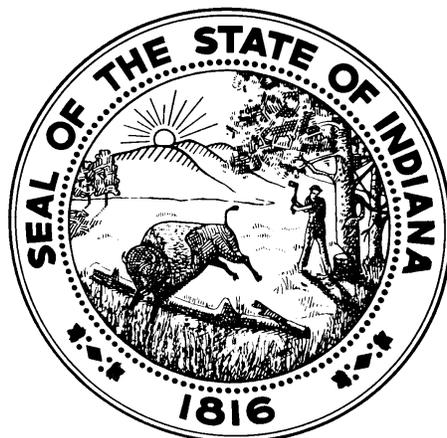


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
DEKALB 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> |
|--|--------------------------------------|--|
| Clerk-Treasurer | Patricia M. Miller | 01-01-08 to 12-31-11 |
| Mayor | Norman E. Yoder | 01-01-08 to 12-31-11 |
| President of the Board of Public Works and Safety | Norman E. Yoder | 01-01-08 to 12-31-11 |
| President of the Common Council | James A. Finchum Marilyn Gearhart | 01-01-08 to 12-31-08 01-01-09 to 12-31-09 |
| Superintendent of Water Utility | Steve Blaugh | 01-01-08 to 12-31-09 |
| Superintendent of Wastewater Utility | David Lochner | 01-01-08 to 12-31-09 |
| Superintendent of Electric Utility | Stuart Tuttle | 01-01-08 to 12-31-09 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Water, Wastewater, and Electric Utilities (Utilities), departments of the City of Auburn, 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, 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, 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, Wastewater, and Electric 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.

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 methods of measurement and presentation of the required supplementary information. However, we did not examine the information and express no opinion on it.

The Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

October 19, 2009

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

| <u>Assets</u> | <u>Water Utility</u> | <u>Wastewater Utility</u> | <u>Electric Utility</u> |
|---|--------------------------|-------------------------------|-----------------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 538,103 | \$ 1,272,365 | \$ 4,375,875 |
| Accounts receivable (net of allowance) | 79,764 | 116,348 | 336,735 |
| Inventories | 69,780 | - | 682,404 |
| Prepaid items | <u>6,754</u> | <u>11,377</u> | <u>12,720</u> |
| Total current assets | <u>694,401</u> | <u>1,400,090</u> | <u>5,407,734</u> |
| Noncurrent assets: | | | |
| Restricted cash, cash equivalents: | | | |
| Depreciation | 1,068,534 | 1,422,923 | 1,982,989 |
| Bond and interest | 11,211 | 78,894 | 720 |
| Debt service reserve | 542,085 | 765,720 | - |
| Construction | 374,163 | - | - |
| Customer deposits | 51,227 | 24,942 | 83,084 |
| Cash reserve | - | 20,700 | 102,317 |
| Improvement | <u>-</u> | <u>1,117,198</u> | <u>-</u> |
| Total restricted assets | <u>2,047,220</u> | <u>3,430,377</u> | <u>2,169,110</u> |
| Deferred charges | <u>62,375</u> | <u>32,280</u> | <u>245,899</u> |
| Capital assets: | | | |
| Land, improvements to land and construction in progress | 1,670,799 | 1,524,061 | 6,704,592 |
| Other capital assets (net of accumulated depreciation) | <u>13,678,358</u> | <u>30,825,669</u> | <u>18,896,855</u> |
| Total capital assets | <u>15,349,157</u> | <u>32,349,730</u> | <u>25,601,447</u> |
| Total noncurrent assets | <u>17,458,752</u> | <u>35,812,387</u> | <u>28,016,456</u> |
| Total assets | <u>18,153,153</u> | <u>37,212,477</u> | <u>33,424,190</u> |
| <u>Liabilities</u> | | | |
| Current liabilities: | | | |
| Accounts payable | 30,329 | 75,025 | 1,740,298 |
| Taxes payable | 8,049 | - | 38,012 |
| Compensated absences | 43,277 | 50,920 | 68,643 |
| Current liabilities payable from restricted assets: | | | |
| Accounts payable | - | 54,654 | 576,318 |
| Customer deposits | 51,227 | 24,942 | 83,084 |
| Revenue bonds payable | 250,000 | - | - |
| State revolving fund loan payable | <u>-</u> | <u>575,000</u> | <u>-</u> |
| Total current liabilities | <u>382,882</u> | <u>780,541</u> | <u>2,506,355</u> |
| Noncurrent liabilities: | | | |
| Revenue bonds payable (net of unamortized discounts) | 2,881,400 | - | - |
| State revolving fund loan payable | <u>-</u> | <u>4,620,000</u> | <u>-</u> |
| Total noncurrent liabilities | <u>2,881,400</u> | <u>4,620,000</u> | <u>-</u> |
| Total liabilities | <u>3,264,282</u> | <u>5,400,541</u> | <u>2,506,355</u> |
| <u>Net Assets</u> | | | |
| Invested in capital assets, net of related debt | 12,217,757 | 27,154,730 | 25,601,447 |
| Restricted for debt service | 553,296 | 844,614 | 720 |
| Restricted for other purposes | 1,442,697 | 2,506,167 | 1,508,988 |
| Unrestricted | <u>675,121</u> | <u>1,306,425</u> | <u>3,806,680</u> |
| Total net assets | <u>\$ 14,888,871</u> | <u>\$ 31,811,936</u> | <u>\$ 30,917,835</u> |

