

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

EXAMINATION REPORT  
OF  
WATER AND WASTEWATER UTILITY  
CITY OF EVANSVILLE  
VANDERBURGH COUNTY, INDIANA  
January 1, 2009 to December 31, 2009



**FILED**  
01/06/2011



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Harry Lawson	01-01-09 to 03-31-10
Director of the Utilities (Interim)	James Garrard	04-01-10 to 12-31-10
Controller	Jenny Collins	01-01-09 to 12-31-10
Mayor	Jonathan Weinzapfel	01-01-08 to 12-31-11
President of the Department of Waterworks Board	Stephen Titzer	01-01-09 to 12-31-10
President of the Common Council	Keith Jarboe B. J. Watts	01-01-09 to 05-12-09 05-13-09 to 12-31-10



**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, 2009. 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, 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 presents fairly, in all material respects, the respective financial position of the business-type activities for the Water and Wastewater 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.

The Water and Wastewater 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

November 18, 2010

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

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,715,663	\$ 4,687,985
Cash with fiscal agent	467,785	626,006
Interest receivable	94	167
Accounts receivable (net of allowance)	1,104,718	2,893,456
Accounts receivable - other	183,315	4,679
Interfund receivables:		
Interfund services provided and used	216,518	-
Advances for bad checks	(196)	-
Prepaid items	79,889	88,650
<b>Total current assets</b>	<b><u>4,767,786</u></b>	<b><u>8,300,943</u></b>
<b>Noncurrent assets:</b>		
Restricted cash, cash equivalents and investments:		
Restricted retainage cash	-	20,368
Bond and interest requirement cash and cash equivalents	2,726,120	-
Bond payment cash and cash equivalents	-	1,462,370
Sinking fund cash and cash equivalents	187,361	2,905,089
Water bond 2008 cash and cash equivalents	11,789,002	-
Debt service reserve cash and cash equivalents	-	6,176,472
Bond anticipation note 2008 series B cash and cash equivalents	-	35
Wastewater treatment plant cash and cash equivalents	-	1,230,127
State revolving loan 2008 cash and cash equivalents	-	5,385,783
Construction cash and cash equivalents	-	6,962
Customer deposits cash and cash equivalents	962,817	-
Customer deposits receivable	23,244	-
Interest receivable	(14,194)	3,993
<b>Total restricted assets</b>	<b><u>15,674,350</u></b>	<b><u>17,191,199</u></b>
Deferred charges:		
Unamortized bond issuance costs	1,290,021	670,810
Miscellaneous	143,863	2,453,084
<b>Total deferred debits</b>	<b><u>1,433,884</u></b>	<b><u>3,123,894</u></b>
<b>Capital assets:</b>		
Land, improvements to land and construction in progress	15,818,158	52,868,846
Other capital assets (net of accumulated depreciation)	91,410,284	138,087,985
<b>Total capital assets</b>	<b><u>107,228,442</u></b>	<b><u>190,956,831</u></b>
<b>Total noncurrent assets</b>	<b><u>124,336,676</u></b>	<b><u>211,271,924</u></b>
<b>Total assets</b>	<b><u>129,104,462</u></b>	<b><u>219,572,867</u></b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	1,590,859	948,676
Accrued wages payable	71,861	46,349
Payroll withholdings payable	18,417	14,163
Accrued retirements payable	93,308	70,604
Interfund payables:		
Interfund services provided and used	-	216,518
Contracts payable	739,464	1,201,437
Retainage payable	467,785	893,810
Intergovernmental payable	-	8,170
Taxes payable	79,410	-
Compensated absences payable	39,873	35,883
Current liabilities payable from restricted assets:		
Customer deposits	986,075	-
Revenue bonds payable	1,275,000	1,330,000
State revolving loans payable	-	3,381,000
Accrued interest payable	1,451,120	1,875,879
<b>Total current liabilities</b>	<b><u>6,813,172</u></b>	<b><u>10,022,489</u></b>
<b>Noncurrent liabilities:</b>		
Revenue bonds payable (net of unamortized discounts/premiums and deferred amount on refunding)	63,959,956	33,091,593
Payment in lieu of taxes payable	702,956	-
State revolving loans payable	-	65,708,960
Compensated absences payable	299,976	274,103
<b>Total noncurrent liabilities</b>	<b><u>64,962,888</u></b>	<b><u>99,074,656</u></b>
<b>Total liabilities</b>	<b><u>71,776,060</u></b>	<b><u>109,097,145</u></b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	43,283,507	88,116,088
Restricted for debt service	13,237,169	15,294,952
Unrestricted	807,726	7,064,682
<b>Total net assets</b>	<b><u>\$ 57,328,402</u></b>	<b><u>\$ 110,475,722</u></b>

