

B37969

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

ANNUAL FINANCIAL REPORT

2009

WATER, WASTEWATER, AND ELECTRIC UTILITIES

CITY OF AUBURN

DEKALB COUNTY, INDIANA



FILED
12/06/2010

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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	01-01-09 to 12-31-10
President of the Common Council	Marilyn Gearhart	01-01-09 to 12-31-10
Superintendent of Water Utility	Steve Blaugh Randy Harvey	01-01-09 to 04-30-09 05-01-09 to 12-31-10
Superintendent of Wastewater Utility	David Lochner	01-01-09 to 12-31-10
Superintendent of Electric Utility	Stuart Tuttle	01-01-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2009, which collectively comprise the Utilities' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over reporting. 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, 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, 2009, 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, 2009, 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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 accounting principles generally accepted in the United States of America. 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.

The Utilities have 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

September 8, 2010

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
STATEMENT OF NET ASSETS
December 31, 2009

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 178,909	\$ 586,792	\$ 3,746,339
Accounts receivable (net of allowance)	78,018	192,996	478,666
Inventories	65,828	-	650,633
Prepaid items	6,003	10,946	12,833
	<u>328,758</u>	<u>790,734</u>	<u>4,888,471</u>
Total current assets			
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation	1,307,108	937,184	1,563,025
Bond and interest	14,336	507,209	720
Construction	374,760	-	-
Debt service reserve	542,085	1,352,277	-
Cash reserve	-	20,700	95,317
Improvement	-	873,811	-
Customer deposits	48,004	22,300	71,241
	<u>2,286,293</u>	<u>3,713,481</u>	<u>1,730,303</u>
Total restricted assets			
Deferred charges	56,138	28,482	237,187
	<u>56,138</u>	<u>28,482</u>	<u>237,187</u>
Capital assets:			
Land, improvements to land and construction in progress	884,512	2,580,812	7,893,097
Other capital assets (net of accumulated depreciation)	14,222,142	30,298,492	18,205,118
	<u>15,106,654</u>	<u>32,879,304</u>	<u>26,098,215</u>
Total capital assets			
Total noncurrent assets	<u>17,449,085</u>	<u>36,621,267</u>	<u>28,065,705</u>
Total assets	<u>17,777,843</u>	<u>37,412,001</u>	<u>32,954,176</u>
Liabilities			
Current liabilities:			
Accounts payable	57,232	72,368	1,845,586
Taxes payable	8,377	-	52,791
Wages payable	12,323	18,149	23,532
Compensated absences	41,914	54,110	68,496
Current liabilities payable from restricted assets:			
Customer deposits	48,004	22,300	71,241
Accrued interest payable	-	164,138	-
Bond anticipation note	-	235,292	-
Revenue bonds payable	265,000	-	-
State Revolving Fund loan payable	-	795,000	-
	<u>432,850</u>	<u>1,361,357</u>	<u>2,061,646</u>
Total current liabilities			
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts)	2,619,760	-	-
State Revolving Fund loan payable	-	6,278,798	-
	<u>2,619,760</u>	<u>6,278,798</u>	<u>-</u>
Total noncurrent liabilities			
Total liabilities	<u>3,052,610</u>	<u>7,640,155</u>	<u>2,061,646</u>
Net Assets			
Invested in capital assets, net of related debt	12,221,894	25,570,214	26,098,215
Restricted for debt service	556,421	1,695,348	720
Restricted for other purposes	1,681,868	1,831,695	1,658,342
Unrestricted	265,050	674,589	3,135,253
	<u>\$ 14,725,233</u>	<u>\$ 29,771,846</u>	<u>\$ 30,892,530</u>
Total net assets			

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 CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2009

