

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

ANNUAL FINANCIAL REPORT

2012

WATER AND WASTEWATER UTILITIES

CITY OF WESTFIELD

HAMILTON COUNTY, INDIANA



FILED
09/09/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-4
Basic Financial Statements:	
Statement of Net Position	5
Statement of Revenues, Expenses, and Changes in Net Position	6
Statement of Cash Flows	7
Notes to Financial Statements	8-22
Required Supplementary Information:	
Schedule of Funding Progress	23
Audit Results and Comments.....	24
Exit Conference.....	25

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cindy Gossard	01-01-12 to 12-31-15
Mayor	Andrew Cook	01-01-12 to 12-31-15
President of the Board of Public Works	Andrew Cook	01-01-12 to 12-31-15
President of the City Council	Robert Horkay Jim Ake	01-01-12 to 12-31-12 01-01-13 to 12-31-13
Director of Public Works	Kurt Wanninger Jason T. Burtron Kenneth Alexander	01-01-12 to 10-26-12 10-27-12 to 02-24-13 02-25-13 to 12-31-13



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 AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,
CITY OF WESTFIELD, HAMILTON COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the City of Westfield's Water and Wastewater Utilities (Utilities), departments of the City of Westfield, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Westfield's Water and Wastewater Utilities as of December 31, 2012, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



Bruce Hartman
State Examiner

August 7, 2013

WATER AND WASTEWATER UTILITIES
CITY OF WESTFIELD
STATEMENT OF NET POSITION
December 31, 2012

	2012	
<u>Assets</u>	Water Utility	Wastewater Utility
Current assets:		
Cash and cash equivalents	\$ 1,250,694	\$ 738,256
Interest receivable	-	1,039
Accounts receivable (net of allowance)	343,646	733,419
Other receivables	23,677	1,057
Total current assets	1,618,017	1,473,771
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Meter deposit cash and investments	15,351	-
Depreciation cash and investments	270,791	-
Bond and interest cash and investments	471,468	1,062,038
Tap fee cash and investments	41,027	874,926
Availability cash and investments	566,056	1,259,653
Escrowed developer fees cash and investments	10,561	481,983
Debt service reserve cash and investments	203,970	721,500
Total restricted assets	1,579,224	4,400,100
Deferred charges	633,568	1,121,596
Capital assets:		
Land, improvements to land and construction in progress	3,736,058	18,429,219
Other capital assets (net of accumulated depreciation)	29,536,519	57,824,621
Total capital assets	33,272,577	76,253,840
Total noncurrent assets	35,485,369	81,775,536
Total assets	37,103,386	83,249,307
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	32,276	132,840
Accrued wages payable	48,141	38,141
Deferred revenue	511,450	60,580
Current liabilities payable from restricted assets:		
Customer deposits	15,351	-
Escrowed developer fees payable	10,561	481,983
Revenue bonds payable	575,000	1,590,000
Loan payable	94,908	273,874
Accrued interest payable	176,673	555,228
Total current liabilities	1,464,360	3,132,646
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	6,491,800	31,729,674
Loan payable	312,859	902,806
Total noncurrent liabilities	6,804,659	32,632,480
Total liabilities	8,269,019	35,765,126
<u>Net Position</u>		
Net investment in capital assets	25,701,414	41,172,862
Restricted	1,579,224	4,400,100
Unrestricted	1,553,729	1,911,219
Total net position	\$ 28,834,367	\$ 47,484,181

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

WATER AND WASTEWATER UTILITIES
CITY OF WESTFIELD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As Of And For The Year Ended December 31, 2012

