

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

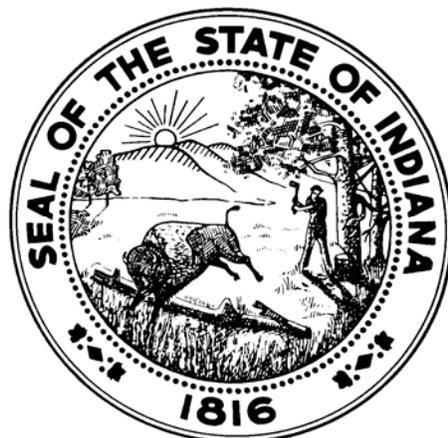
ANNUAL FINANCIAL REPORT

2006

WATER, WASTEWATER, AND ELECTRIC UTILITIES

CITY OF AUBURN

DEKALB COUNTY, INDIANA



**FILED**  
09/28/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia M. Miller	01-01-04 to 12-31-07
Mayor	Norman E. Yoder	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Norman E. Yoder	01-01-04 to 13-31-07
President of the Common Council	Richard Crawford David Painter	01-01-06 to 02-21-06 02-22-06 to 12-31-07
Superintendent of Water Utility	Richard Miller Steve Blaugh	01-01-06 to 03-01-06 03-02-06 to 12-31-07
Superintendent of Wastewater Utility	David Lochner	01-01-06 to 12-31-07
Superintendent of Electric Utility	Stuart Tuttle	01-01-06 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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**INDEPENDENT AUDITOR'S REPORT**

TO: THE OFFICIALS OF THE WATER, WASTEWATER, AND ELECTRIC UTILITIES, CITY OF AUBURN, DEKALB COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water, Wastewater, and Electric Utilities, departments of the City of Auburn, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Water, Wastewater, and Electric Utilities, departments of the City of Auburn, 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 Auburn as of December 31, 2006, 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 Water, Wastewater, and Electric Utilities, as of December 31, 2006, 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 audit the information and express no opinion on it.

Management has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

STATE BOARD OF ACCOUNTS

August 13, 2007

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
STATEMENT OF NET ASSETS  
December 31, 2006

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 931,119	\$ 2,395,698	\$ 4,899,932
Accounts receivable (net of allowance)	80,034	107,224	310,210
Miscellaneous receivable	-	-	63,228
Inventories	69,923	-	637,529
Prepaid items	8,061	12,672	13,603
<b>Total current assets</b>	<b>1,089,137</b>	<b>2,515,594</b>	<b>5,924,502</b>
<b>Noncurrent assets:</b>			
<b>Restricted cash, cash equivalents and investments:</b>			
Customer deposits	47,219	22,283	71,346
Revenue bond and covenant accounts	962,256	845,064	720
Capital asset replacement accounts	1,264,151	2,197,168	3,404,729
Reserve	-	20,700	224,317
<b>Total restricted assets:</b>	<b>2,273,626</b>	<b>3,085,215</b>	<b>3,701,112</b>
Deferred charges	85,214	39,874	263,323
<b>Capital assets:</b>			
Land, improvements to land and construction in progress	975,894	771,515	2,795,090
Other capital assets (net of accumulated depreciation)	13,925,290	31,157,836	20,410,210
<b>Total capital assets</b>	<b>14,901,184</b>	<b>31,929,351</b>	<b>23,205,300</b>
<b>Total noncurrent assets</b>	<b>17,260,024</b>	<b>35,054,440</b>	<b>27,169,735</b>
<b>Total assets</b>	<b>18,349,161</b>	<b>37,570,034</b>	<b>33,094,237</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	36,577	65,216	1,561,960
Taxes payable	6,107	-	29,184
Compensated absences	25,801	33,549	46,161
<b>Current liabilities payable from restricted assets:</b>			
Accounts payable	-	27,820	449,891
Customer deposits	47,219	22,283	71,346
Revenue bonds payable	230,000	-	-
Capital lease payable	2,472	2,472	2,472
State revolving loan payable	-	535,000	-
<b>Total current liabilities</b>	<b>348,176</b>	<b>686,340</b>	<b>2,161,014</b>
<b>Noncurrent liabilities:</b>			
Revenue bonds payable (net of unamortized discounts)	3,362,947	-	-
Capital leases payable	1,322	1,322	1,322
State revolving fund loan payable	-	5,750,000	-
<b>Total noncurrent liabilities</b>	<b>3,364,269</b>	<b>5,751,322</b>	<b>1,322</b>
<b>Total liabilities</b>	<b>3,712,445</b>	<b>6,437,662</b>	<b>2,162,336</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	11,304,443	25,612,737	22,751,615
Restricted for debt service	962,256	845,064	720
Restricted for other purposes	1,264,151	2,217,868	3,629,046
Unrestricted	1,105,866	2,456,703	4,550,520
<b>Total net assets</b>	<b>\$ 14,636,716</b>	<b>\$ 31,132,372</b>	<b>\$ 30,931,901</b>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2006