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, 2008

| | <u>Water Utility</u> | <u>Wastewater Utility</u> | <u>Electric Utility</u> |
|---|--------------------------|-------------------------------|-----------------------------|
| Operating revenues: | | | |
| Metered water revenue: | | | |
| Residential | \$ 1,062,427 | \$ - | \$ - |
| Commercial | 380,740 | - | - |
| Industrial | 532,144 | - | - |
| Residential sales | - | - | 3,217,670 |
| Commercial and industrial sales | - | - | 18,856,970 |
| Public street and highway lighting | - | - | 184,778 |
| Fire protection revenue | 127,944 | - | - |
| Penalties | 11,618 | 44,492 | 54,788 |
| Flat rate revenues | - | 50,581 | - |
| Measured revenue: | | | |
| Residential | - | 1,238,326 | - |
| Commercial | - | 1,246,772 | - |
| Network service fees | - | - | 79,901 |
| Other | <u>16,296</u> | <u>388,391</u> | <u>383,932</u> |
| Total operating revenues | <u>2,131,169</u> | <u>2,968,562</u> | <u>22,778,039</u> |
| Operating expenses: | | | |
| Source of supply and expense - operations and maintenance | 147,825 | - | - |
| Water treatment expense - operations and maintenance | 411,209 | - | - |
| Transmission and distribution | 549,587 | - | - |
| Collection system - operations and maintenance | - | 298,398 | - |
| Pumping - operations and maintenance | - | 227,765 | - |
| Treatment and disposal - operations and maintenance | - | 1,167,599 | - |
| Operations and maintenance | - | - | 1,895,268 |
| Customer accounts | 101,494 | 90,061 | 108,016 |
| Administration and general | 591,755 | 764,567 | 1,012,361 |
| Purchased power | - | - | 18,830,269 |
| Insurance expense | 31,274 | 53,579 | 57,869 |
| Network service | - | - | 467,103 |
| Depreciation | 265,540 | 606,009 | 1,002,689 |
| Miscellaneous expenses | <u>58,423</u> | <u>-</u> | <u>196,592</u> |
| Total operating expenses | <u>2,157,107</u> | <u>3,207,978</u> | <u>23,570,167</u> |
| Operating loss | <u>(25,938)</u> | <u>(239,416)</u> | <u>(792,128)</u> |
| Nonoperating revenues (expenses): | | | |
| Interest and investment revenue | 45,177 | 79,944 | 122,329 |
| Miscellaneous revenue | 53,501 | - | 165,863 |
| Interest expense | (195,323) | (190,825) | - |
| Amortization of deferred charges | <u>(11,419)</u> | <u>(3,797)</u> | <u>(8,712)</u> |
| Total nonoperating revenues (expenses) | <u>(108,064)</u> | <u>(114,678)</u> | <u>279,480</u> |
| Income before contributions | (134,002) | (354,094) | (512,648) |
| Capital contributions | <u>142,021</u> | <u>329,373</u> | <u>-</u> |
| Change in net assets | 8,019 | (24,721) | (512,648) |
| Total net assets - beginning | <u>14,880,852</u> | <u>31,836,657</u> | <u>31,430,483</u> |
| Total net assets - ending | <u>\$ 14,888,871</u> | <u>\$ 31,811,936</u> | <u>\$ 30,917,835</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
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2008