	2012	
	Water Utility	Wastewater Utility
Operating revenues:		
Metered sales	\$ 4,893,919	\$ 6,512,893
Contract sales	500,231	-
Fire protection revenue	536,284	-
Stormwater revenue	-	421,802
Trash revenue	-	1,268,454
Penalties	19,537	101,157
Plan review/inspection fees	29,818	29,985
Other	3,321	107,926
	<u>5,983,110</u>	<u>8,442,217</u>
Total operating revenues		
Operating expenses:		
Source of supply and expense - operations and maintenance	367,543	-
Water treatment expense - operations and maintenance	302,674	-
Transmission and distribution	550,904	-
Collection system - operations and maintenance	-	727,382
Treatment and disposal - operations and maintenance	-	1,165,850
Stormwater - operations and maintenance	-	125,167
Customer accounts	280,013	-
Administration and general	1,561,653	2,447,829
Depreciation and amortization	1,211,897	1,895,695
	<u>4,274,684</u>	<u>6,361,923</u>
Total operating expenses		
Operating income	<u>1,708,426</u>	<u>2,080,294</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	7,904	11,233
Availability revenue	495,100	1,738,227
Tap revenue	260,971	423,846
Other non operating	232,262	3,000
Interest expense	(427,390)	(1,698,136)
Amortization of deferred charges	(13,540)	(116,052)
	<u>555,307</u>	<u>362,118</u>
Total nonoperating expenses		
Income before contributions	2,263,733	2,442,412
Capital contributions	<u>1,151,859</u>	<u>1,550,993</u>
Change in net position	3,415,592	3,993,405
Total net position - beginning	<u>25,418,775</u>	<u>43,490,776</u>
Total net position - ending	<u>\$ 28,834,367</u>	<u>\$ 47,484,181</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF WESTFIELD
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2012

	2012	
	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 5,952,563	\$ 8,353,709
Payments to suppliers, employees and others	<u>(3,164,146)</u>	<u>(4,534,858)</u>
Net cash provided by operating activities	<u>2,788,417</u>	<u>3,818,851</u>
Cash flows from noncapital financing activities:		
Customer notes payable	<u>-</u>	<u>378</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>378</u>
Cash flows from capital and related financing activities:		
Capital contributions	1,151,859	1,550,993
Acquisition and construction of capital assets	(2,570,083)	(3,226,951)
Principal paid on capital debt	(1,650,574)	(1,781,365)
Interest paid on capital debt	(461,944)	(1,724,393)
Escrow developer fees	3,140	304,116
Utility sale expenditures	(536,972)	(536,972)
Tap, availability, and other fees	<u>1,018,095</u>	<u>2,117,907</u>
Net cash used by capital and related financing activities	<u>(3,046,479)</u>	<u>(3,296,665)</u>
Cash flows from investing activities:		
Interest received	<u>7,904</u>	<u>10,982</u>
Net cash provided by investing activities	<u>7,904</u>	<u>10,982</u>
Net increase in cash and cash equivalents	(250,158)	533,546
Cash and cash equivalents, January 1	<u>3,080,076</u>	<u>4,604,810</u>
Cash and cash equivalents, December 31	<u>\$ 2,829,918</u>	<u>\$ 5,138,356</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 1,708,426</u>	<u>\$ 2,080,294</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,211,897	1,895,695
(Increase) decrease in assets:		
Accounts receivable	(27,439)	(88,508)
Other current assets	(3,108)	-
Increase (decrease) in liabilities:		
Accounts payable	(63,284)	(36,446)
Accrued wages payable	(39,875)	(32,184)
Customer deposits	<u>1,800</u>	<u>-</u>
Total adjustments	<u>1,079,991</u>	<u>1,738,557</u>
Net cash provided by operating activities	<u>\$ 2,788,417</u>	<u>\$ 3,818,851</u>
Noncash investing, capital and financing activities:		
Contributions of capital assets from government	\$ 1,151,859	\$ 1,550,993

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

WATER AND WASTEWATER UTILITIES
CITY OF WESTFIELD
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 Westfield (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; 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.

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' policies are to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Position 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.

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.

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

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the 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 net position on the Statement of Net Position 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 1,000	Straight-Line	50 years
Improvements other than buildings	1,000	Straight-Line	50 years
Machinery and equipment	1,000	Straight-Line	5 to 10 years
Transportation equipment	1,000	Straight-Line	5 to 10 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 Utility and Wastewater Utility during the current year was \$427,390 and \$1,698,136, respectively. No interest expense was a part of the cost of capital assets under construction in 2012.

5. Compensated Absences

- a. Sick Leave – Utilities employees earn sick leave at the rate of 1 day per month plus at the beginning of each year employees earn 12 days. Unused sick leave may be accumulated to a maximum of 40 days. Accumulated sick leave is not paid to employees upon leaving employment.

