Wastewater refunding	3.70% to 4.75%	\$ 900,000	\$ 66,002	\$ 833,998
2008 Wastewater refunding	3.59%	<u>5,525,000</u>	<u>632,623</u>	<u>4,892,377</u>
Totals		<u>\$ 6,425,000</u>	<u>\$ 698,625</u>	<u>\$ 5,726,375</u>

Revenue bonds debt service requirements to maturity are as follows:

	Wastewater Utility	
	Principal	Interest
2011	\$ 675,000	\$ 225,577
2012	705,000	200,574
2013	725,000	174,492
2014	760,000	147,270
2015	780,000	118,885
2016-2019	<u>2,780,000</u>	<u>180,473</u>
Totals	<u>\$ 6,425,000</u>	<u>\$ 1,047,271</u>

2. Loans Payable

The Wastewater Utility has entered into a loan. Annual debt service requirements to maturity for the loan, including interest of \$1,202,438, are as follows:

	Wastewater Utility	
	Principal	Interest
2011	\$ 1,000	\$ 118,970
2012	1,000	118,935
2013	1,000	118,901
2014	1,000	118,867
2015	1,000	118,832
2016-2020	1,583,000	544,598
2021-2022	<u>1,881,000</u>	<u>63,335</u>
Totals	<u>\$ 3,469,000</u>	<u>\$ 1,202,438</u>

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

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

<u>2010</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Capital leases payable	\$ 18,404	\$ -	\$ 18,404	\$ -	\$ -
Wastewater Utility:					
Revenue bonds payable	7,065,000	-	640,000	6,425,000	675,000
Less deferred amount on refunding	<u>781,301</u>	<u>-</u>	<u>82,676</u>	<u>698,625</u>	<u>-</u>
Total revenue bonds payable (net)	6,283,699	-	557,324	5,726,375	675,000
Loans payable	<u>3,470,000</u>	<u>-</u>	<u>1,000</u>	<u>3,469,000</u>	<u>1,000</u>
Total Wastewater Utility long-term liabilities	<u>9,753,699</u>	<u>-</u>	<u>558,324</u>	<u>9,195,375</u>	<u>676,000</u>
Total long-term liabilities	<u>\$9,772,103</u>	<u>\$ -</u>	<u>\$ 576,728</u>	<u>\$9,195,375</u>	<u>\$ 676,000</u>

G. Restricted Assets

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

	<u>Water Utility</u>	<u>Wastewater Utility</u>
Customer deposits	\$ 296,114	\$ -
Internally restricted	112	-
Bond and interest	-	854,391
Debt reserve	-	891,653
Depreciation	93,656	45,396
Construction	<u>-</u>	<u>1,426,957</u>
Total restricted assets	<u>\$ 389,882</u>	<u>\$ 3,218,397</u>

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 and a State Revolving Fund Loan issued in 2008. Proceeds from the bonds provided financing for refunding of prior bond issues, and proceeds from the loan provided financing for the Northside Sewer Interceptor. The debt is payable solely from net operating revenues and is payable through 2022. Annual principal and interest payments are expected to require less than 88 percent of net revenues.

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

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 risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. By going exclusively with one preferred provider organization in 2010, the Utilities significantly reduced insurance expense for medical benefits for 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 Health Insurance Claim Fund, an internal service fund on the City's records, where assets are set aside for claim settlements. The Utilities purchase commercial insurance for claims in excess of coverage provided by the fund. The amounts are paid into the Health Insurance Claim Fund by the Utilities. Claims are paid out as submitted.

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 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 6,724 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on March 30, 2010. The Utility has 6,716 customers.

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

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 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 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.

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

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

<u>Actuarial Assumptions</u>	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)

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
EXAMINATION RESULTS AND COMMENTS

GENERAL LEDGER ACCOUNT ADJUSTMENTS

The City of Huntington Municipal Utilities' general ledger is maintained on the accrual basis of accounting. Generally accepted accounting principles require that the general ledger accounts be analyzed and adjusted accordingly at year end. Our examination disclosed that numerous accounts had not been analyzed and adjusted by City or Utility personnel. Some of these account balances have not changed in the past two years. Eight accounts maintained by the Wastewater Utility and three accounts maintained by the Water Utility required adjustment for financial statement presentation. Other accounts did not require adjustment due to materiality levels.

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

When a final bill for a Utility account is generated, it is moved to a "final billing" category account. These "final billing" accounts no longer have current billings. Approximately 90% of these accounts on hand at December 31, 2010 (\$189,725 on the Wastewater Utility and \$166,093 on the Water Utility) have had no activity in years. Accounts deemed to be uncollectible should be written off with the approval of the Board of Public Works and Safety.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF HUNTINGTON MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on April 20, 2011, with Christi A. Scher, Clerk-Treasurer; Steven D. Updike, Mayor; and Ruth A. Marsh, Operations Manager.