

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

EXAMINATION REPORT
OF

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
DUBOIS COUNTY, INDIANA

January 1, 2010 to December 31, 2010



FILED
06/16/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Thomas A. Dippel	01-01-08 to 12-31-11
Mayor	Marvin R. Belcher	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Marvin R. Belcher	01-01-08 to 12-31-11
President of the Common Council	Marvin Boeglin	01-01-10 to 12-31-11
Water, Gas, and Electric Operations Superintendent	Tony Traylor	01-01-10 to 12-31-11
Wastewater Utility Superintendent	Ron Hall (Vacant) Mike Kemp	01-01-10 to 06-11-10 06-12-10 to 07-23-10 07-24-10 to 12-31-11



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE WATER, WASTEWATER, ELECTRIC, AND
GAS UTILITIES, CITY OF HUNTINGBURG, DUBOIS COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Water, Wastewater, Electric, and Gas Utilities, departments of the City of Huntingburg, 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 statement 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 Water, Wastewater, Electric, and Gas Utilities, City of Huntingburg, are intended to present the financial position, and the changes in financial position of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Huntingburg as of December 31, 2010, and the changes in its financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Utilities did not prepare a statement of cash flows for the year ended December 31, 2010. Presentation of such statement summarizing the utilities operating, investing, and financing activities is required by accounting principles generally accepted in the United States of America.

In our opinion, except that the omission of a statement of cash flows results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water, Wastewater, Electric, and Gas Utilities, as of December 31, 2010, and the respective changes in financial position 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.

INDEPENDENT ACCOUNTANT'S REPORT
(Continued)

The Water, Wastewater, Electric, and Gas 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

May 18, 2011

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
STATEMENT OF NET ASSETS
December 31, 2010

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>
Current assets:				
Operating cash and cash equivalents	\$ 117,287	\$ 28,070	\$ 2,594,601	\$ 1,474,627
Reserve cash and cash equivalents	-	-	772,500	330,000
Investments	-	-	2,000,000	-
Accounts receivable (net of allowance)	39,505	39,314	110,165	135,217
Interfund receivables:				
Interfund loan	-	-	50,000	-
Interfund services provided and used	24	60	-	186
Inventories	<u>104,986</u>	<u>8,918</u>	<u>840,202</u>	<u>1,211,463</u>
Total current assets	<u>261,802</u>	<u>76,362</u>	<u>6,367,468</u>	<u>3,151,493</u>
Noncurrent assets:				
Restricted cash and investments:				
Customer deposits cash and investments	28,710	43,615	77,950	61,940
IMPA project cash and investments	-	-	28,476	-
Bond and interest cash and investments	39,585	273,682	-	-
Debt service reserve cash and investments	707,531	351,034	-	-
Construction cash and investments	<u>-</u>	<u>500,254</u>	<u>-</u>	<u>-</u>
Total restricted assets	<u>775,826</u>	<u>1,168,585</u>	<u>106,426</u>	<u>61,940</u>
Deferred charges	<u>2,309</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets:				
Land, improvements to land and construction in progress	98,398	2,620,367	169,827	1,009,724
Other capital assets (net of accumulated depreciation)	<u>10,623,480</u>	<u>9,560,921</u>	<u>5,247,357</u>	<u>1,556,316</u>
Total capital assets	<u>10,721,878</u>	<u>12,181,288</u>	<u>5,417,184</u>	<u>2,566,040</u>
Total noncurrent assets	<u>11,500,013</u>	<u>13,349,873</u>	<u>5,523,610</u>	<u>2,627,980</u>
Total assets	<u>\$ 11,761,815</u>	<u>\$ 13,426,235</u>	<u>\$ 11,891,078</u>	<u>\$ 5,779,473</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 62,150	\$ 30,408	\$ 883,678	\$ 461,109
Interfund payables:				
Interfund loan	-	50,000	-	-
Interfund services provided and used	-	-	270	-
Taxes payable	7,050	-	25,143	14,018
Accrued wages payable	15,357	16,136	18,832	14,960
Compensated absences	36,811	27,529	45,104	33,507
Contracts payable	-	501,989	-	-
Current liabilities payable from restricted assets:				
Customer deposits	28,710	43,615	77,950	61,940
Loans payable	-	157,000	-	-
Accrued interest payable	<u>-</u>	<u>81,668</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>150,078</u>	<u>908,345</u>	<u>1,050,977</u>	<u>585,534</u>
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	121,362	1,791,000	-	-
Loans payable	<u>5,268,000</u>	<u>2,531,166</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>5,389,362</u>	<u>4,322,166</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>5,539,440</u>	<u>5,230,511</u>	<u>1,050,977</u>	<u>585,534</u>
Net Assets				
Invested in capital assets, net of related debt	5,318,878	7,702,122	5,714,184	2,566,040
Restricted for debt service	747,116	493,602	-	-
Unrestricted	<u>156,381</u>	<u>-</u>	<u>5,125,917</u>	<u>2,627,899</u>
Total net assets	<u>\$ 6,222,375</u>	<u>\$ 8,195,724</u>	<u>\$ 10,840,101</u>	<u>\$ 5,193,939</u>