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

- b. Vacation Leave – Utilities employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Up to 1 week of unused vacation leave may be carried forward to the following calendar year. Unused earned vacation leave may be paid to employees upon leaving employment.
- c. Personal Leave – Utilities employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick, or personal leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. 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

1. 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, 2012, the Water and Wastewater Utilities had deposit balances (which include both cash and investment balances) in the amount of \$2,660,694 and \$5,913,243, 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.

2. Investments

As of December 31, 2012, the Utilities had the following investments:

Investment Type	Market Value
Water Utility:	
U.S. treasuries and securities	<u>\$ 198,441</u>
Wastewater Utility:	
U.S. treasuries and securities	<u>\$ 720,180</u>

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

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Utilities to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50 percent of the funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Utilities may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Utilities' purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utilities do not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Utilities do not have a formal investment policy for interest rate risk for investments.

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

Investment Type	Investment Maturities (in Years) Less Than 1
Water Utility:	
U.S. treasuries and securities	\$ 198,441
Wastewater Utility:	
U.S. treasuries and securities	\$ 720,180

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Utilities do not have a formal investment policy for credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Utilities do not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

B. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

<u>2012</u>	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 2,605,074	\$ 84,450	\$ -	\$ 2,689,524
Construction in progress	27,353	1,223,921	204,740	1,046,534
Total capital assets, not being depreciated	2,632,427	1,308,371	204,740	3,736,058
Capital assets, being depreciated:				
Buildings	9,467,271	8,693	-	9,475,964
Improvements other than buildings	25,384,868	1,409,794	-	26,794,662
Machinery and equipment	2,014,314	47,965	-	2,062,279
Transportation equipment	488,832	-	-	488,832
Totals	37,355,285	1,466,452	-	38,821,737

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

<u>2012</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility (continued):				
Less accumulated depreciation for:				
Buildings	(1,579,467)	(230,193)	-	(1,809,660)
Improvements other than buildings	(4,967,021)	(829,049)	-	(5,796,070)
Machinery and equipment	(1,063,553)	(131,034)	-	(1,194,587)
Transportation equipment	(463,280)	(21,621)	-	(484,901)
Totals	<u>(8,073,321)</u>	<u>(1,211,897)</u>	<u>-</u>	<u>(9,285,218)</u>
Total capital assets, being depreciated, net	<u>29,281,964</u>	<u>254,555</u>	<u>-</u>	<u>29,536,519</u>
Total capital assets, net	<u>\$ 31,914,391</u>	<u>\$ 1,562,926</u>	<u>\$ 204,740</u>	<u>\$ 33,272,577</u>
<u>2012</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 1,036,128	\$ 37,725	\$ -	\$ 1,073,853
Construction in progress	15,771,816	1,601,951	18,401	17,355,366
Total capital assets, not being depreciated	<u>16,807,944</u>	<u>1,639,676</u>	<u>18,401</u>	<u>18,429,219</u>
Capital assets, being depreciated:				
Buildings	13,638,307	27,235	-	13,665,542
Improvements other than buildings	49,337,436	1,597,319	129,500	50,805,255
Machinery and equipment	9,801,340	110,623	-	9,911,963
Transportation equipment	505,579	-	-	505,579
Totals	<u>73,282,662</u>	<u>1,735,177</u>	<u>129,500</u>	<u>74,888,339</u>
Less accumulated depreciation for:				
Buildings	(2,220,538)	(295,266)	-	(2,515,804)
Improvements other than buildings	(8,599,314)	(1,103,005)	-	(9,702,319)
Machinery and equipment	(3,869,891)	(474,057)	-	(4,343,948)
Transportation equipment	(478,280)	(23,367)	-	(501,647)
Totals	<u>(15,168,023)</u>	<u>(1,895,695)</u>	<u>-</u>	<u>(17,063,718)</u>
Total capital assets, being depreciated, net	<u>58,114,639</u>	<u>(160,518)</u>	<u>129,500</u>	<u>57,824,621</u>
Total capital assets, net	<u>\$ 74,922,583</u>	<u>\$ 1,479,158</u>	<u>\$ 147,901</u>	<u>\$ 76,253,840</u>

