

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

EXAMINATION REPORT
OF
WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
VANDERBURGH COUNTY, INDIANA
January 1, 2008 to December 31, 2008



FILED
12/21/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Harry Lawson	01-01-08 to 12-31-09
Controller	Lisa Acobert Jenny Collins	01-01-08 to 10-01-08 10-02-08 to 12-31-09
Mayor	Jonathan Weinzapfel	01-01-08 to 12-31-11
President of the Department of Waterworks Board	Stephen Titzer	01-01-08 to 12-31-09
President of the Common Council	Keith Jarboe B. J. Watts	01-01-08 to 05-12-09 05-13-09 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,
CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities (Utilities), departments of the City of Evansville, as of and for the year ended December 31, 2008. 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 and Wastewater Utilities, City of Evansville, 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 Evansville as of December 31, 2008, 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 and Wastewater Utilities, as of December 31, 2008, 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.

Our examination was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Utilities have not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although is not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

September 15, 2009

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>
Current assets:		
Cash and cash equivalents	\$ 1,416,707	\$ 3,694,649
Cash with fiscal agent	52,912	1,577,814
Interest receivable	419	-
Accounts receivable (net of allowance)	933,167	2,597,006
Accounts receivable - other	93,299	12,745
Interfund receivables:		
Interfund services provided and used	203,778	-
Advances for bad checks	862	-
Prepaid items	<u>71,868</u>	<u>78,878</u>
 Total current assets	 <u>2,773,012</u>	 <u>7,961,092</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Restricted retainage cash	40,050	5,210
Service charge - benefit of petitioners cash and cash equivalents	1,500	-
Bond and interest requirement cash and cash equivalents	2,710,389	-
Bond payment cash and cash equivalents	-	1,460,587
Sinking fund cash and cash equivalents	187,361	2,476,998
Water bond 2008 cash and cash equivalents	25,519,912	-
Debt service reserve cash and cash equivalents	-	3,056,962
Deposits on new extension estimates cash and cash equivalents	21,055	-
Wastewater treatment plant cash and cash equivalents	-	1,428,968
State revolving loan 2008 cash and cash equivalents	-	14,335,251
Construction cash and cash equivalents	-	58,232
Customer deposits cash and cash equivalents	982,562	-
Customer deposits receivable	62,207	-
Interest receivable	<u>439,823</u>	<u>-</u>
 Total restricted assets	 <u>29,964,859</u>	 <u>22,822,208</u>
Deferred charges		
Unamortized bond issuance costs	1,297,259	593,522
Miscellaneous	<u>188,828</u>	<u>2,102,947</u>
 Total deferred debits	 <u>1,486,087</u>	 <u>2,696,469</u>
Capital assets:		
Land, improvements to land and construction in progress	6,519,595	46,158,659
Other capital assets (net of accumulated depreciation)	<u>88,741,515</u>	<u>139,861,258</u>
 Total capital assets	 <u>95,261,110</u>	 <u>186,019,917</u>
 Total noncurrent assets	 <u>126,712,056</u>	 <u>211,538,594</u>
 Total assets	 <u>129,485,068</u>	 <u>219,499,686</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF NET ASSETS
December 31, 2008
(Continued)