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Operating revenues:			
Metered water revenue:			
Residential	\$ 1,041,823	\$ -	\$ -
Commercial	422,198	-	-
Industrial	574,718	-	-
Residential sales	-	-	2,879,696
Commercial and industrial sales	-	-	19,114,514
Public street and highway lighting	-	-	158,589
Fire protection revenue	127,145	-	-
Penalties	12,290	42,647	69,758
Flat rate revenues	-	46,456	-
Measured revenue:			
Residential	-	1,256,628	-
Commercial	-	1,429,972	-
Network service fees	-	-	102,049
Other	<u>2,147</u>	<u>379,969</u>	<u>182,589</u>
 Total operating revenues	 <u>2,180,321</u>	 <u>3,155,672</u>	 <u>22,507,195</u>
 Operating expenses:			
Source of supply and expense - operations and maintenance	88,549	-	-
Water treatment expense - operations and maintenance	421,499	-	-
Transmission and distribution	516,844	-	-
Collection system - operations and maintenance	-	264,850	-
Pumping - operations and maintenance	-	238,071	-
Treatment and disposal - operations and maintenance	-	1,046,711	-
Operations and maintenance	-	-	1,609,510
Customer accounts	93,451	81,747	83,765
Administration and general	465,662	563,570	660,445
Depreciation	245,448	552,274	765,900
Insurance claims and premiums	31,536	47,971	60,750
Other	192,018	165,000	356,534
Purchased power	-	-	18,310,183
Network service	-	-	102,691
Bad debt expense	<u>3,201</u>	<u>6,661</u>	<u>43,989</u>
 Total operating expenses	 <u>2,058,208</u>	 <u>2,966,855</u>	 <u>21,993,767</u>
 Operating income	 <u>122,113</u>	 <u>188,817</u>	 <u>513,428</u>
 Nonoperating revenues (expenses):			
Interest and investment revenue	154,453	242,833	408,685
Miscellaneous revenue	55,467	5,726	-
Interest expense	(207,007)	(214,908)	(453)
Amortization of deferred charges	<u>(11,420)</u>	<u>(3,797)</u>	<u>(8,712)</u>
 Total nonoperating revenues (expenses)	 <u>(8,507)</u>	 <u>29,854</u>	 <u>399,520</u>
 Income before contributions	 113,606	 218,671	 912,948
Capital contributions	<u>196,232</u>	<u>1,270,234</u>	<u>70,000</u>
 Change in net assets	 309,838	 1,488,905	 982,948
Total net assets - beginning	<u>14,326,878</u>	<u>29,643,467</u>	<u>29,948,953</u>
Total net assets - ending	<u>\$ 14,636,716</u>	<u>\$ 31,132,372</u>	<u>\$ 30,931,901</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,189,937	\$ 3,170,083	\$ 22,605,086
Payments to suppliers and contractors	(1,151,058)	(1,869,597)	(20,211,089)
Payments to employees	(647,798)	(512,638)	(952,673)
Other receipts	55,467	5,726	-
	<u>446,548</u>	<u>793,574</u>	<u>1,441,324</u>
Net cash provided by operating activities			
Cash flows from capital and related financing activities:			
Capital contributions	-	-	70,000
Acquisition and construction of capital assets	(275,532)	(236,682)	(2,227,115)
Principal paid on capital debt	(220,000)	(30,000)	-
Interest paid on capital debt	(202,327)	(214,455)	-
Capital lease down payment	(2,260)	(2,260)	(2,260)
Interest paid on capital lease	(453)	(453)	(453)
	<u>(700,572)</u>	<u>(483,850)</u>	<u>(2,159,828)</u>
Net cash used by capital and related financing activities			
Cash flows from investing activities:			
Interest received	154,453	242,833	408,685
	<u>154,453</u>	<u>242,833</u>	<u>408,685</u>
Net increase (decrease) in cash and cash equivalents	(99,571)	552,557	(309,819)
Cash and cash equivalents, January 1	3,304,316	4,928,356	8,910,863
	<u>3,304,316</u>	<u>4,928,356</u>	<u>8,910,863</u>
Cash and cash equivalents, December 31	\$ 3,204,745	\$ 5,480,913	\$ 8,601,044
	<u>\$ 3,204,745</u>	<u>\$ 5,480,913</u>	<u>\$ 8,601,044</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 122,113	\$ 188,817	\$ 513,428
	<u>\$ 122,113</u>	<u>\$ 188,817</u>	<u>\$ 513,428</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	245,448	552,274	765,900
Other nonoperating revenue	55,467	5,726	-
(Increase) decrease in assets:			
Accounts receivable	5,615	6,950	53,102
Other receivables	800	800	800
Allowance for uncollectible accounts	3,201	6,661	43,989
Inventories	(2,688)	-	76,959
Prepaid items	(271)	150	1,183
Increase (decrease) in liabilities:			
Accounts payable	10,745	25,527	(29,529)
Taxes payable	(1,020)	-	2,378
Compensated absence payable	1,934	3,834	1,912
Customer deposits	5,204	2,835	11,202
	<u>324,435</u>	<u>604,757</u>	<u>927,896</u>
Total adjustments			
Net cash provided by operating activities	\$ 446,548	\$ 793,574	\$ 1,441,324
	<u>\$ 446,548</u>	<u>\$ 793,574</u>	<u>\$ 1,441,324</u>
Noncash investing, capital and financing activities:			
Contributions of capital assets from government	\$ 196,232	\$ 1,270,234	\$ -
Purchase of equipment on account	-	27,820	449,891