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

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

	2012
Water	\$ 1,211,897
Wastewater	1,895,695
Total depreciation expense	\$ 3,107,592

C. Construction Commitments

Construction work in progress is composed of the following:

	2012	
<u>Project</u>	Expended to December 31	Committed
Water Utility:		
Sports Complex	\$ 853,439	\$ -
US 31 relocate and upsizing	193,095	386,190
Totals	\$ 1,046,534	\$ 386,190
Wastewater Utility:		
Westside interceptor 181st	\$ 15,760,587	\$ -
Sports Complex	1,075,445	-
US 31 relocate and upsizing	196,560	393,120
Wastewater subtotal	17,032,592	393,120
Stormwater Utility:		
Beechwood neighborhood drainage	322,774	470,033
Stormwater subtotal	322,774	470,033
Totals for Wastewater Utility	\$ 17,355,366	\$ 863,153

WATER AND WASTEWATER UTILITIES
CITY OF WESTFIELD
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	Balance at December 31	Less: Unamortized Discount	Less: Deferral on Refunding	Amount
Water Utility:					
1998 Revenue Bonds	5%	\$ 1,025,000	\$ 13,200	\$ -	\$ 1,011,800
2002 Revenue Bonds	4% - 6%	6,055,000	-	-	6,055,000
Totals		\$ 7,080,000	\$ 13,200	\$ -	\$ 7,066,800
Wastewater Utility:					
2002 Revenue Bonds	4% - 6%	\$ 6,700,000	\$ -	\$ -	\$ 6,700,000
2004 Revenue Bonds	4% - 5%	8,595,000	23,658	-	8,571,342
2006 Refunding Revenue Bonds	4%	4,580,000	21,759	217,601	4,340,640
2007 Revenue Bonds	4% - 5%	13,850,000	142,308	-	13,707,692
Totals		\$ 33,725,000	\$ 187,725	\$ 217,601	\$ 33,319,674

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2013	\$ 575,000	\$ 367,935	\$ 1,590,000	\$ 1,596,112
2014	600,000	340,635	1,665,000	1,529,220
2015	630,000	311,655	1,755,000	1,457,697
2016	665,000	280,676	1,850,000	1,380,705
2017	700,000	247,440	1,940,000	1,297,797
2018-2022	3,205,000	718,389	8,420,000	5,170,479
2023-2027	705,000	39,339	7,475,000	3,205,961
2028-2032	-	-	9,030,000	1,327,862
Totals	\$ 7,080,000	\$ 2,306,069	\$ 33,725,000	\$ 16,965,833

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

2. Notes and Loans Payable

The Utilities have entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$44,579 and \$128,641, for the Water Utility and Wastewater Utility, respectively, are as follows:

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2013	\$ 94,908	\$ 18,178	\$ 273,874	\$ 52,456
2014	99,451	13,636	286,982	39,349
2015	104,210	8,876	300,716	25,614
2016	109,198	3,889	315,108	11,222
Totals	<u>\$ 407,767</u>	<u>\$ 44,579</u>	<u>\$ 1,176,680</u>	<u>\$ 128,641</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

<u>2012</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable:					
Water Utility	\$ 8,640,000	\$ -	\$ 1,560,000	\$ 7,080,000	\$ 575,000
Less discount	15,600	-	2,400	13,200	-
Total revenue bonds payable	8,624,400	-	1,557,600	7,066,800	575,000
Notes and loans payable	498,341	-	90,574	407,767	94,908
Total Long-term liabilities	<u>\$ 9,122,741</u>	<u>\$ -</u>	<u>\$ 1,648,174</u>	<u>\$ 7,474,567</u>	<u>\$ 669,908</u>
Wastewater Utility:					
Revenue bonds payable:					
Wastewater Utility	\$ 35,245,000	\$ -	\$ 1,520,000	\$ 33,725,000	\$ 1,590,000
Less discount	200,197	-	12,472	187,725	-
Less deferred amount on refunding	250,159	-	32,558	217,601	-
Total revenue bonds payable	34,794,644	-	1,474,970	33,319,674	1,590,000
Notes and loans payable	1,438,045	-	261,365	1,176,680	273,874
Total Long-term liabilities	<u>\$ 36,232,689</u>	<u>\$ -</u>	<u>\$ 1,736,335</u>	<u>\$ 34,496,354</u>	<u>\$ 1,863,874</u>