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, 2009

	Water	Wastewater
Operating revenues:		
Metered water revenue:		
Residential	\$ 8,390,614	\$ -
Commercial and Industrial	5,527,559	-
Allocation of joint costs	2,596,190	-
Fire protection revenue	2,039,026	-
Penalties	124,420	471,020
Other water revenue	220,246	-
Measured revenue:		
Residential	-	13,992,667
Commercial	-	9,852,328
Refuse services	-	4,659,745
Wastewater tap fees	-	603,057
Street sweeping	-	17,780
Waste pretreatment charge	-	290,000
Industrial surcharges and fees	-	404,741
Other	-	501,154
	18,898,055	30,792,492
Operating expenses:		
Source of supply and expense/collection system expense - operations and maintenance:		
Salaries and wages	176,703	1,050,049
Employee pensions and benefits	-	539,020
Contractual services	-	1,000,042
Transmission and distribution/pumping expense - operations and maintenance:		
Salaries and wages	1,263,284	-
Employee pensions and benefits	618,919	-
Treatment and disposal expense - operations and maintenance:		
Salaries and wages	390,717	1,727,270
Employee pensions and benefits	289,670	866,807
Contractual services	-	5,183,635
Other	-	13,058
Customer accounts expense:		
Salaries and wages	1,189,982	-
Employee pensions and benefits	648,585	-
Contractual services	-	2,596,190
Bad debt expense	78,278	118,075
Administrative and general expense:		
Salaries and wages	662,057	-
Employee pensions and benefits	285,272	-
Materials and supplies	30,787	-
Contractual services	8,977,529	6,554,354
Transportation expense	75	-
Payment in lieu of taxes	702,956	-
Depreciation and amortization	2,805,347	9,598,279
Other	586,487	536,068
	18,706,648	29,782,847
Operating income	191,407	1,009,645
Nonoperating revenues (expenses):		
Interest and investment revenue	14,853	7,144
Dividend income on investments	-	36,909
Miscellaneous revenue	57,928	-
Interest expense	(1,256,152)	(2,033,116)
Miscellaneous expense	(83,698)	(46,687)
	(1,267,069)	(2,035,750)
Loss before capital contributions	(1,075,662)	(1,026,105)
Capital contributions	220,547	179,467
Change in net assets	(855,115)	(846,638)
Total net assets - beginning	58,183,517	111,322,360
Total net assets - ending	\$ 57,328,402	\$ 110,475,722

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, 2009

	Water	Wastewater
Cash flows from operating activities:		
Receipts from customers and users	\$ 18,641,214	\$ 30,507,248
Payments to suppliers and contractors	(9,518,464)	(18,601,569)
Payments to employees	(5,396,445)	(4,008,513)
Other payments	(9,345)	(408,686)
	3,716,960	7,488,480
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Proceeds from bond anticipation note	-	2,821,391
Proceeds from state revolving loans	-	3,481,450
Capital contributions	220,547	179,467
Acquisition and construction of capital assets	(12,593,745)	(11,294,079)
Principal paid on revenue bonds	(1,240,000)	(1,265,000)
Interest paid on revenue bonds	(2,921,509)	(1,656,175)
Principal paid on state revolving loans	-	(3,222,000)
Interest paid on state revolving loans	-	(2,067,801)
Bond issuance costs paid	(76,460)	(123,975)
	(16,611,167)	(13,146,722)
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	145,188,717	8,000,000
Purchase of investments	(145,188,717)	(8,000,000)
Dividend received	-	36,909
Interest received	810,507	27,859
	810,507	64,768
Net cash provided by investing activities		
Net decrease in cash and cash equivalents	(12,083,700)	(5,593,474)
Cash and cash equivalents, January 1	30,932,448	28,094,671
Cash and cash equivalents, December 31	\$ 18,848,748	\$ 22,501,197
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating loss	\$ 191,407	\$ 1,009,645
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	2,805,347	9,598,279
Miscellaneous nonoperating revenue (expense)	(9,345)	(408,686)
(Increase) decrease in assets:		
Accounts receivable	(171,551)	(296,450)
Accounts receivable - other	(90,016)	8,066
Interfund services provided or used	(12,740)	12,740
Advances for bad checks	1,058	-
Customer deposits receivable	38,963	-
Deposits on new extension estimates	(21,055)	-
Service charge due petitioners	(1,500)	-
Prepaid items	(8,021)	(9,772)
Increase (decrease) in liabilities:		
Accounts payable	1,577,620	651,633
Accrued wages, deductions and retirements payable	13,744	19,423
Deferred tap ins payable	-	(9,600)
Contracts payable	(1,743,931)	(2,311,187)
Retainage payable	374,823	(936,651)
Taxes payable	12,895	-
Intergovernmental payable	-	5,830
Compensated absence payable	115,000	155,210
Payment in lieu of taxes payable	702,956	-
Customer deposits	(58,694)	-
	3,525,553	6,478,835
Total adjustments		
Net cash provided by operating activities	\$ 3,716,960	\$ 7,488,480
Noncash investing, capital and financing activities:		
Customer accounts written off	\$ 77,955	\$ 136,170
Construction of capital assets on account	739,464	1,263,216
Capital assets transferred from construction in progress	4,648,253	7,352,533
Miscellaneous deferred debits on account	-	24,385