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
CITY OF AUBURN  
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 Auburn (City), and the results of its operations and cash flows 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; Statement of Revenues, Expenses and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utility's 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.

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. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

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 since their use is limited by applicable bond indentures or governing body action.

4. Capital Assets

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

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	1.5% to 3.0%
Improvements other than buildings	5,000	Composite	1.5% to 3.0%
Machinery and equipment	5,000	Composite	1.5% to 3.0%
Transportation equipment	5,000	Composite	1.5% to 3.0%

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

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

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 6 days per year. Sick leave does not accumulate from year to year.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utility employees earn personal leave at the rate of 6 days per year. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred.

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

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

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 5-15-18-1 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 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, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 735,068	\$ -	\$ -	\$ 735,068
Construction in progress	784,100	207,278	750,552	240,826
	<u>1,519,168</u>	<u>207,278</u>	<u>750,552</u>	<u>975,894</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	3,525,707	-	-	3,525,707
Improvements other than buildings	12,245,894	318,778	-	12,564,672
Machinery and equipment	528,592	696,260	-	1,224,852
Transportation and equipment	264,415	-	-	264,415
	<u>16,564,608</u>	<u>1,015,038</u>	<u>-</u>	<u>17,579,646</u>
Totals				
Less accumulated depreciation	<u>(3,408,908)</u>	<u>(245,448)</u>	<u>-</u>	<u>(3,654,356)</u>
Total capital assets, being depreciated, net	<u>13,155,700</u>	<u>769,590</u>	<u>-</u>	<u>13,925,290</u>
Total Water Utility capital assets, net	<u>\$ 14,674,868</u>	<u>\$ 976,868</u>	<u>\$ 750,552</u>	<u>\$ 14,901,184</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 377,757	\$ -	\$ -	\$ 377,757
Construction in progress	<u>1,982,716</u>	<u>61,266</u>	<u>1,650,224</u>	<u>393,758</u>
Total capital assets, not being depreciated	<u>2,360,473</u>	<u>61,266</u>	<u>1,650,224</u>	<u>771,515</u>
Capital assets, being depreciated:				
Buildings	6,255,880	18,780	-	6,274,660
Improvements other than buildings	21,565,722	1,435,224	-	23,000,946
Machinery and equipment	8,690,518	1,669,690	-	10,360,208
Transportation and equipment	<u>306,119</u>	<u>-</u>	<u>-</u>	<u>306,119</u>
Totals	<u>36,818,239</u>	<u>3,123,694</u>	<u>-</u>	<u>39,941,933</u>
Less accumulated depreciation	<u>(8,231,823)</u>	<u>(552,274)</u>	<u>-</u>	<u>(8,784,097)</u>