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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2010

	Water Utility	Wastewater Utility	Electric Utility	Gas Utility
Operating revenues:				
Metered water revenue:				
Residential	\$ 571,494	\$ -	\$ -	\$ -
Commercial and industrial sales	1,728,645	-	-	-
Residential sales	-	-	2,414,792	1,466,049
Commercial and industrial sales	-	-	5,243,697	2,130,915
Public street and highway lighting	-	-	46,970	-
Fire protection revenue	127,594	-	-	-
Penalties	7,348	20,770	28,232	10,729
Measured revenue:				
Residential	-	518,455	-	-
Commercial	-	973,474	-	-
Other	8,231	1,616	25,125	28,522
Total operating revenues	<u>2,443,312</u>	<u>1,514,315</u>	<u>7,758,816</u>	<u>3,636,215</u>
Operating expenses:				
Source of supply and expense - operations and maintenance	487,063	-	-	-
Water treatment expense - operations and maintenance	161,333	-	-	-
Production and supply	-	-	-	2,412,053
Power production	-	-	5,742,986	-
Transmission and distribution	335,486	-	633,626	376,856
Collection system - operations and maintenance	-	156,787	-	-
Pumping - operations and maintenance	-	26,147	-	-
Treatment and disposal - operations and maintenance	-	377,717	-	-
Customer accounts	48,431	45,334	65,853	66,596
Administration and general	415,744	376,815	560,853	417,643
Depreciation and amortization	375,606	247,433	334,161	107,363
Total operating expenses	<u>1,823,663</u>	<u>1,230,233</u>	<u>7,337,479</u>	<u>3,380,511</u>
Operating income	<u>619,649</u>	<u>284,082</u>	<u>421,337</u>	<u>255,704</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	16,848	2,700	60,952	26,716
Miscellaneous revenue	10,564	1,496	33,398	7,093
Interest expense	(190,938)	(149,036)	-	-
Miscellaneous expense	(4,462)	(104)	(49,149)	(58,806)
Total nonoperating revenues (expenses)	<u>(167,988)</u>	<u>(144,944)</u>	<u>45,201</u>	<u>(24,997)</u>
Income before contributions and transfers	451,661	139,138	466,538	230,707
Capital contributions	377,139	1,628,458	6,995	204,087
Transfers out	(101,576)	(95,016)	(289,535)	(189,493)
Change in net assets	727,224	1,672,580	183,998	245,301
Total net assets - beginning	<u>5,495,151</u>	<u>6,523,144</u>	<u>10,656,103</u>	<u>4,948,638</u>
Total net assets - ending	<u>\$ 6,222,375</u>	<u>\$ 8,195,724</u>	<u>\$ 10,840,101</u>	<u>\$ 5,193,939</u>

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

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Huntingburg (City), and the results of its operations of its enterprise funds. The Utilities, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets. 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.

