

**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, 2011 to December 31, 2011



**FILED**  
09/18/2012



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## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Christi A. Scher	01-01-08 to 12-31-15
Mayor	Steven D. Updike Brooks L. Fetters	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Steven D. Updike Brooks L. Fetters	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Common Council	Stephen W. McIntyre Joseph E. Blomeke	01-01-11 to 12-31-11 01-01-12 to 12-31-12
Superintendent of Water Utility	Darold L. Harlan, Jr. Randy A. Jones	01-01-11 to 12-31-11 01-01-12 to 12-31-12
Superintendent of Wastewater Utility	Collin E. Bullock Kirk A. Strass	01-01-11 to 12-31-11 01-01-12 to 12-31-12
Operations Manager	Ruth A. Marsh	01-01-11 to 12-31-11
Utilities Services Coordinator	Marilyn K. Ratliff	01-01-12 to 12-31-12



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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 Water Utility and Wastewater Utility, major enterprise funds and departments of the City of Huntington (Utilities), as of and for the year ended December 31, 2011. 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 Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion 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, 2011, 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 Utilities, as of December 31, 2011, 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 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

July 10, 2012

CITY OF HUNTINGTON MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2011

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Current assets:		
Cash and cash equivalents	\$ 554,099	\$ 704,115
Accounts receivable (net of allowance)	250,354	227,605
Accounts receivable - other	-	3,954
Inventories	204,986	22,903
Prepaid items	<u>15,385</u>	<u>18,379</u>
 Total current assets	 <u>1,024,824</u>	 <u>976,956</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	140,102	415,332
Bond and interest cash and investments	176,898	872,211
Construction cash and investments	7,567,997	1,248,515
Debt service reserve cash and investments	70,629	941,480
Customer deposits	<u>324,712</u>	<u>-</u>
 Total restricted assets	 <u>8,280,338</u>	 <u>3,477,538</u>
 Deferred charges	 <u>98,859</u>	 <u>894,068</u>
Capital assets:		
Land, improvements to land and construction in progress	5,522,670	2,491,536
Other capital assets (net of accumulated depreciation)	<u>10,218,810</u>	<u>28,331,036</u>
 Total capital assets	 <u>15,741,480</u>	 <u>30,822,572</u>
 Total noncurrent assets	 <u>24,120,677</u>	 <u>35,194,178</u>
 Total assets	 <u>25,145,501</u>	 <u>36,171,134</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	51,542	81,728
Accrued wages payable	13,873	13,119
Taxes payable	14,589	-
Compensated absences payable	23,560	25,814
Deferred revenue	-	253,000
Current liabilities payable from restricted assets:		
Customer deposits	324,712	-
Contracts payable	1,003,087	405,683
Note payable	-	3,750,000
Loans payable	178,000	1,000
Revenue bonds payable	-	705,000
Accrued interest payable	<u>176,897</u>	<u>201,865</u>
 Total current liabilities	 <u>1,786,260</u>	 <u>5,437,209</u>
Noncurrent liabilities:		
Loans payable	10,205,000	3,535,019
Revenue bonds payable	<u>-</u>	<u>5,045,000</u>
 Total noncurrent liabilities	 <u>10,205,000</u>	 <u>8,580,019</u>
 Total liabilities	 <u>11,991,260</u>	 <u>14,017,228</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,355,393	17,380,870
Restricted for debt service	247,527	1,813,691
Restricted for other purposes	8,032,811	1,663,847
Unrestricted	<u>518,510</u>	<u>1,295,498</u>
 Total net assets	 <u>\$ 13,154,241</u>	 <u>\$ 22,153,906</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, 2011

