

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

EXAMINATION REPORT
OF
CITY OF AUBURN MUNICIPAL UTILITIES
DEKALB COUNTY, INDIANA
January 1, 2012 to December 31, 2012



FILED
09/18/2013

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia M. Miller	01-01-12 to 12-31-15
Mayor	Norman E. Yoder	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Norman E. Yoder	01-01-12 to 12-31-13
President of the Common Council	Richard Stahly Dennis Katzenburger	01-01-12 to 12-31-12 01-01-13 to 12-31-13
Superintendent of Electric Utility	Stuart Tuttle	01-01-12 to 12-31-13
Superintendent of Water Utility	Randy Harvey	01-01-12 to 12-31-13
Superintendent of Wastewater Utility	David Lochner	01-01-12 to 12-31-13



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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF AUBURN MUNICIPAL UTILITIES, DEKALB COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Water, Wastewater, and Electric Utilities (Utilities), major enterprise funds and departments of the City of Auburn (City), as of and for the year ended December 31, 2012. 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 statements 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 Utilities 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 are 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, 2012, 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 of the Utilities, major enterprise funds and departments of the City of Auburn as of December 31, 2012, 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 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

August 22, 2013

CITY OF AUBURN MUNICIPAL UTILITIES
STATEMENT OF NET POSITION
December 31, 2012

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 131,730	\$ 981,990	\$ 1,480,200
Accounts receivable	79,894	193,264	392,938
Inventories	67,798	-	643,963
Prepaid items	6,015	11,410	13,424
	<u>285,437</u>	<u>1,186,664</u>	<u>2,530,525</u>
Total current assets			
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation	1,343,777	2,059,931	220,867
Bond and interest	10,628	666,113	720
Construction	-	1,012,495	225
Debt service reserve	199,670	1,352,288	-
Cash reserve	-	20,696	81,315
Improvement	-	1,089,811	-
Customer deposits	53,307	55,150	162,372
	<u>1,607,382</u>	<u>6,256,484</u>	<u>465,499</u>
Total restricted assets			
Deferred charges	65,331	17,090	530,949
	<u>65,331</u>	<u>17,090</u>	<u>530,949</u>
Capital assets:			
Land, improvements to land and construction in progress	3,088,676	20,291,415	10,751,104
Other capital assets (net of accumulated depreciation)	13,601,238	28,578,226	20,706,496
	<u>16,689,914</u>	<u>48,869,641</u>	<u>31,457,600</u>
Total capital assets			
Total noncurrent assets			
	<u>18,362,627</u>	<u>55,143,215</u>	<u>32,454,048</u>
Total assets			
	<u>18,648,064</u>	<u>56,329,879</u>	<u>34,984,573</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	259,914	93,908	2,015,065
Taxes payable	9,443	-	59,086
Wages payable	21,997	33,747	70,255
Other payable	-	-	16,640
Compensated absences	24,299	33,732	55,072
Current liabilities payable from restricted assets:			
Customer deposits	53,307	55,150	162,372
Accrued interest payable	-	231,113	-
Bond anticipation note	-	5,000,000	-
Revenue bonds payable	235,600	-	-
State Revolving Fund loan payable	-	875,000	-
	<u>604,560</u>	<u>6,322,650</u>	<u>2,378,490</u>
Total current liabilities			
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized premium)	1,386,134	-	3,380,000
State Revolving Fund loan payable	-	16,935,132	-
	<u>1,386,134</u>	<u>16,935,132</u>	<u>3,380,000</u>
Total noncurrent liabilities			
Total liabilities			
	<u>1,990,694</u>	<u>23,257,782</u>	<u>5,758,490</u>
<u>Net Position</u>			
Net investment in capital assets	15,068,180	26,059,509	28,077,600
Restricted for debt service	210,298	2,018,401	720
Restricted for other purposes	1,343,777	4,182,933	302,407
Unrestricted	35,115	811,254	845,356
	<u>\$ 16,657,370</u>	<u>\$ 33,072,097</u>	<u>\$ 29,226,083</u>
Total net position			