Total capital assets, being depreciated, net	<u>28,586,416</u>	<u>2,571,420</u>	<u>-</u>	<u>31,157,836</u>
Total Wastewater Utility capital assets, net	<u>\$ 30,946,889</u>	<u>\$ 2,632,686</u>	<u>\$ 1,650,224</u>	<u>\$ 31,929,351</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 701,589	\$ -	\$ -	\$ 701,589
Construction in progress	<u>7,186,869</u>	<u>1,693,321</u>	<u>6,786,689</u>	<u>2,093,501</u>
Total capital assets, not being depreciated	<u>7,888,458</u>	<u>1,693,321</u>	<u>6,786,689</u>	<u>2,795,090</u>
Capital assets, being depreciated:				
Buildings	2,514,457	528,805	-	3,043,262
Improvements other than buildings	20,253,613	5,960,654	-	26,214,267
Machinery and equipment	1,427,808	1,097,767	15,250	2,510,325
Transportation and equipment	<u>1,486,803</u>	<u>-</u>	<u>-</u>	<u>1,486,803</u>
Totals	<u>25,682,681</u>	<u>7,587,226</u>	<u>15,250</u>	<u>33,254,657</u>
Less accumulated depreciation	<u>(12,093,797)</u>	<u>(765,900)</u>	<u>(15,250)</u>	<u>(12,844,447)</u>
Total capital assets, being depreciated, net	<u>13,588,884</u>	<u>6,821,326</u>	<u>-</u>	<u>20,410,210</u>
Total Electric Utility capital assets, net	<u>\$ 21,477,342</u>	<u>\$ 8,514,647</u>	<u>\$ 6,786,689</u>	<u>\$ 23,205,300</u>

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

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

Water	\$ 245,448
Wastewater	552,274
Electric	<u>765,900</u>
Total depreciation expense	<u>\$ 1,563,622</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006
Water Utility:		
Aerator	<u>\$ 240,826</u>	<u>\$ 240,826</u>
Wastewater Utility:		
Storm water separation	<u>\$ 393,758</u>	<u>\$ 393,758</u>
Electric Utility:		
Grandstaff	<u>\$ 1,250,627</u>	<u>\$ 1,250,627</u>
Auburn essential services phase II	<u>842,874</u>	<u>842,874</u>
Total Electric Utility	<u>\$ 2,093,501</u>	<u>\$ 2,093,501</u>

D. Capital Leases

The Utilities have entered into capital leases for copiers. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2006, are as follows:

	Water Utility	Wastewater Utility	Electric Utility
2007	\$ 2,714	\$ 2,714	\$ 2,714
2008	<u>1,356</u>	<u>1,356</u>	<u>1,356</u>
Total minimum lease payments	4,070	4,070	4,070
Less amount representing interest	<u>276</u>	<u>276</u>	<u>276</u>
Present value of net minimum lease payments	<u>\$ 3,794</u>	<u>\$ 3,794</u>	<u>\$ 3,794</u>

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

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

	Water Utility	Wastewater Utility	Electric Utility
Machinery and equipment	\$ 9,087	\$ 9,087	\$ 9,087

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue 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	Amount	Less Unamortized Discount	Revenue Bonds
Water Utility:				
\$1,000,000 1993 Waterworks revenue bonds	5%	\$ 145,000	\$ 1,733	\$ 143,267
\$4,200,000 2000 Waterworks revenue bonds	4.95% to 5.65%	3,490,000	40,320	3,449,680
Totals		\$ 3,635,000	42,053	\$ 3,592,947

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2007	\$ 230,000	\$ 191,285
2008	240,000	179,678
2009	250,000	167,553
2010	265,000	154,927
2011	275,000	141,350
2012-2016	1,605,000	468,674
2017-2021	770,000	55,087
Totals	\$ 3,635,000	\$ 1,358,554