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
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.

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

2. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Water Utility:			
Buildings	\$ 1,000	Straight-line	66.7 years
Improvements other than buildings	1,000	Straight-line	33.3 to 66.7 years
Machinery and equipment	1,000	Straight-line	10.0 years
Transportation equipment	1,000	Straight-line	10.0 years
Wastewater Utility:			
Buildings	1,000	Straight-line	50.0 years
Improvements other than buildings	1,000	Straight-line	66.7 years
Machinery and equipment	1,000	Straight-line	10.0 years
Transportation equipment	1,000	Straight-line	10.0 years
Electric Utility:			
Buildings	1,000	Straight-line	33.3 years
Improvements other than buildings	1,000	Straight-line	20.0 years
Machinery and equipment	1,000	Straight-line	10.0 years
Transportation equipment	1,000	Straight-line	10.0 years

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Gas Utility:			
Buildings	1,000	Straight-line	33.3 years
Improvements other than buildings	1,000	Straight-line	33.3 years
Machinery and equipment	1,000	Straight-line	20.0 years
Transportation equipment	1,000	Straight-line	10.0 years

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 \$155,572. Of the amount, \$6,536 was included as part of the cost of capital assets under construction in connection with the wastewater construction project.

5. Compensated Absences

- a. Sick Leave – Utilities' employees earn 30 hours of sick leave on January 1 and an additional 26 hours on July 1 of each year. Unused sick leave may be accumulated to a maximum of 172 hours. Accumulated sick leave is paid to employees through cash payments upon separation from employment if the employee is not terminated for cause.
- b. Vacation Leave – Utilities' employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave must be used before the next employment anniversary date with the exception that 5 days of vacation leave, not taken by the employment anniversary date, may be carried over to the next 12 months. Unused vacation leave is paid to employees upon separation from employment.
- c. Personal Leave – Utilities' employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

Vacation and sick leave is accrued when incurred.

No liability is reported for personal leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

II. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2010, the Utilities had deposit balances in the amount of \$18,834,058.

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.