| | Water Utility | Wastewater Utility | Electric Utility |
|---|---------------------|-----------------------|---------------------|
| Cash flows from operating activities: | | | |
| Receipts from customers and users | \$ 2,126,792 | \$ 3,002,998 | \$ 22,740,925 |
| Payments to suppliers and contractors | (918,118) | (1,317,058) | (20,837,949) |
| Payments to employees | (944,626) | (1,226,702) | (1,636,660) |
| Other receipts | 53,501 | - | 165,863 |
| | <u>317,549</u> | <u>459,238</u> | <u>432,179</u> |
| Net cash provided by operating activities | | | |
| Cash flows from capital and related financing activities: | | | |
| Acquisition and construction of capital assets | (607,758) | (768,321) | (1,577,761) |
| Principal paid on capital debt | (241,322) | (556,322) | (1,322) |
| Interest paid on capital debt | (191,096) | (190,825) | - |
| | <u>(1,040,176)</u> | <u>(1,515,468)</u> | <u>(1,579,083)</u> |
| Net cash used by capital and related financing activities | | | |
| Cash flows from investing activities: | | | |
| Interest received | 45,177 | 79,944 | 122,329 |
| | <u>45,177</u> | <u>79,944</u> | <u>122,329</u> |
| Net decrease in cash and cash equivalents | (677,450) | (976,286) | (1,024,575) |
| Cash and cash equivalents, January 1 | 3,262,773 | 5,679,028 | 7,569,560 |
| | <u>3,262,773</u> | <u>5,679,028</u> | <u>7,569,560</u> |
| Cash and cash equivalents, December 31 | \$ 2,585,323 | \$ 4,702,742 | \$ 6,544,985 |
| | <u>\$ 2,585,323</u> | <u>\$ 4,702,742</u> | <u>\$ 6,544,985</u> |
| Reconciliation of operating loss to net cash provided by operating activities: | | | |
| Operating loss | \$ (25,938) | \$ (239,416) | \$ (792,128) |
| | <u>\$ (25,938)</u> | <u>\$ (239,416)</u> | <u>\$ (792,128)</u> |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | | |
| Depreciation expense | 265,540 | 606,009 | 1,002,689 |
| Other nonoperating revenue | 53,501 | - | 165,863 |
| (Increase) decrease in assets: | | | |
| Accounts receivable | (4,377) | (10,564) | (37,114) |
| Other receivables | - | 45,000 | - |
| Inventories | 3,053 | - | (53,263) |
| Prepaid items | (447) | 381 | (1,137) |
| Increase (decrease) in liabilities: | | | |
| Accounts payable | 4,671 | 34,469 | 110,378 |
| Taxes payable | 426 | - | 7,995 |
| Compensated absence payable | 17,466 | 20,462 | 17,518 |
| Customer deposits | 3,654 | 2,897 | 11,378 |
| | <u>343,487</u> | <u>698,654</u> | <u>1,224,307</u> |
| Total adjustments | | | |
| Net cash provided by operating activities | \$ 317,549 | \$ 459,238 | \$ 432,179 |
| | <u>\$ 317,549</u> | <u>\$ 459,238</u> | <u>\$ 432,179</u> |
| Noncash investing, capital and financing activities: | | | |
| Contributions of capital assets | \$ 142,021 | \$ 329,373 | \$ - |
| Purchase of capital assets on account | - | 54,654 | 576,318 |

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, represent 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 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 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.