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Operating revenues:			
Metered water revenue:			
Residential	\$ 1,043,184	\$ -	\$ -
Commercial	346,778	-	-
Industrial	527,482	-	-
Residential sales	-	-	3,421,475
Commercial and industrial sales	-	-	17,923,387
Public street and highway lighting	-	-	163,163
Fire protection revenue	131,720	-	-
Penalties	13,568	53,868	63,023
Flat rate revenues	-	62,317	-
Measured revenue:			
Residential	-	1,385,380	-
Commercial	-	1,345,948	-
Network service fees	-	-	517,206
Other	<u>31,632</u>	<u>303,180</u>	<u>186,156</u>
 Total operating revenues	 <u>2,094,364</u>	 <u>3,150,693</u>	 <u>22,274,410</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	89,933	-	-
Water treatment expense - operations and maintenance	442,773	-	-
Transmission and distribution	485,493	-	-
Collection system - operations and maintenance	-	372,684	-
Pumping - operations and maintenance	-	268,605	-
Treatment and disposal - operations and maintenance	-	1,151,596	-
Operations and maintenance	-	-	2,089,241
Customer accounts	80,611	82,377	279,468
Administration and general	671,403	797,539	1,402,834
Purchased power	-	-	17,218,603
Insurance expense	29,471	52,702	61,204
Network service	-	-	419,670
Depreciation	267,929	612,197	1,012,249
Miscellaneous expenses	<u>55,166</u>	<u>-</u>	<u>121,194</u>
 Total operating expenses	 <u>2,122,779</u>	 <u>3,337,700</u>	 <u>22,604,463</u>
 Operating loss	 <u>(28,415)</u>	 <u>(187,007)</u>	 <u>(330,053)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	4,128	12,763	59,881
Miscellaneous revenue	37,799	539,195	253,579
Miscellaneous expense	-	(375,960)	-
Interest expense	(170,913)	(252,453)	-
Amortization of deferred charges	<u>(6,237)</u>	<u>(3,798)</u>	<u>(8,712)</u>
 Total nonoperating revenues (expenses)	 <u>(135,223)</u>	 <u>(80,253)</u>	 <u>304,748</u>
 Loss before contributions and transfers	 <u>(163,638)</u>	 <u>(267,260)</u>	 <u>(25,305)</u>
Capital contributions	-	26,000	-
Transfers in	-	271,170	-
Transfers out	<u>-</u>	<u>(2,070,000)</u>	<u>-</u>
 Change in net assets	 <u>(163,638)</u>	 <u>(2,040,090)</u>	 <u>(25,305)</u>
Total net assets - beginning	<u>14,888,871</u>	<u>31,811,936</u>	<u>30,917,835</u>
Total net assets - ending	<u>\$ 14,725,233</u>	<u>\$ 29,771,846</u>	<u>\$ 30,892,530</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, 2009

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,096,110	\$ 3,074,045	\$ 22,132,479
Payments to suppliers and contractors	(1,148,769)	(1,707,251)	(20,103,210)
Payments to employees	(666,410)	(1,001,781)	(1,286,000)
Other receipts	37,799	163,235	253,579
Net cash provided by operating activities	<u>318,730</u>	<u>528,248</u>	<u>996,848</u>
Cash flows from noncapital financing activities:			
Transfer to other funds	-	(2,070,000)	-
Transfers from other funds	-	271,170	-
Net cash used by noncapital financing activities	<u>-</u>	<u>(1,798,830)</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Proceeds from capital debt	-	2,399,090	-
Acquisition and construction of capital assets	(25,426)	(1,170,425)	(2,125,072)
Principal paid on capital debt	(250,000)	(285,000)	-
Interest paid on capital debt	(167,553)	(88,315)	-
Net cash provided (used) by capital and related financing activities	<u>(442,979)</u>	<u>855,350</u>	<u>(2,125,072)</u>
Cash flows from investing activities:			
Interest received	4,128	12,763	59,881
Net decrease in cash and cash equivalents	(120,121)	(402,469)	(1,068,343)
Cash and cash equivalents, January 1	<u>2,585,323</u>	<u>4,702,742</u>	<u>6,544,985</u>
Cash and cash equivalents, December 31	<u>\$ 2,465,202</u>	<u>\$ 4,300,273</u>	<u>\$ 5,476,642</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating loss	<u>\$ (28,415)</u>	<u>\$ (187,007)</u>	<u>\$ (330,053)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	267,929	612,197	1,012,249
Miscellaneous nonoperating revenues	37,799	539,195	253,579
Miscellaneous nonoperating expenses	-	(375,960)	-
(Increase) decrease in assets:			
Accounts receivable	1,746	(76,648)	(141,931)
Inventories	3,952	-	31,771
Prepaid items	751	431	(113)
Increase (decrease) in liabilities:			
Accounts payable	26,903	(2,657)	145,025
Taxes payable	328	-	14,779
Wages payable	12,323	18,149	23,532
Compensated absence payable	(1,363)	3,190	(147)
Customer deposits	(3,223)	(2,642)	(11,843)
Total adjustments	<u>347,145</u>	<u>715,255</u>	<u>1,326,901</u>
Net cash provided by operating activities	<u>\$ 318,730</u>	<u>\$ 528,248</u>	<u>\$ 996,848</u>
Noncash investing, capital and financing activities:			
Contributions of capital assets	\$ -	\$ 26,000	\$ -