<u>Liabilities</u>	<u>Water</u>	<u>Wastewater</u>
Current liabilities:		
Accounts payable	13,239	252,771
Accrued wages payable	54,243	31,544
Payroll withholdings payable	21,339	13,932
Accrued retirements payable	94,260	66,217
Deferred tap ins payable	-	9,600
Interfund payables:		
Interfund services provided and used	-	203,778
Contracts payable	1,743,931	2,316,745
Retainage payable	92,962	1,783,011
Intergovernmental payable	-	2,340
Taxes payable	66,515	-
Compensated absences payable	48,349	24,653
Current liabilities payable from restricted assets:		
Customer deposits	1,044,769	-
Deposits on new extension estimates	21,055	-
Service charge due petitioners	1,500	-
Revenue bonds payable	1,240,000	1,265,000
State revolving loans payable	-	3,222,000
Accrued interest payable	1,470,389	1,785,125
	<u>5,912,551</u>	<u>10,976,716</u>
Total current liabilities		
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts/premiums and deferred amount on refunding)	65,212,500	31,461,977
State revolving loans payable	-	65,608,510
Compensated absences payable	176,500	130,123
	<u>65,389,000</u>	<u>97,200,610</u>
Total noncurrent liabilities		
Total liabilities	<u>71,301,551</u>	<u>108,177,326</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	30,105,869	85,055,952
Restricted for debt service	27,387,096	21,031,874
Unrestricted	690,552	5,234,534
	<u>58,183,517</u>	<u>111,322,360</u>
Total net assets	<u>\$ 58,183,517</u>	<u>\$ 111,322,360</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 7,485,090	\$ -
Commercial and Industrial	5,127,897	-
Allocation of joint costs	2,438,596	-
Fire protection revenue	1,753,741	-
Penalties	115,420	446,523
Other water revenue	30,162	-
Measured revenue:		
Residential	-	12,619,679
Commercial	-	9,134,855
Refuse services	-	4,685,151
Wastewater tap fees	-	633,271
Street sweeping	-	17,780
Waste pretreatment charge	-	256,538
Industrial surcharges and fees	-	468,433
Other	-	418,498
	<u>16,950,906</u>	<u>28,680,728</u>
Total operating revenues		
Operating expenses:		
Source of supply and expense/collection system expense - operations and maintenance:		
Salaries and wages	209,688	1,019,127
Employee pensions and benefits	-	499,127
Contractual services	-	975,429
Transmission and distribution/pumping expense - operations and maintenance:		
Salaries and wages	1,180,579	-
Employee pensions and benefits	563,563	-
Treatment and disposal expense - operations and maintenance:		
Salaries and wages	361,275	1,629,101
Employee pensions and benefits	272,602	798,773
Contractual services	-	4,679,622
Other	-	13,116
Customer accounts expense:		
Salaries and wages	1,170,961	-
Employee pensions and benefits	604,254	-
Contractual services	-	2,438,596
Bad debt expense	63,252	107,692
Administrative and general expense:		
Salaries and wages	679,812	-
Employee pensions and benefits	290,721	-
Materials and supplies	44,708	-
Contractual services	9,005,077	6,971,474
Transportation expense	791	-
Payment in lieu of taxes	502,450	2,003,230
Depreciation and amortization	2,591,869	9,009,614
Other	624,613	467,188
	<u>18,166,215</u>	<u>30,612,089</u>
Total operating expenses		
Operating loss	<u>(1,215,309)</u>	<u>(1,931,361)</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	98,138	217,599
Dividend income on investments	-	79,414
Miscellaneous revenue	86,133	-
Interest expense	(870,153)	(2,119,906)
Miscellaneous expense	(63,154)	(38,180)
	<u>(749,036)</u>	<u>(1,861,073)</u>
Total nonoperating revenues (expenses)		
Loss before capital contributions	(1,964,345)	(3,792,434)
Capital contributions	<u>1,190,056</u>	<u>1,766,003</u>
Change in net assets	(774,289)	(2,026,431)
Total net assets - beginning	<u>58,957,806</u>	<u>113,348,791</u>
Total net assets - ending	<u>\$ 58,183,517</u>	<u>\$ 111,322,360</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2008