	Water Utility	Wastewater Utility
Operating revenues:		
Residential	\$ 1,610,658	\$ -
Commercial	349,765	-
Industrial	227,219	-
Flat rate revenues	-	85,394
Fire protection revenue	602,888	-
Penalties	20,054	73,535
Tap fees	1,565	6,331
Measured revenue:		
Residential	-	1,973,145
Commercial	-	386,465
Industrial	-	1,470,650
Other	<u>65,758</u>	<u>22,201</u>
Total operating revenues	<u>2,877,907</u>	<u>4,017,721</u>
Operating expenses:		
Source of supply and expense - operations and maintenance	360,136	-
Water treatment expense - operations and maintenance	335,455	-
Transmission and distribution	981,863	-
Collection system - operations and maintenance	-	515,919
Treatment and disposal - operations and maintenance	-	890,709
Customer accounts	81,446	183,247
Administration and general	639,889	723,102
Bad debt expense	7,671	10,399
Depreciation	<u>398,167</u>	<u>659,126</u>
Total operating expenses	<u>2,804,627</u>	<u>2,982,502</u>
Operating income	<u>73,280</u>	<u>1,035,219</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	8,852	5,651
Interest expense	-	(332,366)
Amortization of deferred charges	<u>(2,535)</u>	<u>(156,753)</u>
Total nonoperating revenues (expenses)	<u>6,317</u>	<u>(483,468)</u>
Income before contributions	79,597	551,751
Capital contributions	<u>342,297</u>	<u>63,700</u>
Change in net assets	421,894	615,451
Total net assets - beginning	<u>12,732,347</u>	<u>21,538,455</u>
Total net assets - ending	<u>\$ 13,154,241</u>	<u>\$ 22,153,906</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, 2011

	<u>Water Utility</u>	<u>Wastewater Utility</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,785,990	\$ 4,228,971
Payments to suppliers and contractors	(1,064,935)	(1,037,185)
Payments to employees	(1,254,911)	(1,289,042)
	<u>466,144</u>	<u>1,902,744</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Proceeds from capital debt	10,383,000	3,795,619
Principal paid on capital debt	-	(2,676,000)
Interest paid on capital debt	-	(394,408)
Debt issuance costs paid	(101,394)	(127,650)
Acquisition and construction of capital assets	(2,749,252)	(1,909,438)
	<u>7,532,354</u>	<u>(1,311,877)</u>
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Interest received	<u>8,852</u>	<u>5,651</u>
Net increase in cash and cash equivalents	8,007,350	596,518
Cash and cash equivalents, January 1	<u>827,087</u>	<u>3,585,135</u>
Cash and cash equivalents, December 31	<u>\$ 8,834,437</u>	<u>\$ 4,181,653</u>
Unrestricted cash and cash equivalents	\$ 554,099	\$ 704,115
Restricted cash and cash equivalents	<u>8,280,338</u>	<u>3,477,538</u>
Cash and cash equivalents, December 31	<u>\$ 8,834,437</u>	<u>\$ 4,181,653</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 73,280</u>	<u>\$ 1,035,219</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	398,167	659,126
(Increase) decrease in assets:		
Accounts receivable - customers	(91,932)	(48,279)
Accounts receivable - other	16	3,500
Allowance for uncollectible accounts	7,671	10,399
Inventories	20,405	(728)
Prepaid items	4,747	1,753
Increase (decrease) in liabilities:		
Accounts payable	8,614	(22,431)
Accrued wages payable	1,522	3,285
Taxes payable	2,324	-
Compensated absences payable	12,732	7,900
Deferred revenue	-	253,000
Customer deposits	28,598	-
	<u>392,864</u>	<u>867,525</u>
Total adjustments		
Net cash provided by operating activities	<u>\$ 466,144</u>	<u>\$ 1,902,744</u>
Noncash investing, capital and financing activities:		
Bond issue costs deducted from proceeds	\$ -	\$ 22,400
Contributions of capital assets from government	342,297	63,700
Purchase of equipment on account	1,003,087	382,685
Capital assets acquired through interest expense	176,897	53,577

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.

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.

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

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 because their use is limited by applicable bond covenants.

The financial statements report Water Utility restricted net assets of \$8,280,338, of which \$7,815,524 is restricted by enabling legislation; and Wastewater Utility restricted net assets of \$3,477,538, of which \$3,062,206 is restricted 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:

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

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense

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

incurred by the Utilities during the current year was \$562,840 (Water Utility \$176,897 and Wastewater Utility \$385,943). Of the amount, \$176,897 was included as part of the cost of the Water Utility capital assets under construction in connection with the North Plant Construction and \$53,577 was included as part of the cost of the Wastewater Utility capital assets under construction in connection with the Treatment Plant Improvements, Frederick Street Interceptor Sewer, and the Digester Cover Replacement Improvements.

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 50 days. Accumulated sick leave is paid to employees upon termination of employment.
- 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.
- 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

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, 2011, the Utilities had deposit balances in the amount of \$13,016,090 (Water Utility \$8,834,437 and Wastewater Utility \$4,181,653).