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 Utilities are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

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

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.

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.

The financial statements report \$7,730,077 of restricted net assets, all of which is restricted by enabling legislation.

4. Capital Assets

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

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 1,000	Composite	1.5% to 3.0%
Improvements other than buildings	1,000	Composite	1.5% to 3.0%
Machinery and equipment	1,000	Composite	1.5% to 3.0%
Transportation equipment	1,000	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.

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

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.
- 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

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2009, the Utilities have deposit balances in the amount of \$12,242,117.

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, 2009, was as follows:

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 735,068	\$ -	\$ -	\$ 735,068
Construction in progress	935,731	20,959	807,246	149,444
Total capital assets, not being depreciated	<u>1,670,799</u>	<u>20,959</u>	<u>807,246</u>	<u>884,512</u>
Capital assets, being depreciated:				
Buildings	3,532,927	-	-	3,532,927
Improvements other than buildings	12,762,588	807,246	-	13,569,834
Machinery and equipment	1,294,384	4,467	-	1,298,851
Transportation equipment	272,050	-	-	272,050
Totals	<u>17,861,949</u>	<u>811,713</u>	<u>-</u>	<u>18,673,662</u>
Less accumulated depreciation	<u>(4,183,591)</u>	<u>(267,929)</u>	<u>-</u>	<u>(4,451,520)</u>
Total capital assets, being depreciated, net	<u>13,678,358</u>	<u>543,784</u>	<u>-</u>	<u>14,222,142</u>
Total Water Utility capital assets, net	<u>\$ 15,349,157</u>	<u>\$ 564,743</u>	<u>\$ 807,246</u>	<u>\$ 15,106,654</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 377,757	\$ -	\$ -	\$ 377,757
Construction in progress	1,146,304	1,092,844	36,093	2,203,055
Total capital assets, not being depreciated	<u>1,524,061</u>	<u>1,092,844</u>	<u>36,093</u>	<u>2,580,812</u>
Capital assets, being depreciated:				
Buildings	6,288,738	-	-	6,288,738
Improvements other than buildings	23,719,160	62,094	-	23,781,254
Machinery and equipment	10,483,998	22,926	-	10,506,924
Transportation equipment	321,214	-	-	321,214
Totals	<u>40,813,110</u>	<u>85,020</u>	<u>-</u>	<u>40,898,130</u>
Less accumulated depreciation	<u>(9,987,441)</u>	<u>(612,197)</u>	<u>-</u>	<u>(10,599,638)</u>
Total capital assets, being depreciated, net	<u>30,825,669</u>	<u>(527,177)</u>	<u>-</u>	<u>30,298,492</u>
Total Wastewater Utility capital assets, net	<u>\$ 32,349,730</u>	<u>\$ 565,667</u>	<u>\$ 36,093</u>	<u>\$ 32,879,304</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 701,589	\$ -	\$ -	\$ 701,589
Construction in progress	6,003,003	1,188,505	-	7,191,508
Total capital assets, not being depreciated	<u>6,704,592</u>	<u>1,188,505</u>	<u>-</u>	<u>7,893,097</u>
Capital assets, being depreciated:				
Buildings	3,043,262	93,683	-	3,136,945
Improvements other than buildings	26,521,959	216,386	-	26,738,345
Machinery and equipment	2,600,301	10,443	-	2,610,744
Transportation equipment	1,576,109	-	-	1,576,109
Totals	<u>33,741,631</u>	<u>320,512</u>	<u>-</u>	<u>34,062,143</u>
Less accumulated depreciation	<u>(14,844,776)</u>	<u>(1,012,249)</u>	<u>-</u>	<u>(15,857,025)</u>
Total capital assets, being depreciated, net	<u>18,896,855</u>	<u>(691,737)</u>	<u>-</u>	<u>18,205,118</u>
Total Electric Utility capital assets, net	<u>\$ 25,601,447</u>	<u>\$ 496,768</u>	<u>\$ -</u>	<u>\$ 26,098,215</u>