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

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.

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.

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 | 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 – Utilities employees earn sick leave at the rate of 6 days per year. Sick leave does not accumulate from year to year.
- b. Vacation Leave – Utilities 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.

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

- c. Personal Leave – Utilities 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.

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 IC 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.

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 | \$ 735,068 | \$ - | \$ - | \$ 735,068 |
| Construction in progress | 345,185 | 590,546 | - | 935,731 |
| | <u>1,080,253</u> | <u>590,546</u> | <u>-</u> | <u>1,670,799</u> |
| Total capital assets, not being depreciated | | | | |
| | <u>1,080,253</u> | <u>590,546</u> | <u>-</u> | <u>1,670,799</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 3,531,382 | 1,545 | - | 3,532,927 |
| Improvements other than buildings | 12,620,567 | 142,021 | - | 12,762,588 |
| Machinery and equipment | 1,286,352 | 8,032 | - | 1,294,384 |
| Transportation equipment | 264,415 | 7,635 | - | 272,050 |
| | <u>17,702,716</u> | <u>159,233</u> | <u>-</u> | <u>17,861,949</u> |
| Totals | | | | |
| | <u>17,702,716</u> | <u>159,233</u> | <u>-</u> | <u>17,861,949</u> |
| Less accumulated depreciation | | | | |
| | <u>(3,918,051)</u> | <u>(265,540)</u> | <u>-</u> | <u>(4,183,591)</u> |
| Total capital assets, being depreciated, net | | | | |
| | <u>13,784,665</u> | <u>(106,307)</u> | <u>-</u> | <u>13,678,358</u> |
| Total Water Utility capital assets, net | | | | |
| | <u>\$ 14,864,918</u> | <u>\$ 484,239</u> | <u>\$ -</u> | <u>\$ 15,349,157</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 | 430,275 | 716,029 | - | 1,146,304 |
| | <u>808,032</u> | <u>716,029</u> | <u>-</u> | <u>1,524,061</u> |
| Total capital assets, not being depreciated | | | | |
| | <u>808,032</u> | <u>716,029</u> | <u>-</u> | <u>1,524,061</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 6,288,738 | - | - | 6,288,738 |
| Improvements other than buildings | 23,385,776 | 333,384 | - | 23,719,160 |
| Machinery and equipment | 10,404,857 | 79,141 | - | 10,483,998 |
| Transportation equipment | 321,214 | - | - | 321,214 |
| | <u>40,400,585</u> | <u>412,525</u> | <u>-</u> | <u>40,813,110</u> |
| Totals | | | | |
| | <u>40,400,585</u> | <u>412,525</u> | <u>-</u> | <u>40,813,110</u> |
| Less accumulated depreciation | | | | |
| | <u>(9,381,432)</u> | <u>(606,009)</u> | <u>-</u> | <u>(9,987,441)</u> |
| Total capital assets, being depreciated, net | | | | |
| | <u>31,019,153</u> | <u>(193,484)</u> | <u>-</u> | <u>30,825,669</u> |
| Total Wastewater Utility capital assets, net | | | | |
| | <u>\$ 31,827,185</u> | <u>\$ 522,545</u> | <u>\$ -</u> | <u>\$ 32,349,730</u> |
| Electric Utility: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 701,589 | \$ - | \$ - | \$ 701,589 |
| Construction in progress | 4,323,283 | 1,679,720 | - | 6,003,003 |
| | <u>5,024,872</u> | <u>1,679,720</u> | <u>-</u> | <u>6,704,592</u> |
| Total capital assets, not being depreciated | | | | |
| | <u>5,024,872</u> | <u>1,679,720</u> | <u>-</u> | <u>6,704,592</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 3,043,262 | - | - | 3,043,262 |
| Improvements other than buildings | 26,250,799 | 271,160 | - | 26,521,959 |
| Machinery and equipment | 2,553,998 | 46,303 | - | 2,600,301 |
| Transportation equipment | 1,574,916 | 1,193 | - | 1,576,109 |
| | <u>33,422,975</u> | <u>318,656</u> | <u>-</u> | <u>33,741,631</u> |
| Totals | | | | |
| | <u>33,422,975</u> | <u>318,656</u> | <u>-</u> | <u>33,741,631</u> |
| Less accumulated depreciation | | | | |
| | <u>(13,842,087)</u> | <u>(1,002,689)</u> | <u>-</u> | <u>(14,844,776)</u> |
| Total capital assets, being depreciated, net | | | | |
| | <u>19,580,888</u> | <u>(684,033)</u> | <u>-</u> | <u>18,896,855</u> |
| Total Electric Utility capital assets, net | | | | |
| | <u>\$ 24,605,760</u> | <u>\$ 995,687</u> | <u>\$ -</u> | <u>\$ 25,601,447</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 | \$ 265,540 |
| Wastewater | 606,009 |
| Electric | <u>1,002,689</u> |
| Total depreciation expense | <u><u>\$ 1,874,238</u></u> |