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	\$ 98,398	\$ -	\$ -	\$ 98,398
Capital assets, being depreciated:				
Buildings	5,415,247	-	-	5,415,247
Improvements other than buildings	7,022,641	533,517	376,249	7,179,909
Machinery and equipment	1,617,728	8,087	65,248	1,560,567
Transportation equipment	224,310	3,445	31,673	196,082
Totals	<u>14,279,926</u>	<u>545,049</u>	<u>473,170</u>	<u>14,351,805</u>
Less accumulated depreciation for:				
Buildings	(454,206)	(80,577)	-	(534,783)
Improvements other than buildings	(2,289,431)	(144,358)	(376,249)	(2,057,540)
Machinery and equipment	(914,088)	(138,513)	(65,249)	(987,352)
Transportation equipment	(148,332)	(12,158)	(11,840)	(148,650)
Totals	<u>(3,806,057)</u>	<u>(375,606)</u>	<u>(453,338)</u>	<u>(3,728,325)</u>
Total capital assets, being depreciated, net	<u>10,473,869</u>	<u>169,443</u>	<u>19,832</u>	<u>10,623,480</u>
Total capital assets, net	<u>\$ 10,572,267</u>	<u>\$ 169,443</u>	<u>\$ 19,832</u>	<u>\$ 10,721,878</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 239,249	\$ -	\$ -	\$ 239,249
Construction in progress	350,536	2,030,582	-	2,381,118
Total capital assets, not being depreciated	<u>589,785</u>	<u>2,030,582</u>	<u>-</u>	<u>2,620,367</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility (continued):				
Capital assets, being depreciated:				
Buildings	1,364,540	-	-	1,364,540
Improvements other than buildings	10,874,210	23,523	-	10,897,733
Machinery and equipment	1,154,710	145,529	5,000	1,295,239
Transportation equipment	79,173	6,220	-	85,393
Totals	<u>13,472,633</u>	<u>175,272</u>	<u>5,000</u>	<u>13,642,905</u>
Less accumulated depreciation for:				
Buildings	(363,046)	(27,290)	-	(390,336)
Improvements other than buildings	(2,540,400)	(163,134)	-	(2,703,534)
Machinery and equipment	(882,808)	(51,833)	(5,000)	(929,641)
Transportation equipment	(53,297)	(5,176)	-	(58,473)
Totals	<u>(3,839,551)</u>	<u>(247,433)</u>	<u>(5,000)</u>	<u>(4,081,984)</u>
Total capital assets, being depreciated, net	<u>9,633,082</u>	<u>(72,161)</u>	-	<u>9,560,921</u>
Total capital assets, net	<u>\$ 10,222,867</u>	<u>\$ 1,958,421</u>	<u>\$ -</u>	<u>\$ 12,181,288</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 169,827	\$ -	\$ -	\$ 169,827
Capital assets, being depreciated:				
Buildings	758,591	8,700	62,533	704,758
Improvements other than buildings	7,871,780	40,333	514,845	7,397,268
Machinery and equipment	2,227,288	11,747	221,193	2,017,842
Transportation equipment	795,695	-	65,168	730,527
Totals	<u>11,653,354</u>	<u>60,780</u>	<u>863,739</u>	<u>10,850,395</u>
Less accumulated depreciation for:				
Buildings	(529,443)	(22,184)	(62,533)	(489,094)
Improvements other than buildings	(3,519,713)	(213,699)	(465,696)	(3,267,716)
Machinery and equipment	(1,612,075)	(52,379)	(221,193)	(1,443,261)
Transportation equipment	(416,075)	(45,899)	(59,007)	(402,967)
Totals	<u>(6,077,306)</u>	<u>(334,161)</u>	<u>(808,429)</u>	<u>(5,603,038)</u>
Total capital assets, being depreciated, net	<u>5,576,048</u>	<u>(273,381)</u>	<u>55,310</u>	<u>5,247,357</u>
Total capital assets, net	<u>\$ 5,745,875</u>	<u>\$ (273,381)</u>	<u>\$ 55,310</u>	<u>\$ 5,417,184</u>
Gas Utility:				
Capital assets, not being depreciated:				
Land	\$ 14,324	\$ -	\$ -	\$ 14,324
Gas storage leases and rights*	995,400	-	-	995,400
Total capital assets, not being depreciated	<u>1,009,724</u>	<u>-</u>	<u>-</u>	<u>1,009,724</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Gas Utility (continued):				
Capital assets, being depreciated:				
Buildings	261,448	11,386	-	272,834
Improvements other than buildings	3,283,885	211,581	383,687	3,111,779
Machinery and equipment	519,015	8,672	52,812	474,875
Transportation equipment	177,628	17,680	16,086	179,222
Cushion gas in place*	493,253	-	-	493,253
	<u>4,735,229</u>	<u>249,319</u>	<u>452,585</u>	<u>4,531,963</u>
Totals				
Less accumulated depreciation for:				
Buildings	(122,145)	(8,049)	-	(130,194)
Improvements other than buildings	(2,614,594)	(56,875)	(322,060)	(2,349,409)
Machinery and equipment	(389,597)	(25,274)	(52,812)	(362,059)
Transportation equipment	(103,206)	(12,214)	(16,086)	(99,334)
Cushion gas in place*	(29,700)	(4,951)	-	(34,651)
	<u>(3,259,242)</u>	<u>(107,363)</u>	<u>(390,958)</u>	<u>(2,975,647)</u>
Totals				
Total capital assets, being depreciated, net	<u>1,475,987</u>	<u>141,956</u>	<u>61,627</u>	<u>1,556,316</u>
Total capital assets, net	<u>\$ 2,485,711</u>	<u>\$ 141,956</u>	<u>\$ 61,627</u>	<u>\$ 2,566,040</u>

*Gas storage leases and rights include the development of the gas storage field including all leases, easements, storage rights and equipment. Cushion gas in place is an amount of gas needed to be maintained in order to maintain enough gas pressure to operate the Gas Utility.