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, 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.

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 revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise 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 and administrative costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

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

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.

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.

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:

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Water Utility:			
Buildings	\$ 750	Composite	2%
Improvements other than buildings	750	Composite	2%
Machinery and equipment	750	Composite	2%
Transportation 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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water and Wastewater Utilities during the current year was \$2,902,240 and \$3,814,720, respectively. Of the amount, \$1,668,544 and \$1,919,838, respectively, was included as part of the cost of capital assets under construction in connection with various water line and plant improvement projects and wastewater modifications and extension projects.

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 20 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.

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

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 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 Water and Wastewater Utilities had deposit balances in the amount of \$18,848,698 and \$22,501,198, respectively.

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:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 370,150	\$ -	\$ -	\$ 370,150
Construction in progress	<u>6,149,445</u>	<u>14,019,886</u>	<u>4,721,323</u>	<u>15,448,008</u>
Total capital assets, not being depreciated	<u>6,519,595</u>	<u>14,019,886</u>	<u>4,721,323</u>	<u>15,818,158</u>
Capital assets, being depreciated:				
Buildings	33,241,471	520,343	-	33,761,814
Improvements other than buildings	95,534,652	4,390,134	250,501	99,674,285
Machinery and equipment	1,094,517	41,375	-	1,135,892
Transportation equipment	<u>1,853,078</u>	<u>410,025</u>	<u>14,133</u>	<u>2,248,970</u>
Totals	<u>131,723,718</u>	<u>5,361,877</u>	<u>264,634</u>	<u>136,820,961</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for:				
Buildings	13,817,872	670,033	-	14,487,905
Improvements other than buildings	28,121,011	1,950,705	250,501	29,821,215
Machinery and equipment	389,850	22,305	-	412,155
Transportation equipment	653,470	40,879	4,947	689,402
Totals	42,982,203	2,683,922	255,448	45,410,677
Total capital assets, being depreciated, net	88,741,515	2,677,955	9,186	91,410,284
Total capital assets, net	\$ 95,261,110	\$ 16,697,841	\$ 4,730,509	\$ 107,228,442
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 80,987	\$ -	\$ -	\$ 80,987
Construction in progress	46,077,672	14,101,157	7,390,969	52,787,860
Total capital assets, not being depreciated	46,158,659	14,101,157	7,390,969	52,868,847
Capital assets, being depreciated:				
Buildings	118,595,548	6,123,869	-	124,719,417
Improvements other than buildings	111,274,107	1,443,067	-	112,717,174
Machinery and equipment	3,396,576	175,135	-	3,571,711
Totals	233,266,231	7,742,071	-	241,008,302
Less accumulated depreciation for:				
Buildings	57,616,248	4,819,890	-	62,436,138
Improvements other than buildings	34,624,984	4,085,860	-	38,710,844
Machinery and equipment	1,163,741	609,595	-	1,773,336
Totals	93,404,973	9,515,345	-	102,920,318
Total capital assets, being depreciated, net	139,861,258	(1,773,274)	-	138,087,984
Total capital assets, net	\$ 186,019,917	\$ 12,327,883	\$ 7,390,969	\$ 190,956,831