	Water	Wastewater
Cash flows from operating activities:		
Receipts from customers and users	\$ 17,016,664	\$ 28,504,483
Payments to suppliers and contractors	(10,230,474)	(18,925,052)
Payments to employees	(5,360,704)	(3,953,706)
Other payments	4,183	(547,895)
	<u>1,429,669</u>	<u>5,077,830</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Proceeds from bond anticipation note	932,257	-
Proceeds from revenue bonds	35,753,733	-
Proceeds from state revolving loans	-	18,452,000
Capital contributions	164,414	92,144
Acquisition and construction of capital assets	(6,987,173)	(27,496,647)
Principal paid on bond anticipation note	(3,751,423)	-
Interest paid on bond anticipation note	(44,008)	-
Principal paid on revenue bonds	(1,205,000)	(1,205,000)
Interest paid on revenue bonds	(1,257,041)	(1,713,925)
Principal paid on state revolving loans	-	(2,528,000)
Interest paid on state revolving loans	-	(1,700,735)
Bond issuance costs paid	(673,448)	-
	<u>22,932,311</u>	<u>(16,100,163)</u>
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	145,764,600	67,096,753
Purchase of investments	(145,764,600)	(43,187,864)
Dividend received	-	79,414
Interest received	224,805	643,085
	<u>224,805</u>	<u>24,631,388</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	24,586,785	13,609,055
Cash and cash equivalents, January 1	<u>6,345,663</u>	<u>14,485,616</u>
Cash and cash equivalents, December 31	<u>\$ 30,932,448</u>	<u>\$ 28,094,671</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating loss	\$ (1,215,309)	\$ (1,931,361)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	2,591,869	9,009,614
Miscellaneous nonoperating revenue (expense)	4,183	(547,895)
(Increase) decrease in assets:		
Accounts receivable	(32,866)	(175,914)
Accounts receivable - other	115,788	(6,070)
Interfund services provided or used	(5,739)	5,739
Advances for bad checks	(2,878)	-
Customer deposits receivable	(8,547)	-
Prepaid items	225	182
Increase (decrease) in liabilities:		
Accounts payable	(169,315)	35,157
Accrued wages, deductions and retirements payable	(21,468)	(18,914)
Contracts payable	571,165	(1,557,939)
Retainage payable	(430,578)	265,095
Taxes payable	17,984	-
Intergovernmental payable	-	(11,200)
Compensated absence payable	(5,781)	11,336
Customer deposits	20,936	-
	<u>2,644,978</u>	<u>7,009,191</u>
Total adjustments		
Net cash provided by operating activities	<u>\$ 1,429,669</u>	<u>\$ 5,077,830</u>
Noncash investing, capital and financing activities:		
Customer accounts written off	\$ 42,575	\$ 58,409
Contributions of capital assets from developer	1,025,642	1,673,859
Construction of capital assets on account	420,058	1,859,899
Capital assets transferred from construction in progress	15,336,679	13,535,039
Purchase of capital assets on account	-	15,033
Miscellaneous deferred debits on account	-	20,659

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

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
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 Evansville (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 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 Utility to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

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

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund 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 balance sheet because their use is limited by applicable bond covenants and other ordinances.

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	Composite/Rate Estimated Useful Life
Water Utility:			
Buildings	\$ 750	Composite	2%
Improvements other than buildings	750	Composite	2%
Machinery and equipment	750	Composite	2%
Wastewater Utility:			
Buildings	750	Straight-line	5 to 100 years
Improvements other than buildings	750	Straight-line	5 to 100 years
Machinery and equipment	750	Straight-line	5 to 25 years
Transportation	750	Straight-line	5 to 25 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.

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Water and Wastewater Utilities during the current year was \$2,493,492 and \$3,492,455, respectively. Of these amounts, \$1,640,073 and \$1,510,773, respectively, were included as part of the cost of capital assets under construction in connection with water line extensions and wastewater improvements.

5. Compensated Absences

- a. Sick Leave – Non-Union Utility employees earn sick leave at the rate of 2/3 day per month. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave is paid to employees through cash payments upon retirement to a maximum of 24 days, provided the employee has 3 years of continuous service.

Union Utility employees earn sick leave at the rate of 9 days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees through cash payments upon retirement up to a maximum of 42 days.

- b. Vacation Leave – Utility employees earn vacation leave at rates from 10 days to 30 days per year based upon the number of years of service. Employees are expected to use earned vacation time by the end of the next succeeding employment year. Accumulated vacation leave is paid to employees through cash payments upon death, retirement, or termination. If an employee is terminated for cause, all accrued benefits are forfeited.
- c. Personal Leave – Utility employees earn personal leave at the rate of 3 days per year. Personal leave is not paid to employees upon termination and 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, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Utilities' investments are categorized below to give an indication of the level of risk assumed by the Utilities at year end. Category 1 includes investments that are insured or registered or for which the securities are held by a Utility or its agent in the Utility's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in a Utility's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in a Utility's name.