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

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

	Water Utility	Wastewater Utility	Electric Utility
Operating revenues:			
Metered water revenue:			
Residential	\$ 1,076,309	\$ -	\$ -
Commercial	336,783	-	-
Industrial	523,134	-	-
Residential sales	-	-	4,634,387
Commercial and industrial sales	-	-	26,500,222
Public street and highway lighting	-	-	168,363
Fire protection revenue	132,780	-	-
Penalties	12,140	67,632	80,433
Flat rate revenues	-	100,258	-
Measured revenue:			
Residential	-	2,150,301	-
Commercial	-	743,916	-
Industrial	-	1,298,660	-
Network service fees	-	-	1,264,182
Other	54,334	219,882	489,400
	<u>2,135,480</u>	<u>4,580,649</u>	<u>33,136,987</u>
Total operating revenues			
Operating expenses:			
Salaries and wages	696,269	975,259	1,317,824
Employee benefits	274,892	425,724	540,591
Materials and supplies	151,442	249,786	381,193
Maintenance	224,437	185,318	-
Purchased power	246,730	224,878	27,510,729
Chemicals	11,201	225,528	-
Contractual services	70,457	246,816	496,257
Transmission and distribution	-	-	486,991
Network service expense	-	-	880,741
Transportation expense	27,295	17,591	-
Insurance	28,374	53,287	66,851
Depreciation	282,752	820,191	1,116,810
Utility receipts tax	28,445	-	455,149
Payment in lieu of taxes	139,000	283,000	169,980
Miscellaneous expense	39,178	87,820	411,907
	<u>2,220,472</u>	<u>3,795,198</u>	<u>33,835,023</u>
Total operating expenses			
Operating income (loss)	<u>(84,992)</u>	<u>785,451</u>	<u>(698,036)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	2,274	7,301	4,359
Miscellaneous revenue	11,419	14,099	209,681
Interest expense	(54,715)	(147,759)	-
Amortization of deferred charges	(10,888)	(3,797)	(17,793)
	<u>(51,910)</u>	<u>(130,156)</u>	<u>196,247</u>
Total nonoperating revenues (expenses)			
Income (loss) before contributions	(136,902)	655,295	(501,789)
Contributions	<u>1,806,282</u>	<u>90,642</u>	<u>558,401</u>
Change in net position	1,669,380	745,937	56,612
Total net position - beginning	<u>14,987,990</u>	<u>32,326,160</u>	<u>29,169,471</u>
Total net position - ending	<u>\$ 16,657,370</u>	<u>\$ 33,072,097</u>	<u>\$ 29,226,083</u>

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

CITY OF AUBURN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2012

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,139,973	\$ 4,593,828	\$ 33,174,894
Payments to suppliers and contractors	(950,887)	(1,529,617)	(30,828,355)
Payments to employees	(965,828)	(1,393,137)	(1,817,548)
Payments for taxes	(19,002)	-	(403,661)
Other receipts	11,419	14,099	209,681
	<u>215,675</u>	<u>1,685,173</u>	<u>335,011</u>
Net cash provided by operating activities			
Cash flows from noncapital financing activities:			
Severance damages paid	-	-	(204,044)
	<u>-</u>	<u>-</u>	<u>(204,044)</u>
Cash flows from capital and related financing activities:			
Proceeds from capital debt	-	1,383,991	-
Acquisition and construction of capital assets	(1,774,178)	(527,033)	(4,658,696)
Capital contributions	1,806,282	90,642	558,401
Principal paid on capital debt	(226,890)	(850,000)	-
Interest paid on capital debt	(65,626)	(447,068)	-
	<u>(260,412)</u>	<u>(349,468)</u>	<u>(4,100,295)</u>
Net cash used by capital and related financing activities			
Cash flows from investing activities:			
Interest received	2,274	7,301	4,359
	<u>2,274</u>	<u>7,301</u>	<u>4,359</u>
Net increase (decrease) in cash and cash equivalents	(42,463)	1,343,006	(3,964,969)
Cash and cash equivalents, January 1	<u>1,781,575</u>	<u>5,895,468</u>	<u>5,910,668</u>
Cash and cash equivalents, December 31	<u>\$ 1,739,112</u>	<u>\$ 7,238,474</u>	<u>\$ 1,945,699</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	<u>\$ (84,992)</u>	<u>\$ 785,451</u>	<u>\$ (698,036)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	282,752	820,191	1,116,810
Miscellaneous nonoperating revenues	11,419	14,099	209,681
(Increase) decrease in assets:			
Accounts receivable	4,493	13,179	37,907
Inventories	605	-	(83,466)
Prepaid items	(134)	(313)	(31)
Increase (decrease) in liabilities:			
Accounts payable	(13,439)	38,994	(345,200)
Taxes payable	9,443	-	51,488
Wages payable	4,310	7,963	38,111
Other payable	-	-	(16,640)
Compensated absence payable	1,023	(117)	2,756
Customer deposits	195	5,726	21,631
	<u>300,667</u>	<u>899,722</u>	<u>1,033,047</u>
Total adjustments			
Net cash provided by operating activities	<u>\$ 215,675</u>	<u>\$ 1,685,173</u>	<u>\$ 335,011</u>
Noncash investing, capital and financing activities:			
Capital asset acquisitions included in accounts payable	\$ 232,678	\$ -	\$ -
Capital asset acquisitions included in loans payable	-	219,472	-

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

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activities of the City of Auburn Municipal Utilities (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 all 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 activities 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' policy is 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.