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

	2009
Water	\$ 2,683,922
Wastewater	9,515,345
Total depreciation expense	\$ 12,199,267

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

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2009</u>	
	<u>Expended to December 31,</u>	<u>Committed</u>
Water lines and plant improvements	\$ 15,448,008	\$ 24,069,325
Sewer modifications, extensions and treatment plant	<u>52,787,860</u>	<u>84,757,307</u>
Totals	<u>\$ 68,235,868</u>	<u>\$ 108,826,632</u>

D. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2009, is as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>2009</u>
Water Utility	Wastewater Utility	<u>\$ 216,518</u>

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

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Balance at December 31</u>	<u>Less: Unamortized (Premium) Discount</u>	<u>Less: Deferral on Refunding</u>	<u>Amount</u>
2004 Waterworks revenue bonds	3.25% to 4.625%	\$ 22,830,000	\$ (3,442)	\$ -	\$ 22,833,442
2005 Waterworks refunding bonds	3% to 4%	6,715,000	-	78,673	6,636,327
2008 Waterworks revenue bonds	4.125% to 4.875%	36,000,000	234,813	-	35,765,187
1996 Wastewater refunding bonds Series A	5%	2,500,000	(6,565)	103,450	2,403,115
2003 Wastewater refunding bonds	3.5% to 5%	30,500,000	(378,242)	1,681,155	29,197,087
2009 Wastewater BAN Series A bonds	2.75%	2,382,225	-	-	2,382,225
2009 Wastewater BAN Series B bonds	2.75%	<u>439,166</u>	<u>-</u>	<u>-</u>	<u>439,166</u>
Totals		<u>\$ 101,366,391</u>	<u>\$ (153,436)</u>	<u>\$ 1,863,278</u>	<u>\$ 99,656,549</u>

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

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2010	\$ 1,275,000	\$ 2,881,181	\$ 1,330,000	\$ 1,594,725
2011	2,130,000	2,820,738	4,216,391	1,658,912
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	2,375,000	2,562,076	1,735,000	1,337,738
2015 - 2019	13,375,000	11,264,313	10,975,000	5,428,985
2020 - 2024	16,480,000	8,061,818	14,575,000	1,866,500
2025 - 2029	20,660,000	3,758,490	-	-
2029 - 2030	4,755,000	115,903	-	-
2035-2039	-	-	-	-
Totals	<u>\$ 65,545,000</u>	<u>\$ 36,857,931</u>	<u>\$ 35,821,391</u>	<u>\$ 14,750,560</u>

2. Payment In Lieu of Taxes Payable

In the current rate structure approved by the Indiana Regulatory Commission on September 26, 2007, the Water Utility was authorized to transfer \$702,956 in Payments in Lieu of Taxes to the City of Evansville for 2009. During both 2008 and 2009, the Water Utility faced substantial increases in the cost of power, chemicals and the cost its management agreement while at the same time facing sluggish water sales as a result of a national recession and mild weather. Faced with these operational constraints, wanting to maintain the financial viability of the Water Utility and desiring to avoid additional rate increases, the Department of Waterworks Board and the City Council elected to forego the payment and collection of Payments in Lieu of Taxes for 2009. The amount of Payments in Lieu of Taxes approved by the Indiana Utility Regulatory Commission for 2009 has been accrued at the instruction of the Indiana State Board of Accounts pursuant to state statutes. The amount is being carried as a noncurrent liability, and it is not expected to be paid unless allowances are made in the Water Utility's next rate proceeding before the Indiana Utility Regulatory Commission.

3. State Revolving Loans Payable

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of various wastewater rehabilitation projects. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The 2009 loan established a maximum draw of \$27,750,000. As of December 31, 2009, the loan principal amount drawn was \$3,455,942. Annual debt service requirements for the 2009 loan will not be determined until planned construction projects are completed.