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.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 539,980	\$ -	\$ -	\$ 539,980
Construction in progress	807,005	4,175,685	-	4,982,690
Total capital assets, not being depreciated	<u>1,346,985</u>	<u>4,175,685</u>	<u>-</u>	<u>5,522,670</u>
Capital assets, being depreciated:				
Buildings	1,269,894	-	-	1,269,894
Improvements other than buildings	13,598,933	62,214	-	13,661,147
Machinery and equipment	2,204,144	5,234	-	2,209,378
Transportation equipment	428,532	28,400	-	456,932
Totals	<u>17,501,503</u>	<u>95,848</u>	<u>-</u>	<u>17,597,351</u>
Less accumulated depreciation for:				
Buildings	768,475	25,398	-	793,873
Improvements other than buildings	4,599,132	271,978	-	4,871,110
Machinery and equipment	1,343,222	51,109	-	1,394,331
Transportation equipment	269,545	49,682	-	319,227
Totals	<u>6,980,374</u>	<u>398,167</u>	<u>-</u>	<u>7,378,541</u>
Total capital assets, being depreciated, net	<u>10,521,129</u>	<u>(302,319)</u>	<u>-</u>	<u>10,218,810</u>
Total capital assets, net	<u>\$ 11,868,114</u>	<u>\$ 3,873,366</u>	<u>\$ -</u>	<u>\$ 15,741,480</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 131,620	\$ -	\$ -	\$ 131,620
Construction in progress	403,757	1,956,159	-	2,359,916
Total capital assets, not being depreciated	<u>535,377</u>	<u>1,956,159</u>	<u>-</u>	<u>2,491,536</u>
Capital assets, being depreciated:				
Buildings	10,904,698	44,475	-	10,949,173
Improvements other than buildings	27,560,823	330,108	-	27,890,931
Machinery and equipment	1,808,529	57,345	96,840	1,769,034
Transportation equipment	410,981	-	-	410,981
Totals	<u>40,685,031</u>	<u>431,928</u>	<u>96,840</u>	<u>41,020,119</u>

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 (continued):				
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	3,634,404	163,570	-	3,797,974
Improvements other than buildings	6,823,004	413,413	-	7,236,417
Machinery and equipment	1,324,248	48,428	96,840	1,275,836
Transportation equipment	345,141	33,715	-	378,856
	<u>12,126,797</u>	<u>659,126</u>	<u>96,840</u>	<u>12,689,083</u>
Totals				
Total capital assets, being depreciated, net	<u>28,558,234</u>	<u>(227,198)</u>	<u>-</u>	<u>28,331,036</u>
Total capital assets, net	<u>\$ 29,093,611</u>	<u>\$ 1,728,961</u>	<u>\$ -</u>	<u>\$ 30,822,572</u>

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

	<u>2011</u>
Water Utility	\$ 398,167
Wastewater Utility	<u>659,126</u>
Total depreciation expense	<u>\$ 1,057,293</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31, 2011</u>	<u>Committed</u>
Water Utility:		
North plant construction	<u>\$ 4,982,690</u>	<u>\$ 5,400,310</u>
Wastewater Utility:		
Digester cover replacement improvements	\$ 1,131,722	\$ 236,078
Frederick street interceptor sewer	93,985	7,721,015
Treatment plant improvements	<u>1,134,209</u>	<u>9,876,626</u>
Totals	<u>\$ 2,359,916</u>	<u>\$ 17,833,719</u>

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

D. Leases

Operating Lease

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 were \$3,674. The following is a schedule by years of future minimum rental payments as of December 31, 2011:

	<u>Wastewater Utility</u>
2012	<u>\$ 3,674</u>

E. Short-Term Liabilities

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

Short-term debt activity for the year ended December 31, 2011, was as follows:

<u>2011</u>	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed/ Repayments</u>	<u>Ending Balance</u>
Wastewater bond anticipation note	<u>\$ 2,000,000</u>	<u>\$ 3,750,000</u>	<u>\$ 2,000,000</u>	<u>\$ 3,750,000</u>

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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Balance at December 31</u>
2003 Wastewater refunding	4.0% to 4.75%	\$ 815,000
2008 Wastewater refunding	3.59%	<u>4,935,000</u>
 Total		 <u>\$ 5,750,000</u>

Revenue bonds debt service requirements to maturity are as follows:

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

	Wastewater Utility	
	Principal	Interest
2012	\$ 705,000	\$ 200,574
2013	725,000	174,492
2014	760,000	147,270
2015	780,000	118,885
2016	810,000	89,461
2017-2019	1,970,000	91,012
<b>Totals</b>	<b>\$ 5,750,000</b>	<b>\$ 821,694</b>