C. Construction Commitments

Construction work in progress is composed of the following:

| Project | Expended to December 31, 2008 |
|-------------------------------|-------------------------------------|
| Water Utility: | |
| Aerator | \$ 304,733 |
| Morning Star | 130,485 |
| Fulton Tower | <u>500,513</u> |
| Total Water Utility | <u><u>\$ 935,731</u></u> |
| Wastewater Utility: | |
| Storm water separation | \$ 1,111,605 |
| North Clark storm sewer | 12,723 |
| Indiana Avenue sanitary sewer | <u>21,976</u> |
| Total Wastewater Utility | <u><u>\$ 1,146,304</u></u> |
| Electric Utility: | |
| Grandstaff | \$ 1,802,328 |
| Auburn Essential Services | <u>4,200,675</u> |
| Total Electric Utility | <u><u>\$ 6,003,003</u></u> |

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

D. 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 Discount | Revenue Bonds |
|---|----------------|--------------|----------------------|---------------|
| Water Utility: | | | | |
| \$4,200,000 2000 Waterworks revenue bonds | 5.00% to 5.65% | \$ 3,165,000 | \$ 33,600 | \$ 3,131,400 |

Revenue bonds debt service requirements to maturity are as follows:

| Year Ended December 31 | Water Utility | |
|---------------------------|---------------|------------|
| | Principal | Interest |
| 2009 | \$ 250,000 | \$ 167,553 |
| 2010 | 265,000 | 154,928 |
| 2011 | 275,000 | 141,350 |
| 2012 | 290,000 | 126,858 |
| 2013 | 305,000 | 111,428 |
| 2014-2018 | 1,780,000 | 285,476 |
| Totals | \$ 3,165,000 | \$ 987,593 |

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 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 are as follows:

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

| Year Ended December 31 | Wastewater Utility | |
|---------------------------|---------------------|-------------------|
| | Principal | Interest |
| 2009 | \$ 575,000 | \$ 171,785 |
| 2010 | 595,000 | 152,065 |
| 2011 | 615,000 | 131,665 |
| 2012 | 635,000 | 110,585 |
| 2013 | 655,000 | 88,825 |
| 2014-2016 | <u>2,120,000</u> | <u>127,840</u> |
| Totals | <u>\$ 5,195,000</u> | <u>\$ 782,765</u> |