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of improvements and extensions to the Wastewater Utility. Funds were loaned to the Wastewater Utility as construction costs accrued to the maximum allowed. The 1993, 1998, 2004,

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

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 sixteen years, nineteen years, twenty years, twenty years and twenty years, respectively. Annual debt service requirements to maturity for the loans, including interest of \$20,150,039, are as follows:

2010	\$ 5,499,189
2011	5,500,695
2012	5,495,663
2013	5,497,216
2014	1,036,982
2015- 2019	25,671,511
2020 - 2024	21,568,120
2025 - 2028	<u>15,489,173</u>
Totals	<u>\$ 85,758,549</u>

4. Changes in Long-Term Liabilities

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

<u>2009</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Revenue bonds payable	\$ 66,785,000	\$ -	\$ 1,240,000	\$ 65,545,000	\$ 1,275,000
Payments in lieu of taxes	-	702,956	-	702,956	-
Compensated absences	<u>224,849</u>	<u>115,000</u>	<u>-</u>	<u>339,849</u>	<u>39,873</u>
Total long-term liabilities	<u>\$ 224,849</u>	<u>\$ 115,000</u>	<u>\$ -</u>	<u>\$ 66,587,805</u>	<u>\$ 39,873</u>
Wastewater Utility:					
Revenue bonds payable	\$ 34,265,000	\$ 2,821,391	\$ 1,265,000	\$ 35,821,391	\$ 1,330,000
State revolving loan	68,830,510	3,481,450	3,222,000	69,089,960	3,381,000
Compensated absences	<u>154,776</u>	<u>155,210</u>	<u>-</u>	<u>309,986</u>	<u>35,883</u>
Total long-term liabilities	<u>\$ 68,985,286</u>	<u>\$ 3,636,660</u>	<u>\$ 3,222,000</u>	<u>\$ 105,221,337</u>	<u>\$ 3,416,883</u>

F. Restricted Assets

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

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

	2009
Revenue bond covenant accounts	\$ 31,869,321
Customer deposits cash	962,817
Customer deposits receivable	23,244
Other restricted cash	20,368
Interest receivable	(10,201)
 Total restricted assets	 \$ 32,865,549

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. Information is not available to segregate the Utilities' portion.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to; 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.

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 \$2,052,500 per year are covered by commercial insurance. Interfund premiums are paid into the funds by all affected funds 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 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, 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. The City, including the Utilities, purchases commercial insurance for claims in excess of coverage provided by the fund. Amounts are paid into the health insurance fund by all funds from which payroll is paid. The amounts paid by each fund are based on an amount per employee in that fund.

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

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

Wastewater Utility - State Revolving Loan of 2010

In 2010, the Wastewater Utility was awarded \$7,120,000 from the Indiana State Revolving Fund Wastewater Loan Program for various sewer projects.

Wastewater Utility - Rate Increase

In 2010, the Wastewater Utility approved a rate ordinance allowing for an increase in rates to be phased in over a period of time. Phase I of the increase is a 9% increase over the present rates and charges to be effective January 1, 2011, and Phase II of the increase is an 11% increase over the Phase I rates and charges to be effective January 1, 2012.

Operations of Water and Wastewater Utilities

In August of 2009, the Utility solicited proposals for private operation and management of its water, wastewater and billing operations. In January 2010 following a review of proposals from four vendors, the Evansville Utility Board opted to end private management and allowed the existing agreements with its private operators to terminate. The day-to-day operations of the Wastewater Utility and billing and collection functions transitioned back to the City in early March. Management functions of the Water Utility transitioned to the City at the end of May. During 2009, the Utilities incurred outsourcing expenses of \$6.5 million for the Wastewater Utility, billing and collection functions and \$9.6 million for the Water Utility. The outsourcing was terminated in an effort to provide the Utilities with operational cost savings, better control and accountability of the Utilities' operations. The transitions occurred without any disruptions in service.

Federal Lawsuit Settlement

In November 2010, the Wastewater Utility agreed to pay a \$490,000 fine in order to settle the lawsuit with the Department of Justice and the Environmental Protection Agency. The settlement also allows the Utility up to 25 years to make certain improvements to the local sewer system to be in compliance with the Clean Water Act.

C. Dividend Income

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

D. 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 60,722 customers.

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

2. Wastewater Utility

The current rate structure was approved by the Utility in September 2009 and became effective on November 1, 2009. The Utility has 51,951 customers.

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 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

Funding Policy

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The total contributions made to PERF by the City during the period were \$1,236,522.

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.

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

City and Utilities 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	\$ 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%)
07-01-09	33,413,296	39,127,034	(5,713,738)	85%	24,060,539	(24%)

WATER AND WASTEWATER UTILITY  
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)

PAYMENT IN LIEU OF TAXES (Applies to Water Utility)

The Water Utility did not pay to the City the amount due in lieu of taxes for the year 2009. The amount due was \$702,956.