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

	<u>2009</u>
Water	\$ 267,929
Wastewater	612,197
Electric	<u>1,012,249</u>
Total depreciation expense	<u>\$ 1,892,375</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2009
Water Utility:	
Morning Star	\$ 146,974
Westside Main	<u>2,470</u>
Total	<u>\$ 149,444</u>
Wastewater Utility:	
2009 SRF Project	<u>\$ 2,203,055</u>

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

Project	Expended to December 31, 2009
Electric Utility:	
Grandstaff	\$ 1,636,297
AES Phase I	192,249
AES Phase II	3,337,272
AES Phase III	1,876,490
SmartGrid	30,717
CR 11A Project	8,929
Center Street Substation	8,309
Hospital Switch Gear	99,379
Miscellaneous	1,866
Total	\$ 7,191,508

D. Interfund Activity

Interfund Transfers

Interfund transfers at December 31, 2009, were as follows: \$271,170 from CEDIT Debt Service Reserve to Wastewater in order to partially fund the 2009 SRF debt reserve and \$2,070,000 from Wastewater to CEDIT for early payoff of the 1995 CEDIT SRF loan.

E. Short-Term Liabilities

The Utilities may use short-term notes and loans to finance a variety of public projects.

Short-term debt activity for the year ended December 31, 2009, was as follows:

<u>2009</u>	Beginning Balance	Issued/ Draws	Redeemed Repayments	Ending Balance
SRF Bond Anticipation Note	\$ -	\$ 235,292	\$ -	\$ 235,292

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:

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

Purpose	Interest Rates	Balance at December 31	Less: Unamortized Discount	Amount
2000 Waterworks revenue bonds	5.00% to 5.65%	\$ 2,915,000	\$ 30,240	\$ 2,884,760

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility	
	Principal	Interest
2010	\$ 265,000	\$ 154,928
2011	275,000	141,350
2012	290,000	126,858
2013	305,000	111,428
2014	320,000	94,763
2015-2018	1,460,000	190,713
Totals	\$ 2,915,000	\$ 820,040

2. State Revolving Fund Loans Payable

During 1995 and 2009, the Utilities entered into finance assistance agreements with the State of Indiana's Wastewater Revolving Loan program that allow for a maximum of \$6,600,000, and \$15,470,000 in 1995 and 2009, respectively, for improvements at the Wastewater treatment facility and sewer separation. At December 31, 2009, \$6,600,000 and \$2,163,798 had been drawn down against the 1995 and 2009 agreements, respectively, resulting in unissued loan principal of \$13,306,202. The Utilities do not intend to draw any more funds against the 1995 agreement. The following debt service requirements to maturity reflect the anticipated loan payments after the loans have been drawn down 100%.

	Principal	Interest
2010	\$ 795,000	\$ 432,436
2011	820,000	517,577
2012	850,000	491,463
2013	875,000	464,425
2014	910,000	436,581
2015-2019	4,665,000	1,754,604
2020-2024	5,030,000	1,144,104
2025-2029	5,815,000	478,562
2030	620,000	7,654
Principal not drawn down	(13,306,202)	-
Totals	\$ 7,073,798	\$ 5,727,406

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

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 3,165,000	\$ -	\$ 250,000	\$ 2,915,000	\$ 265,000
Wastewater Utility:					
SRF loans payable	\$ 5,195,000	\$ 2,163,798	\$ 285,000	\$ 7,073,798	\$ 795,000

G. Restricted Assets

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

	Water Utility	Wastewater Utility	Electric Utility
Depreciation	\$ 1,307,108	\$ 937,184	\$ 1,563,025
Bond and interest	14,336	507,209	720
Construction	374,760	-	-
Debt service reserve	542,085	1,352,277	-
Cash reserve	-	20,700	95,317
Improvement	-	873,811	-
Customer deposits	48,004	22,300	71,241
Total restricted assets	\$ 2,286,293	\$ 3,713,481	\$ 1,730,303

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; 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.