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 | \$ 3,405,000 | \$ - | \$ 240,000 | \$ 3,165,000 | \$ 250,000 |
| Capital lease | <u>1,322</u> | <u>-</u> | <u>1,322</u> | <u>-</u> | <u>-</u> |
| Total long-term liabilities | <u>\$ 3,406,322</u> | <u>\$ -</u> | <u>\$ 241,322</u> | <u>\$ 3,165,000</u> | <u>\$ 250,000</u> |
| Wastewater Utility: | | | | | |
| Loan payable | \$ 5,750,000 | \$ - | \$ 555,000 | \$ 5,195,000 | \$ 575,000 |
| Capital lease | <u>1,322</u> | <u>-</u> | <u>1,322</u> | <u>-</u> | <u>-</u> |
| Total long-term liabilities | <u>\$ 5,751,322</u> | <u>\$ -</u> | <u>\$ 556,322</u> | <u>\$ 5,195,000</u> | <u>\$ 575,000</u> |
| Electric Utility: | | | | | |
| Capital lease | <u>\$ 1,322</u> | <u>\$ -</u> | <u>\$ 1,322</u> | <u>\$ -</u> | <u>\$ -</u> |

E. Restricted Assets

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

| | Water Utility | Wastewater Utility | Electric Utility |
|------------------------------------|---------------------|-----------------------|---------------------|
| Customer deposits | \$ 51,227 | \$ 24,942 | \$ 83,084 |
| Revenue bond and covenant accounts | 927,459 | 844,614 | 720 |
| Capital asset replacement accounts | 1,068,534 | 2,540,121 | 1,982,989 |
| Reserve accounts | <u>-</u> | <u>20,700</u> | <u>102,317</u> |
| Total restricted assets | <u>\$ 2,047,220</u> | <u>\$ 3,430,377</u> | <u>\$ 2,169,110</u> |

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

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 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. Subsequent Events

Wastewater Treatment Plant Expansion

On October 6, 2009, the City Council approved borrowing from the State Revolving Fund (SRF) program for a major expansion of the Wastewater Treatment Plant. The approximately \$22 million project will be funded primarily by an SRF loan (\$15,470,000) and federal stimulus money (\$5,000,000). The Board of Works awarded a \$15,475,000 construction contract to Weigand Construction for the project. A portion of the debt incurred for the project will be used to refund \$2,070,000 of outstanding 1995 EDIT bonds used for a prior expansion of the Wastewater Treatment Plant.

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

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 4,910 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on July 2, 2002. The Utility has 4,977 customers.

3. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on July 28, 1990. The Utility has 7,125 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 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 three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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

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

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.

Actuarial Information for the Above Plan

| | PERF |
|--|--|
| Annual required contribution | \$ 275,812 |
| Interest on net pension obligation | 4,031 |
| Adjustment to annual required contribution | (4,593) |
| Annual pension cost | 275,250 |
| Contributions made | 291,552 |
| Decrease in net pension obligation | (16,302) |
| Net pension obligation, beginning of year | 55,594 |
| Net pension obligation, end of year | \$ 39,292 |
| Contribution rates: | |
| Utilities | 7.75% |
| 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 | 4 year smoothed market |

Actuarial Assumptions

| | |
|------------------------------------|-------|
| 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% |

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

Three Year Trend Information

| | <u>Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|------|--------------------|--|--|---------------------------------------|
| PERF | 06-30-06 | \$ 274,148 | 83% | \$ 53,675 |
| | 06-30-07 | 248,214 | 85% | 55,594 |
| | 06-30-08 | 275,250 | 86% | 39,292 |

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
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) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| 07-01-06 | \$ 4,594,343 | \$ 5,391,422 | \$ (797,079) | 85% | \$ 3,443,069 | (23%) |
| 07-01-07 | 5,230,809 | 6,135,155 | (904,346) | 85% | 3,658,202 | (25%) |
| 07-01-08 | 5,728,801 | 6,686,282 | (957,481) | 86% | 3,965,895 | (24%) |

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
EXIT CONFERENCE

The contents of this report were discussed on October 19, 2009, with Patricia M. Miller, Clerk-Treasurer; and Norman E. Yoder, Mayor. Our examination disclosed no material items that warrant comment at this time.