	Category			Reported Amount	Fair Value
	1	2	3		
Investments not subject to categorization: Open-end mutual funds				\$ 19,927,435	\$ 19,927,435

B. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 370,150	\$ -	\$ -	\$ 370,150
Construction in progress	14,660,667	7,498,906	16,010,128	6,149,445
Total capital assets, not being depreciated	15,030,817	7,498,906	16,010,128	6,519,595
Capital assets, being depreciated:				
Buildings	30,108,455	3,133,016	-	33,241,471
Improvements other than buildings	81,155,461	14,782,095	402,904	95,534,652
Machinery and equipment	1,052,871	41,646	-	1,094,517
Transportation equipment	1,798,513	115,994	61,429	1,853,078
Totals	114,115,300	18,072,751	464,333	131,723,718
Less accumulated depreciation for:				
Buildings	13,184,375	633,499	2	13,817,872
Improvements other than buildings	26,366,414	1,770,541	15,944	28,121,011
Machinery and equipment	368,377	21,474	1	389,850
Transportation equipment	630,678	36,738	13,946	653,470
Totals	40,549,844	2,462,252	29,893	42,982,203
Total capital assets, being depreciated, net	73,565,456	15,610,499	434,440	88,741,515
Total capital assets, net	\$ 88,596,273	\$ 23,109,405	\$ 16,444,568	\$ 95,261,110

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 80,987	\$ -	\$ -	\$ 80,987
Construction in progress	31,333,401	28,279,310	13,535,039	46,077,672
Total capital assets, not being depreciated	<u>31,414,388</u>	<u>28,279,310</u>	<u>13,535,039</u>	<u>46,158,659</u>
Capital assets, being depreciated:				
Buildings	117,644,146	1,067,591	116,189	118,595,548
Improvements other than buildings	96,421,760	14,852,347	-	111,274,107
Machinery and equipment	2,384,642	1,765,140	753,206	3,396,576
Totals	<u>216,450,548</u>	<u>17,685,078</u>	<u>869,395</u>	<u>233,266,231</u>
Less accumulated depreciation for:				
Buildings	53,037,239	4,695,198	116,189	57,616,248
Improvements other than buildings	30,863,473	3,761,511	-	34,624,984
Machinery and equipment	1,360,950	458,186	655,395	1,163,741
Totals	<u>85,261,662</u>	<u>8,914,895</u>	<u>771,584</u>	<u>93,404,973</u>
Total capital assets, being depreciated, net	<u>131,188,886</u>	<u>8,770,183</u>	<u>97,811</u>	<u>139,861,258</u>
Total capital assets, net	<u>\$ 162,603,274</u>	<u>\$ 37,049,493</u>	<u>\$ 13,632,850</u>	<u>\$ 186,019,917</u>

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

Water	\$ 2,462,252
Wastewater	<u>8,914,895</u>
Total depreciation expense	<u>\$ 11,377,147</u>

C. Construction in progress

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed	Required Future Funding
Water lines and plant improvements	\$ 10,581,492	\$ 6,149,445	\$ 4,432,047	\$ -
Sewer modifications, extensions and treatment plant	<u>54,207,161</u>	<u>46,077,672</u>	<u>8,129,489</u>	<u>-</u>
Totals	<u>\$ 64,788,653</u>	<u>\$ 52,227,117</u>	<u>\$ 12,561,536</u>	<u>\$ -</u>

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Interfund Balances and Activity

The composition of interfund balances as of December 31, 2008, is as follows:

Due To	Due From Wastewater Utility
Water Utility	\$ <u>203,778</u>

Interfund balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur.

E. Short-Term Liabilities

The Utilities may use short-term notes and loans to finance a variety of public projects, including various water line and plant improvements.