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.

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

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 Position because their use is limited by applicable bond covenants

The financial statements report Water Utility restricted net position of \$1,554,075, Wastewater Utility restricted net position of \$6,201,334, and Electric Utility restricted net position of \$303,127 of which all are 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. The total interest expense incurred during the current year was \$54,715 for the Water Utility and \$454,207 for the Wastewater Utility. Of the Wastewater amount, \$306,448 was included as Construction in progress as part of the expansion project.

5. Compensated Absences

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

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

- c. Personal Leave - Utility 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 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

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 Utilities had deposit balances in the amount of \$1,739,112, \$7,238,474, and \$1,945,699 for the Water, Wastewater, and Electric Utilities, 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, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 735,068	\$ -	\$ -	\$ 735,068
Construction in progress	<u>362,176</u>	<u>1,991,432</u>	<u>-</u>	<u>2,353,608</u>
Total capital assets, not being depreciated	<u>1,097,244</u>	<u>1,991,432</u>	<u>-</u>	<u>3,088,676</u>
Capital assets, being depreciated:				
Buildings	3,510,677	-	-	3,510,677
Improvements other than buildings	13,746,336	-	-	13,746,336
Machinery and equipment	1,321,101	15,424	-	1,336,525
Transportation equipment	<u>272,050</u>	<u>-</u>	<u>-</u>	<u>272,050</u>
Totals	<u>18,850,164</u>	<u>15,424</u>	<u>-</u>	<u>18,865,588</u>
Less accumulated depreciation	<u>(4,981,598)</u>	<u>(282,752)</u>	<u>-</u>	<u>(5,264,350)</u>
Total capital assets, being depreciated, net	<u>13,868,566</u>	<u>(267,328)</u>	<u>-</u>	<u>13,601,238</u>
Total capital assets, net	<u>\$ 14,965,810</u>	<u>\$ 1,724,104</u>	<u>\$ -</u>	<u>\$ 16,689,914</u>

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 377,757	\$ -	\$ -	\$ 377,757
Construction in progress	<u>18,871,043</u>	<u>1,042,615</u>	<u>-</u>	<u>19,913,658</u>
Total capital assets, not being depreciated	<u>19,248,800</u>	<u>1,042,615</u>	<u>-</u>	<u>20,291,415</u>
Capital assets, being depreciated:				
Buildings	6,288,738	-	-	6,288,738
Improvements other than buildings	23,783,858	-	-	23,783,858
Machinery and equipment	10,548,195	10,338	-	10,558,533
Transportation equipment	<u>380,209</u>	<u>-</u>	<u>-</u>	<u>380,209</u>
Totals	<u>41,001,000</u>	<u>10,338</u>	<u>-</u>	<u>41,011,338</u>
Less accumulated depreciation:	<u>(11,612,921)</u>	<u>(820,191)</u>	<u>-</u>	<u>(12,433,112)</u>
Total capital assets, being depreciated, net	<u>29,388,079</u>	<u>(809,853)</u>	<u>-</u>	<u>28,578,226</u>
Total capital assets, net	<u>\$ 48,636,879</u>	<u>\$ 232,762</u>	<u>\$ -</u>	<u>\$ 48,869,641</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 701,589	\$ -	\$ -	\$ 701,589
Construction in progress	<u>6,422,982</u>	<u>3,626,533</u>	<u>-</u>	<u>10,049,515</u>
Total capital assets, not being depreciated	<u>7,124,571</u>	<u>3,626,533</u>	<u>-</u>	<u>10,751,104</u>
Capital assets, being depreciated:				
Buildings	2,537,321	6,637	-	2,543,958
Improvements other than buildings	27,508,841	153,916	-	27,662,757
Machinery and equipment	7,395,645	526,342	-	7,921,987
Transportation equipment	<u>1,728,123</u>	<u>5,631</u>	<u>-</u>	<u>1,733,754</u>
Totals	<u>39,169,930</u>	<u>692,526</u>	<u>-</u>	<u>39,862,456</u>
Less accumulated depreciation:	<u>(18,039,150)</u>	<u>(1,116,810)</u>	<u>-</u>	<u>(19,155,960)</u>
Total capital assets, being depreciated, net	<u>21,130,780</u>	<u>(424,284)</u>	<u>-</u>	<u>20,706,496</u>
Total capital assets, net	<u>\$ 28,255,351</u>	<u>\$ 3,202,249</u>	<u>\$ -</u>	<u>\$ 31,457,600</u>