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

E. Restricted Assets

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

	Water Utility 2012	Wastewater Utility 2012
Customer deposits	\$ 15,351	\$ -
Revenue bond and interest accounts	471,468	1,062,038
Revenue bond depreciation accounts	270,791	-
Availability and tap fee accounts	617,644	2,616,562
Revenue bond debt service accounts	203,970	721,500
 Total restricted assets	 \$ 1,579,224	 \$ 4,400,100

F. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future income derived from the acquired or constructed assets receipts, net of specified operating expenditures, to repay revenue bonds issued in 1998. Proceeds from the bonds provided financing for utility improvements. The bonds are payable solely from income derived from the acquired or constructed assets net receipts and are payable through 2018. Annual principal and interest payments are expected to require less than 100 percent of net receipts.

The Utility has pledged future income derived from the acquired or constructed assets receipts, net of specified operating expenditures, to repay revenue bonds issued in 2002. Proceeds from the bonds provided financing for utility improvements. The bonds are payable solely from income derived from the acquired or constructed assets net receipts and are payable through 2023. Annual principal and interest payments are expected to require less than 100 percent of net receipts.

Wastewater Utility Revenues Pledged

The Utility has pledged future income derived from the acquired or constructed assets receipts, net of specified operating expenditures, to repay revenue bonds issued in 2002. Proceeds from the bonds provided financing for utility improvements. The bonds are payable solely from income derived from the acquired or constructed assets net receipts and are payable through 2023. Annual principal and interest payments are expected to require less than 100 percent of net receipts.

The Utility has pledged future income derived from the acquired or constructed assets receipts, net of specified operating expenditures, to repay revenue bonds issued in 2004. Proceeds from the bonds provided financing for utility improvements. The bonds are payable solely from income derived from the acquired or constructed assets net receipts and are payable through 2025. Annual principal and interest payments are expected to require less than 100 percent of net receipts.

The Utility has pledged future income derived from the acquired or constructed assets receipts, net of specified operating expenditures, to repay revenue bonds issued in 2006. Proceeds from the bonds provided financing for refunding of 1997 bond issue. The bonds are payable solely from income derived from the acquired or constructed assets net receipts and are payable through 2019. Annual principal and interest payments are expected to require less than 100 percent of net receipts.

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

The Utility has pledged future income derived from the acquired or constructed assets receipts, net of specified operating expenditures, to repay revenue bonds issued in 2007. Proceeds from the bonds provided financing for utility improvements. The bonds are payable solely from income derived from the acquired or constructed assets net receipts and are payable through 2032. Annual principal and interest payments are expected to require less than 100 percent of net receipts.

G. Restatements

For the year ended December 31, 2011, certain changes have been made to the financial statements to more appropriately reflect the financial activity of the Wastewater Utility.

It was discovered during the auditing process for the year end 2011 Wastewater Utility's financial statements, that the accounts payable for trash was overstated by \$110,760. When the year-end 2012 financial statements were compiled, the correction was reported in 2011.

Opinion Unit	Balance as Reported December 31, 2011	Prior Period Adjustments	Balance as Restated January 1, 2012
Governmental activities:			
Net position:			
Total net position	\$ 43,380,016	\$ 110,760	\$ 43,490,776

H. The government-wide Statement of Net Position report restricted net position of \$1,579,224 and \$4,400,100, for the Water Utility and Wastewater Utility, respectively, all of which are restricted by enabling legislation.

I. The investments in capital assets net of related debt is composed of the outstanding debt associated with the acquisition of capital assets less purchased treatment capacity and unamortized bond issuance costs plus the loss on 2006 bond refunding and unamortized bond discount. The breakdown is scheduled as follows:

	Water Utility	Wastewater Utility
Total capital assets	\$ 33,272,577	\$ 76,253,840
Less:		
Bonds payable	7,487,767	34,901,680
Purchased treatment capacity	-	45,533
Unamortized bond issuance costs	96,596	539,091
Add:		
Loss on 2006 bond refunding	-	(217,601)
Unamortized bond discount	(13,200)	(187,725)
Total related net debt	7,571,163	35,080,978
Investment in capital assets	\$ 25,701,414	\$ 41,172,862

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

III. Other Information

A. Risk Management

The Utilities are 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; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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.