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

	<u>2010</u>
Water	\$ 375,606
Wastewater	247,433
Electric	334,161
Gas	<u>107,363</u>
Total depreciation expense	<u>\$ 1,064,563</u>

C. Construction Commitments

Construction work in progress is composed of the following:

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

Project	2010	
	Expended to December 31,	Committed
<u>Wastewater Utility</u>		
Inflow infiltration	\$ 34,500	\$ -
Facilities planning	9,536	-
Berm project	2,337,082	830,142
Totals	\$ 2,381,118	\$ 830,142

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2010, is as follows:

Interfund Receivable	Interfund Payable	2010
Water Utility	Electric Utility	\$ 24
Wastewater Utility	Electric Utility	60
Electric Utility	Wastewater Utility	50,000
Gas Utility	Electric Utility	186
Total		\$ 50,270

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

2. Interfund Transfers

Interfund transfers at December 31, 2010, were as follows:

Transfer From	Transfer To	2010
Water Utility	General Fund	\$ 101,576
Wastewater Utility	General Fund	95,016
Electric Utility	General Fund	289,535
Gas Utility	General Fund	189,493
Total		\$ 675,620

The Utilities typically use transfers to fund ongoing operating subsidies.

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

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities 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 Discount	Less: Deferral on Refunding	Amount
1998 Waterworks refunding revenue bonds	4.95%	\$ 135,000	\$ 1,629	\$ 12,009	\$ 121,362
1994 Wastewater improvement revenue bonds, treatment plant	4.50%	1,791,000	-	-	1,791,000
Totals		<u>\$ 1,926,000</u>	<u>\$ 1,629</u>	<u>\$ 12,009</u>	<u>\$ 1,912,362</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2011	\$ -	\$ 3,341	\$ 43,000	\$ 80,596
2012	135,000	3,341	44,000	78,662
2013	-	-	47,000	76,682
2014	-	-	49,000	74,566
2015	-	-	52,000	72,362
2016-2020	-	-	291,000	325,176
2021-2025	-	-	366,000	253,130
2026-2030	-	-	457,000	162,950
2031-2035	-	-	442,000	50,852
Totals	<u>\$ 135,000</u>	<u>\$ 6,682</u>	<u>\$ 1,791,000</u>	<u>\$ 1,174,976</u>

2. State Revolving Loan Fund

Waterworks Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of improvements to the waterworks system including a water treatment plant and a water tower. Funds were loaned to the Water Utility as construction costs accrued to the maximum allowed. The 2000 loan established a maximum draw of \$8,500,000. At the completion of construction, the outstanding principal balance of \$8,500,000 was amortized over a period of 20 years. Annual debt service requirements to maturity for the loan, including interest of \$960,364, are as follows:

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

Wastewater Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of sanitary sewers to areas adjacent to the City. Funds were loaned to the Wastewater Utility as construction costs accrued to the maximum allowed. The 1999 loan established a maximum draw of \$3,230,000. At the completion of construction, the outstanding principal balance of \$3,230,000 was amortized over a period of 20 years. Annual debt service requirements to maturity for this loan, including \$365,052 in interest, are as follows:

	Waterworks Revolving Loan		Wastewater Revolving Loan	
	Principal	Interest	Principal	Interest
2011	\$ -	\$ 76,386	\$ 157,000	\$ 58,087
2012	413,000	146,784	162,000	53,534
2013	425,000	134,632	167,000	48,836
2014	438,000	122,119	171,000	43,993
2015	450,000	109,243	176,000	39,034
2016-2020	2,457,000	339,518	961,000	115,507
2021-2025	<u>1,085,000</u>	<u>31,682</u>	<u>209,000</u>	<u>6,061</u>
Totals	<u>\$ 5,268,000</u>	<u>\$ 960,364</u>	<u>\$ 2,003,000</u>	<u>\$ 365,052</u>

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of the Wastewater Berm project. Funds are loaned to the City as construction costs are accrued to the maximum allowed. The 2010 loan established a maximum draw of \$1,200,000. As of December 31, 2010, the loan principal balance was \$685,166. Annual debt service requirements for the 2010 loan will not be determined until planned construction projects are completed.