Short-term debt activity for the year ended December 31, 2008, was as follows:

	Balance	Draws	Repayments	Balance
Water - Bond anticipation note	\$ <u>2,819,166</u>	\$ <u>932,257</u>	\$ <u>3,751,423</u>	\$ <u>-</u>

F. 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	Unamortized Premium (Discount)	Unamortized Deferred Loss on Refunding	Amount
2004 Waterworks revenue bonds	3.25% to 4.625%	\$ 23,365,000	\$ 3,679	\$ -	\$ 23,368,679
2005 Waterworks refunding bonds	3% to 4%	7,420,000	-	(89,912)	7,330,088
2008 Waterworks revenue bonds	4.125% to 4.875%	36,000,000	(246,267)	-	35,753,733
1997 Series A Wastewater refunding bonds	5%	3,645,000	13,131	(155,175)	3,502,956
2003 Wastewater refunding bonds	3.5% to 5%	30,620,000	405,259	(1,801,238)	29,224,021
Total		<u>\$ 101,050,000</u>	<u>\$ 175,802</u>	<u>\$ (2,046,325)</u>	<u>\$ 99,179,477</u>

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2009	\$ 1,240,000	\$ 2,921,509	\$ 1,265,000	\$ 1,656,175
2010	1,275,000	2,881,181	1,330,000	1,594,725
2011	2,130,000	2,820,738	1,395,000	1,529,662
2012	2,205,000	2,739,828	1,465,000	1,461,150
2013	2,290,000	2,653,584	1,525,000	1,402,550
2014-2018	12,860,000	11,797,726	9,490,000	5,876,973
2019-2023	15,780,000	8,782,800	17,795,000	2,756,250
2024-2028	19,720,000	4,723,946	-	-
2029-2030	9,285,000	458,128	-	-
Totals	<u>\$ 66,785,000</u>	<u>\$ 39,779,440</u>	<u>\$ 34,265,000</u>	<u>\$ 16,277,485</u>

2. State 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 various wastewater rehabilitation projects. Funds were loaned to the Wastewater Utility as construction costs accrued to the maximum allowed. The 1993, 1998, 2004, 2007, and 2008 loans established a maximum draw of \$2,059,074, \$14,953,074, \$7,130,000, \$37,518,000, and \$18,452,000, respectively. At the completion of construction, the outstanding principal balance was amortized over a period of 16 years, 19 years, 20 years, 20 years, and 20 years, respectively. Annual debt service requirements to maturity for the loans, including interest of \$22,217,841, are as follows:

2009	\$ 5,289,802
2010	5,499,189
2011	5,500,695
2012	5,495,663
2013	5,497,216
2014-2018	26,708,493
2019-2023	21,568,120
2024-2028	<u>15,489,173</u>
Total	<u>\$ 91,048,351</u>

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 31,990,000	\$ 36,000,000	\$ 1,205,000	\$ 66,785,000	\$ 1,240,000
Compensated absences	230,630	-	5,781	224,849	48,349
Total Water Utility long-term liabilities	<u>\$ 32,220,630</u>	<u>\$ 36,000,000</u>	<u>\$ 1,210,781</u>	<u>\$ 67,009,849</u>	<u>\$ 1,288,349</u>
Wastewater Utility:					
Revenue bonds payable	\$ 35,470,000	\$ -	\$ 1,205,000	\$ 34,265,000	\$ 1,265,000
State revolving loan	52,906,510	18,452,000	2,528,000	68,830,510	3,222,000
Compensated absences	143,440	11,336	-	154,776	24,653
Total Wastewater Utility long-term liabilities	<u>\$ 88,519,950</u>	<u>\$ 18,463,336</u>	<u>\$ 3,733,000</u>	<u>\$ 103,250,286</u>	<u>\$ 4,511,653</u>

G. Restricted Assets

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

Revenue bond covenant accounts	\$ 51,234,660
Customer deposits cash	982,562
Customer deposits receivable	62,207
Other restricted cash	67,815
Interest receivable	439,823
Total restricted assets	<u>\$ 52,787,067</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. Information is not available to segregate the Utilities' portion.

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. The City, including the Utilities, is self-insured for the first \$100,000 to \$150,000 of claims, depending on the type of loss. 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.

Torts; Theft of, Damage to, and Destruction of Assets; Errors and Omissions;
Job Related Illnesses or Injuries to Employees; and Natural Disasters

The City, including the Utilities, has chosen to establish three risk financing funds for risks associated with torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters. The risk financing funds are accounted for in the City's Liability Insurance Fund, Auto Collision Fund, and the Workers' Compensation Fund, internal service funds, where assets are set aside for claim settlements. The City, including the Utilities, is self-insured for the first \$100,000 to \$150,000 per incident depending on the type of loss. Also all claims in excess of \$1,980,000 per year are covered by commercial insurance. 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, including the Utilities, 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.