B. Subsequent Events

In 2012, the City determined that it was in its best interest to sell the water and wastewater utilities. The RFP process began in the late spring/early summer of 2012. An agreement between the City and Citizens Energy Group was executed on November 16, 2012. In June 2013, the IURC held its hearing on the acquisition and a ruling is expected by early fall of 2013. The transfer of the utilities is anticipated to occur by the end of 2013.

Related to the sale of the utilities, a payment was made to Faegre Baker Daniels LLP for services provided to the City in anticipation of the sale. The payment was recorded as deferred costs in the amount of \$536,972 and \$536,972 in water and wastewater, respectively.

C. Rate Structure

1. Water Utility

On February 25, 2002, the City Council adopted Ordinance 2002-16 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on March 12, 2012.

2. Wastewater Utility

The current rate structure was approved by the City Council on March 12, 2012.

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

D. Pension Plan

Agent Multiple-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 Indiana Public Retirement System (INPRS) Board, most requirements of the system and give the Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 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.

INPRS 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:

Indiana Public Retirement System
One North Capitol Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

PERF members are required to contribute three percent of their annual covered salary. The Utilities are required to contribute at an actuarially determined rate; the current rate is 7.50 percent of annual covered payroll. The contribution requirements of plan members and the Utilities are established and may be amended by the INPRS Board of Trustees.

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

Annual Pension Cost

For 2012, the City's, including the Utilities', annual pension cost of \$548,939 for PERF was equal to the Utilities' required and actual contributions.

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 548,567
Interest on net pension obligation	(2,457)
Adjustment to annual required contribution	2,829
Annual pension cost	548,939
Contributions made	489,301
Increase (decrease) in net pension obligation	59,638
Net pension obligation, beginning of year	(35,100)
Net pension obligation, end of year	\$ 24,538
Contribution rates:	
Utilities	7.50%
Plan members	3.00%
Actuarial valuation date	06-30-12
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Amortization period	30 years
Amortization period (from date)	06-30-10
Asset valuation method	4-year smoothing of gains/losses on market value with 20% corridor
Actuarial Assumptions	PERF
Investment rate of return	6.75%
Projected future salary increases:	
Total	3.25% - 4.50%
Cost-of-living adjustments	1.00%

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

Three Year Trend Information				
	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-10	\$ 404,004	82%	\$ (103,114)
	06-30-11	515,239	87%	(35,100)
	06-30-12	548,939	89%	24,538

Funded Status and Funding Progress for the Above Plan

The funded status of each plan as of June 30, 2012, the most recent actuarial valuation date is as follows:

Retirement Plan	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:						
06-30-12	\$ 3,293,984	\$ 6,010,033	\$ (2,716,049)	55%	\$ 7,101,303	38%

The Schedule of Funding Progress, presented as RSI for the above plans following the notes to the 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 AND WASTEWATER UTILITIES
CITY OF WESTFIELD
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)
07-01-10	\$ 3,641,370	\$ 4,878,507	\$ (1,237,137)	75%	\$ 6,524,301	(19%)
07-01-11	3,396,021	5,488,826	(2,092,805)	62%	6,978,974	(30%)
07-01-12	3,293,984	6,010,033	(2,716,049)	55%	7,101,303	(38%)

WATER AND WASTEWATER UTILITIES
CITY OF WESTFIELD
AUDIT RESULTS AND COMMENTS

For comments pertaining to the Water and Wastewater Utilities, see the Financial Statement and Federal Single Audit Report of the City of Westfield filed separately.

WATER AND WASTEWATER UTILITIES
CITY OF WESTFIELD
EXIT CONFERENCE

The contents of this report were discussed on August 5, 2013, with Cindy Gossard, Clerk-Treasurer; Jason T. Burtron, City Administrator; Jim Ake, President of the City Council; Rosy Oshry, OW Krohn & Associates LLP; Tammy Havard, Financial Strategist; and John Dippel, Vice President of the City Council.