3. Advance Refunding

In prior years, the Water Utility defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Utility's financial statements. The following outstanding bonds, at December 31, 2010, were considered defeased:

	<u>2010</u>
1990 Waterworks revenue bonds, Series A and B	<u>\$ 285,000</u>

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

4. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Wastewater Utility	\$ 1,832,000	\$ -	\$ 41,000	\$ 1,791,000	\$ 43,000
Water Utility	260,000	-	125,000	135,000	-
Less unamortized discount	3,258	-	1,629	1,629	-
Less deferred amount on refunding	<u>24,018</u>	<u>-</u>	<u>12,009</u>	<u>12,009</u>	<u>-</u>
Total revenue bonds payable	2,071,240	-	155,620	1,915,620	43,000
Loans payable:					
Water Utility	5,670,000	-	402,000	5,268,000	-
Wastewater Utility (1999)	2,156,000	-	153,000	2,003,000	157,000
Wastewater Utility (2010)	-	685,166	-	685,166	-
Bond anticipation note:					
Wastewater Utility	<u>211,000</u>	<u>23,000</u>	<u>234,000</u>	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>\$ 10,108,240</u>	<u>\$ 708,166</u>	<u>\$ 944,620</u>	<u>\$ 9,871,786</u>	<u>\$ 200,000</u>

F. Restricted Assets

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

	Water Utility	Wastewater Utility	Electric Utility	Gas Utility
Customer deposits	\$ 28,710	\$ 43,615	\$ 77,950	\$ 61,940
IMPA project	-	-	28,476	-
Bond and interest	39,585	273,682	-	-
Debt service reserve	707,531	351,034	-	-
Construction	<u>-</u>	<u>500,254</u>	<u>-</u>	<u>-</u>
Total restricted assets	<u>\$ 775,826</u>	<u>\$ 1,168,585</u>	<u>\$ 106,426</u>	<u>\$ 61,940</u>

G. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 1998. Proceeds from the bonds provided financing for refunding of the 1990 waterworks revenue bonds. The bonds are payable solely from water net revenues and are payable through 2012. Annual principal and interest payments are expected to require less than 14 percent of net revenues.

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

Wastewater Utility Revenues Pledged

The Utility has pledged future wastewater revenues, net of specified operating expenditures, to repay revenue bonds issued in 1994. Proceeds from the bonds provided financing for wastewater treatment plant improvements. The bonds are payable solely from wastewater net revenues and are payable through 2034. Annual principal and interest payments are expected to require less than 23 percent of net revenues.

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, Retirees, and Dependents

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$45,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred. However, claim liabilities cannot be reasonably estimated.

Job Related Illnesses and Injuries to Employees

During 1991, the Utilities joined together with other governmental entities to form the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses and injuries to employees. The Utilities pay an annual premium to the risk pool for its job related illnesses and injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

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

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on December 15, 2009. The Utility has 2,459 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on December 15, 2009. The Utility has 2,538 customers.

3. Electric Utility

The current rate structure was approved by the Utility on December 12, 2006. The Utility has 3,328 customers.

4. Gas Utility

The current rate structure was approved by the Utility on October 25, 2001, and amended on November 29, 2001, and on September 15, 2005. The Utility has 3,338 customers.

C. Pension Plan

Agent Multiple-Employer Defined Benefit 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

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

Funding Policy

PERF members are required to contribute three percent of their annual covered salary. The Utilities are required to contribute at an actuarially determined rate; the current rate is eight percent of annual covered payroll. The contribution requirements of plan members and the Utilities are established and may be amended by the PERF Board of Trustees.

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.