Medical Benefits to Employees, Retirees, and Dependents

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. Coverage is provided for life insurance, dental, health care management, vision, prescription, and wellness and employee assistance. The risk financing fund is accounted for in the City's Hospitalization Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers total claims in excess of \$15,091,072 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, including the Utilities, 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.

B. Subsequent Events – Wastewater Utility

Bond Anticipation Note

In 2009, the Utility was approved to borrow up to \$5,300,000 from the Evansville Bond Bank to fund several capital projects.

Federal Programs

In 2009, the Utility was awarded \$3,000,000 in federal stimulus money as well as a \$33,000,000 state revolving loan for various sewer separation projects. In addition, the Utility was awarded an Environmental Protection Agency grant of \$500,000 for the Mt. Auburn sewer project.

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Rate Increase

In 2009, the Utility approved a 15% rate increase to be effective November 1, 2009. In addition, a refuse rate increase of 40% was approved and will become effective January 1, 2010.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on September 26, 2007, which is a three tier rate increase effective each January 1 beginning in 2008. The Utility has 60,506 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility effective September 1, 2008. The Utility has 51,816 customers.

D. Dividend Income

The Wastewater Utility earned dividend income on the investment of funds in mutual funds.

E. 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 City, including the Utilities, authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utilities' annual pension cost and related information, as provided by the actuary, is presented in this note.

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 1,605,134
Interest on net pension obligation	(37,290)
Adjustment to annual required contribution	42,495
Annual pension cost	1,610,339
Contributions made	1,488,400
Increase in net pension obligation	121,939
Net pension obligation, beginning of year	(514,344)
Net pension obligation, end of year	\$ (392,405)
Contribution rates:	
City and Utilities	6.75%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	06-30-06	\$ 1,449,980	86%	\$ (688,033)
	06-30-07	1,590,523	88%	(514,344)
	06-30-08	1,610,339	92%	(392,405)

F. Contingent Liabilities

The United States Department of Justice and the Indiana Department of Environmental Management have been in negotiations with the City of Evansville concerning an enforcement action of the Clean Water Act. The goal is to obtain a consent decree against the City of Evansville concerning its combined sewer overflows. The amount of the consent decree is unknown at this time, but is anticipated to be in the tens of millions of dollar range, which will be utilized to correct the existing system.

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

City and Utilities Public Employees' Retirement Fund Pension 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)
07-01-06	\$ 30,018,856	\$ 32,921,068	\$ (2,902,212)	91%	\$ 22,197,140	(13%)
07-01-07	33,545,348	36,642,152	(3,096,804)	92%	23,096,880	(13%)
07-01-08	35,837,767	38,986,605	(3,148,838)	92%	23,420,814	(13%)

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
EXAMINATION RESULTS AND COMMENTS

SEPARATE BANK ACCOUNTS (Applies to Water and Wastewater Utilities)

As stated in several prior reports, all Water and Wastewater Utility funds were accounted for in the bank account of the City of Evansville.

When two or more governmental units are authorized by statute to have the same fiscal officer, there should be separate bank accounts and accounting records for each governmental unit unless authorized by statute, appropriate federal or state rule or regulation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A single bank account should be provided for all city or town funds, separate bank accounts for the funds belonging to each utility, and possibly a separate bank account for other funds if required by ordinance or regulation. Some bond ordinances and federal regulations require separate bank accounts for various funds and must be followed. Funds of other entities held by the city or town's fiscal officer must be accounted for in separate bank accounts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CUSTOMER DEPOSITS (Applies to Water Utility)

As stated in prior reports, the customer deposit summary does not reconcile with the customer deposit amount recorded in the general ledger. The customer deposit payable is greater than the summary. The detail and control have not agreed for many years. The current total difference of \$51,557, although immaterial to the financial statements, has continued to increase over the past seven years. The current computer billing system does not allow for specific reports to be generated which could be of assistance in the determination of possible differences.

At all times, the manual and 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)

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 24, 2009, with Harry Lawson, General Manager. The official concurred with our audit findings.