2. Notes and Loans Payable

The Utilities have entered into various loans. Annual debt service requirements to maturity for the loans that are complete, including interest of \$4,256,670 and \$1,083,468, respectively, are as follows:

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2012	\$ 178,000	\$ 351,851	\$ 1,000	\$ 118,935
2013	365,000	340,859	1,000	118,901
2014	377,000	328,457	1,000	118,867
2015	390,000	315,651	1,000	118,832
2016	403,000	302,390	1,000	118,798
2017-2021	2,230,000	1,296,911	2,557,000	473,597
2022-2026	2,637,000	891,348	906,000	15,538
2027-2031	3,115,000	411,763	-	-
2032	688,000	17,440	-	-
<b>Totals</b>	<b>\$ 10,383,000</b>	<b>\$ 4,256,670</b>	<b>\$ 3,468,000</b>	<b>\$ 1,083,468</b>

\*2011 Wastewater SRF Loan not complete, amortization schedule not availat

State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank. The proceeds are set aside to finance the construction of the Wastewater Treatment Plant Improvements, the Frederick Street Interceptor Sewer and the Digester Cover Replacement Improvements. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The State Revolving Loan Fund loan established a maximum draw of \$16,000,000 for the above projects. As of December 31, 2011, the loan principal balance was \$68,019 for the above projects. Annual debt service requirements for the State Revolving Loan Fund loan will not be determined until the construction is completed.

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, 2011, was as follows:

<u>2011</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Loans payable	\$ -	\$ 10,383,000	\$ -	\$ 10,383,000	\$ 178,000
Wastewater Utility:					
Revenue bonds payable	\$ 6,425,000	\$ -	\$ 675,000	\$ 5,750,000	\$ 705,000
Loans payable	3,469,000	68,019	1,000	3,536,019	1,000
Total Wastewater Utility long-term liabilities	<u>\$ 9,894,000</u>	<u>\$ 68,019</u>	<u>\$ 676,000</u>	<u>\$ 9,286,019</u>	<u>\$ 706,000</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	\$ 324,712	\$ -
Bond and interest	176,898	872,211
Debt service reserve	70,629	941,480
Depreciation	140,102	415,332
Construction	<u>7,567,997</u>	<u>1,248,515</u>
Total restricted assets	<u>\$ 8,280,338</u>	<u>\$ 3,477,538</u>

H. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future operating revenues, net of specified operating expenditures, to repay a state revolving fund loan issued in 2011. Proceeds from the loan provided financing for the North Plant Construction. The loan is payable solely from net operating revenues and is payable through 2032. Annual principal and interest payments are expected to require less than 25 percent of net revenues.

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 the 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 29 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 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 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.

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 June 14, 2011. The Utility has 6,719 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on March 30, 2010. The Utility has 6,709 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 Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City 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 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.

INPRS 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:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

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 and is not presented as an asset/liability of the proprietary funds.

CITY OF HUNTINGTON MUNICIPAL UTILITIES  
EXAMINATION RESULTS AND COMMENTS

***DELINQUENT WASTEWATER ACCOUNTS***

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

(1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

(A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

(B) A description of the premises, as shown by the records of the county auditor.

(C) The amount of the delinquent fees, together with the penalty.

(2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May . . .

***UTILITY RECEIPTS TAX***

The Water Utility paid quarterly estimated Utility Receipts Tax to the Indiana Department of Revenue during the audit period. However, the 2011 Indiana Utility Receipts Tax Return (Form URT-1) was not completed.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to IC 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF HUNTINGTON MUNICIPAL UTILITIES  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***ORDINANCES AND RESOLUTIONS***

A review of payroll disclosed that the compensatory time reported by four employees was not approved by the department head or their designee. The City's personnel policy states that non-exempt employees are required to report all hours worked on a personal time sheet that is approved and signed by the employee's department head or department head's designee.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***BANK ACCOUNT RECONCILIATIONS***

The bank account reconciliations prepared on a monthly basis contained unidentified variances. The December 31, 2011 bank account reconciliation (City and Utilities) indicates a cash necessary to balance of \$4,112.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (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 July 10, 2012, with Christi A. Scher, Clerk-Treasurer; Joseph E. Blomeke, President of the Common Council; Jack Slusser, member of the Common Council; and Brooks L. Fetters, Mayor.

The contents of this report were discussed on July 11, 2012, with Steven D. Updike, former Mayor.