Annual Pension Cost

For 2010, the Utilities' annual pension cost for PERF was equal to the Utilities' required and actual contributions.

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	176,503
Interest on net pension obligation		(1,215)
Adjustment to annual required contribution		1,385
		176,673
Annual pension cost		176,673
Contributions made		182,295
Decrease in net pension obligation		(5,622)
Net pension obligation, beginning of year		(16,763)
Net pension obligation, end of year	\$	(22,385)
Contribution rates:		
Utilities		8%
Plan members		3%
Actuarial valuation date		07-01-10
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

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
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	06-30-08	\$ 130,589	119%	\$ (9,922)
	06-30-09	154,192	104%	(16,763)
	06-30-10	176,673	103%	(22,385)

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of June 30, 2010, the most recent actuarial valuation date is as follows:

PERF	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
06-30-10	\$ 2,256,844	\$ 3,587,614	\$ (1,330,770)	63%	\$ 2,117,520	(63%)

The Schedule of Funding Progress, presented as RSI for the above plans following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
 CITY OF HUNTINGBURG
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Plan

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)
06-30-08	\$ 2,998,971	\$ 3,210,557	\$ (211,586)	93%	\$ 1,926,143	(11%)
06-30-09	2,807,119	3,520,564	(713,445)	80%	2,148,200	(33%)
06-30-10	2,256,844	3,587,614	(1,330,770)	63%	2,117,520	(63%)

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

EXPENDITURE OF UTILITY FUNDS

The City used an internal service fund "City Office" to accumulate all disbursements throughout the year for expenses to operate the City Hall which houses both City and Utility offices. These expenses were prorated between City and Utility expense accounts monthly. The percentage used in calculating the proration depends on the account number the expense was posted to within the City Office account. Based on a review of the disbursements between City and Utility expense accounts, the following items were noted:

1. The four Utilities paid 80 percent and the City paid 20 percent of the utility bills for the City Hall building with the exception of \$3,000 per year that was paid from the Transportation Fund (transit van). City Hall utility bills charged to the Utilities in 2010 totaled \$10,733.
2. Charges for routine maintenance of computer software and hardware, as well as new computer-related equipment for the City, were paid 80 percent from the utility funds and 20 percent from the City. The charge to the Utilities for these items was \$36,827 for 2010. In addition, charges to fix specific problems were charged to the department that incurred the problem.
3. Charges for repairs/maintenance at City Hall, office supplies, code books, the Mayor's training and travel expenses to various conferences, and chairs and table for the lobby were also paid 80 percent from the Utility funds and 20 percent from the City. The charge to the Utilities for these items was \$33,856.51 for 2010.

The total costs charged to the City Office account during 2010 were \$148,961. Of this amount, the Utilities paid \$122,866 or 82 percent.

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

The above expenses paid by the Utilities were in addition to the residual equity transfers that were made from the Utilities' cash reserve funds to the City General Fund for 2010 that amounted to \$175,000 from the Electric Utility and \$175,000 from the Gas Utility.

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

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, the utility funds should not be used to pay for personal items. The cost of shared employees and equipment by two or more utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Establishment of a cash reserve fund permits transfer of surplus utility funds to the city and town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment appeared in prior reports.

RECORD OF HOURS WORKED

Several officials and employees were paid salaries from more than one fund and/or department. A record of hours worked for each was not presented for examination.

Indiana Code 5-11-9-4(b) states in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, the utility funds should not be used to pay for personal items. The cost of shared employees and equipment by two or more utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment appeared in prior reports.

WATER, WASTEWATER, ELECTRIC, AND GAS UTILITIES
CITY OF HUNTINGBURG
EXIT CONFERENCE

The contents of this report were discussed on May 18, 2011, with Thomas A. Dippel, Clerk-Treasurer; Marvin R. Belcher, Mayor; Marvin Boeglin, President of the Common Council; Tony Traylor, Water, Gas, and Electric Operations Superintendent; and Janet Kemp, Office Manager/Mayor's Assistant. The officials concurred with our examination findings.