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. The City purchases commercial insurance for claims in excess of coverage provided by the fund. Amounts are paid into the Self-Insurance Fund by all funds from which payroll is paid. The amounts paid by each fund are determined by a percentage of total payroll to the payroll paid from that fund.

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

During 2003, the City, including the Utilities, joined with other governmental entities in the Indiana Public Employers Plan, a public entity risk pool currently operating as a common risk management and insurance program for 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illness or injury (workers' comp). The City pays an annual premium to the risk pool for its job related illness or injury (workers' comp) 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.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Subsequent Events

Video transmission capability for Auburn Essential Services - The City awarded a \$1,350,000 contract for equipment to Mega Hurtz on January 14, 2010.

Smart Grid (utility monitoring system) - A 50/50 grant from US Dept of Energy (\$2,075,080) was approved on March 25, 2010. The City awarded a \$1,845,286 contract for engineering to Spectrum on April 22, 2010.

C. Other Postemployment Benefits

In addition to the pension benefits described below, the City, including the Utilities, provides post-employment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the City and are eligible to receive pension benefits from at least one of the pension plans described below. A retiree may continue in the City's self-insurance plan until the retiree reaches eligibility age under the federal Medicare program in which the City's insurance plan will automatically terminate. Currently, 12 retirees meet these eligibility requirements. The City and retirees provide 80% and 20%, respectively, for single coverage of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2009, the City and retirees paid \$39,881 and \$9,971, respectively, for these benefits.

D. Rate Structure

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 11, 2000. The Utility has 4,913 customers.

Wastewater Utility

The current rate structure was approved by the City Council on September 8, 2009. The Utility has 4,984 customers.

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

Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on July 28, 1990. The Utility has 7,116 customers.

E. Revenues Pledged

Water Utility Revenues Pledged

The City has pledged future water revenues, net of specified operating expenses, to repay revenue bonds issued in 2000. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and are payable through 2018.

Wastewater Utility Revenues Pledged

The City has pledged future wastewater revenues, net of specified operating expenses, to repay revenue bonds issued in 1995 and 2009, respectively. Proceeds from the bonds provided financing for wastewater collection and treatment system improvements. The bonds are payable solely from wastewater net revenues and are payable through 2017 and 2030, respectively.

F. Pension Plan

Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the 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

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

Funding Policy

PERF members are required to contribute 3% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 7.75% of annual covered payroll. The contribution requirements of plan members and the Utilities are established and may be amended by the PERF Board of Trustees.

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

Annual Pension Cost

For 2009, the City's annual pension cost of \$306,960 for PERF was approximately equal to the City's required and actual contributions.

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	307,357
Interest on net pension obligation		2,849
Adjustment to annual required contribution		(3,246)
Annual pension cost		306,960
Contributions made		301,430
Increase in net pension obligation		5,530
Net pension obligation, beginning of year		39,292
Net pension obligation, end of year	\$	44,822
Contribution rates:		
Government		7.75%
Plan members		3%
Actuarial valuation date		07-01-09
Actuarial cost method		Entry age normal cost
Amortization method		Level dollar, closed amortization period
Amortization period		30 years
Amortization period (from date)		07-01-07
Asset valuation method		75% of expected actuarial value plus 25% of market value

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

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	4.00%
Cost-of-living adjustments	1.50%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-07	\$ 248,214	99%	\$ 55,594
	06-30-08	275,250	106%	39,292
	06-30-09	306,960	98%	44,822

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of June 30, 2009, the most recent actuarial valuation date, is as follows:

<u>Retirement Plan</u>	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
PERF	\$ 4,834,772	\$ 6,644,618	\$ 1,809,846	73%	\$ 3,908,025	46%

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

WATER, WASTEWATER, 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)
07-01-07	\$ 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%
07-01-09	4,834,772	6,644,618	(1,809,846)	73%	3,908,025	46%

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

The contents of this report were discussed on September 8, 2010, with Patricia M. Miller, Clerk-Treasurer, and Norman E. Yoder, Mayor. Our audit disclosed no material items that warrant comment at this time.