IC 8-1.5-3-8(g) states in part: ". . . the commission shall approve rates and charges sufficient to compensate the municipality for taxes that would be due the municipality on the utility property were it privately owned." In Cause No. 43190 the Utility Regulatory Commission established a payment in lieu of taxes amount of \$702,956 for the year 2009.

WATER AND WASTEWATER UTILITY  
CITY OF EVANSVILLE  
EXIT CONFERENCE

The contents of this report were discussed on November 18, 2010, with James Garrard, Interim Director of the Utilities, and David Heuck, Utility Accountant. The official response has been made a part of this report and may be found on page 21 and 22.

**JONATHAN WEINZAPFEL**  
MAYOR

**JAMES GARRARD**  
INTERIM DIRECTOR OF UTILITIES



**EVANSVILLE WATER**  
&

**SEWER UTILITY**

1 NW MARTIN LUTHER KING JR BLVD., ROOM 104  
EVANSVILLE, INDIANA 47740-0001

(812) 436-7846  
FAX (812) 436-7863  
TDD (812) 436-7864

Mr. Bruce Hartman, CPA, State Examiner  
State Board of Accounts  
302 West Washington  
Room E418  
Indianapolis, IN 46204-2765

RE: Water Utility 2009 Examination Response

Dear Mr. Hartman,

The 2009 examination of the Evansville Water and Sewer Utility yielded two comments. Below are the Utilities responses to those 2009 examination comments:

The Utility has shared a bank account with the City of Evansville for several years. In 2010, the city has made a major investment in new financial software that will allow us to separate the city from the utility bank account for 2011. With this new capability, the utility has also begun investigating the feasibility of separating the sewer and water accounts for 2011.

With respect to the payment in lieu of taxes, there are several compounding factors. IURC Order # 43190 provided the Water Utility a 43.5% increase in rates to be phased-in from January 1, 2008 through January 1, 2010. As you are aware, our nation entered into a severe economic downturn in 2008. The economic downturn had an immediate and profound impact on Evansville Utilities. In the second half of 2008, the utility began to see operating revenues fail to reach budget. For the year, operating revenues were 2.5% less than projected in IURC Order #43190. In addition, the utility was facing significant increases in operating expenses because of higher chemical and energy costs that were not considered in Order #43190. The net impact of higher operating costs was a 9.3% increase in operating expenses excluding depreciation. The impact of lower revenues and higher expenses resulted in a deficit of net revenues available to pay for debt service, replacements and improvements and the PILT transfer totaling \$4,679,088 for 2008 as reported in the Utility's 2008 IURC report (see attached).

Given the weak economy, operating revenues for 2009 were not expected to achieve what had been projected in IURC Order #43190. Additionally, the utility was expecting additional increases in operating expenses. Believing that further rate increases would further impair the Evansville economy, the Utility Service Board and the City agreed to suspend PILT transfers.

Suspending the PILT transfers meant the utility could meet its cash operating expenses and debt service requirements and maintain its level of customer service and operation and maintenance activities.

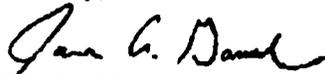
For 2009, operating revenues were \$1,280,255 (7.3%) lower than projected in IURC Order #43190. In addition, operating expenses excluding depreciation and payments in lieu of tax were \$663,001 higher than anticipated in IURC Order #43190. Again, these variances and the fact that PILT was not paid in 2009 were reported in the Utility's 2009 IURC report.

The utility would have been unable to make its cash operating and debt service requirements in 2009 and 2010 had action not been taken by Evansville officials to suspend the PILT transfers. The Evansville City Council was made aware of this situation, and the Utility Board removed the payments in lieu of tax from the 2010 and 2011 budgets of the Water Utility. Accordingly, PILT payments will not be accrued for 2010 and 2011.

With respect to the accrual of the 2009 PILT transfer, we are not aware of any instances where the IURC has allowed in a rate proceeding a revenue requirement for an out of period transfer to the city. Additional budgetary cuts have been made by the Water Utility to preserve operating funds and avoid increasing rates during this economic downturn. The net revenues are still not sufficient to resume the PILT transfer at this time.

We appreciate your local auditors' assistance on these items.

Sincerely,



Interim Director of Utilities

James A. Garrard