2. State Revolving Fund Loan

Under the terms of the State Revolving Fund Loan (SRF), revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were set aside to finance the construction of improvements to the Wastewater Utility. Funds were loaned to the Utility as construction costs were

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incurred. At the completion of construction, the outstanding principal balance of \$6,600,000 was amortized over a period of 18 years. Annual debt service requirements to maturity for the loan as of December 31, 2006, for the year ended December 31, are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2007	\$ 535,000	\$ 209,185
2008	555,000	190,825
2009	575,000	171,785
2010	595,000	152,065
2011	615,000	131,665
2012-2016	<u>3,410,000</u>	<u>327,250</u>
Totals	<u>\$ 6,285,000</u>	<u>\$ 1,182,775</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 3,855,000	\$ -	\$ 220,000	\$ 3,635,000	\$ 230,000
Capital lease	<u>6,054</u>	<u>-</u>	<u>2,260</u>	<u>3,794</u>	<u>2,472</u>
Total long-term liabilities	<u>\$ 3,861,054</u>	<u>\$ -</u>	<u>\$ 222,260</u>	<u>\$ 3,638,794</u>	<u>\$ 232,472</u>
Wastewater Utility:					
Loan payable	\$ 6,315,000	\$ -	\$ 30,000	\$ 6,285,000	\$ 535,000
Capital lease	<u>6,054</u>	<u>-</u>	<u>2,260</u>	<u>3,794</u>	<u>2,472</u>
Total long-term liabilities	<u>\$ 6,321,054</u>	<u>\$ -</u>	<u>\$ 32,260</u>	<u>\$ 6,288,794</u>	<u>\$ 537,472</u>
Electric Utility:					
Capital lease	<u>\$ 6,054</u>	<u>\$ -</u>	<u>\$ 2,260</u>	<u>\$ 3,794</u>	<u>\$ 2,472</u>

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F. Restricted Assets

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

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Customer deposits	\$ 47,219	\$ 22,283	\$ 71,346
Revenue bond and covenant accounts	962,256	845,064	720
Capital asset replacement accounts	1,264,151	2,197,168	3,404,729
Reserve accounts	<u>-</u>	<u>20,700</u>	<u>224,317</u>
 Total restricted assets	 <u>\$ 2,273,626</u>	 <u>\$ 3,085,215</u>	 <u>\$ 3,701,112</u>

III. Other Information

A. Risk Management

The City, including the Utilities, is 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.

Group Health Insurance

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$70,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for payroll. Interfund premiums are based primarily on the percentage of each fund's current number of employees.

Workers' Compensation

During 2003, the City, including the Utilities, joined the 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 workers' compensation claims. The Utilities

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pay an annual premium to the risk pool for its workers' compensation 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. Postemployment Benefits

In addition to the pension benefits described below, the City, including the Utilities, provides postemployment health benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utilities on or after attaining age 50 with at least 15 years of service. Currently, 12 retirees meet these eligibility requirements. The Utilities and retirees provide 95% and 5%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, expenditures of \$47,128 were recognized for postemployment benefits.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 11, 2000. The Utility has 4,822 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on July 2, 2002. The Utility has 4,843 customers.

3. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on July 28, 1990. The Utility has 6,205 customers.

D. 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 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The 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 (and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds).

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 274,207
Interest on net pension obligation	423
Adjustment to annual required contribution	(482)
Annual pension cost	274,148
Contributions made	226,313
Increase in net pension obligation	47,835
Net pension obligation, beginning of year	5,840
Net pension obligation, end of year	\$ 53,675
Contribution rates:	
City	6.75%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

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Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 199,509	96%	\$ 18,909
	06-30-05	205,268	106%	5,840
	06-30-06	274,148	83%	53,675

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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)
07-01-04	\$ 3,783,782	\$ 4,422,726	\$ (638,944)	86%	\$ 3,374,017	(19%)
07-01-05	3,956,104	5,286,752	(1,330,648)	75%	3,485,147	(38%)
07-01-06	4,594,343	5,391,422	(797,079)	85%	3,443,069	(23%)

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EXIT CONFERENCE

The contents of this report were discussed on August 13, 2007, with Patricia M. Miller, Clerk-Treasurer; and Norman E. Yoder, Mayor. Our audit disclosed no material items that warrant comment at this time.