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

	<u>2012</u>
Water	\$ 282,752
Wastewater	820,191
Electric	<u>1,116,810</u>
Total depreciation expense	<u>\$ 2,219,753</u>

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Construction Commitments

Construction work in progress is composed of the following:

Project	2012 Expended to December 31
Water Utility:	
Westside Main	\$ 2,446
SCADA	29,774
Water Main Rest Park	2,319,704
AMI Project	1,684
Total for Water Utility	\$ 2,353,608
Wastewater Utility:	
Wastewater LTCP	\$ 19,411,494
Sewer Separation	3,493
Southeast Sewer Separation	17,100
Lift Station CR 48 & Auburn Dr.	19,433
CDBG North Side Sewer	462,138
Total for Wastewater Utility	\$ 19,913,658
Electric Utility:	
AES Phase II	\$ 398,040
AES Phase III	5,550,896
SmartGrid	1,987,849
11A Project	8,929
CR 35 Construction	22,180
AES NISC SIS	39,986
AES TV Headend	144,359
Zone B LCP	1,849,981
Scott Industries	47,295
Total for Electric Utility	\$ 10,049,515

D. 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, 2012, was as follows:

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>2012</u>	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
SRF Bond Anticipation Note	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>

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>Add: Unamortized Premium</u>	<u>Amount</u>
Electric Utility:				
2011 Electric refunding revenue bonds	2.0% to 4.75%	<u>\$ 3,380,000</u>	<u>\$ -</u>	<u>\$ 3,380,000</u>
Water Utility:				
2010 Waterworks refunding revenue bonds	3.80%	<u>\$ 1,556,270</u>	<u>\$ 65,464</u>	<u>\$ 1,621,734</u>

Revenue bonds debt service requirements to maturity are as follows:

	<u>Electric Utility</u>		<u>Water Utility</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ -	\$ 134,922	\$ 235,600	\$ 56,921
2014	-	134,922	244,640	47,883
2015	150,000	133,422	254,010	38,499
2016	155,000	129,985	263,760	28,754
2017	155,000	125,917	273,880	18,637
2018-2022	860,000	548,002	284,380	8,130
2023-2027	1,045,000	357,858	-	-
2028-2032	<u>1,015,000</u>	<u>98,865</u>	<u>-</u>	<u>-</u>
Totals	<u>\$3,380,000</u>	<u>\$1,663,893</u>	<u>\$1,556,270</u>	<u>\$198,824</u>

2. 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 \$6,600,00, and \$15,470,000 in 1995 and 2009 respectively, for improvements at the Wastewater treatment facility and sewer separation. At December 31, 2012, \$6,600,000 and \$15,365,132 had been

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
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drawn down against the 1995 and 2009 agreement, resulting in unissued loan principal of \$104,868. 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 percent:

	Principal	Interest
2013	\$ 875,000	\$ 464,425
2014	910,000	436,581
2015	945,000	407,557
2016	970,000	377,581
2017	930,000	346,657
2018-2022	4,750,000	1,383,572
2023-2027	5,510,000	756,561
2027-2030	3,025,000	113,002
Principal not drawn down	(104,868)	-
Totals	\$ 17,810,132	\$ 4,285,936

3. Advance Refunding

In prior year, the Utilities defeased the 2000 Waterworks revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utilities' financial statements. The following outstanding bonds, at December 31, 2012, were considered defeased:

	2012
2000 Waterworks revenue bonds	\$ 2,085,000

4. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bond payable	\$ 1,783,160	\$ -	\$ 226,890	\$ 1,556,270	\$ 235,600
Wastewater Utility:					
SRF loans payable	\$ 17,056,669	\$ 1,603,463	\$ 850,000	\$ 17,810,132	\$ 875,000
Electric Utility:					
Revenue bond payable	\$ 3,380,000	\$ -	\$ -	\$ 3,380,000	\$ -

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Assets

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

	Water Utility	Wastewater Utility	Electric Utility
Depreciation	\$ 1,343,777	\$ 2,059,931	\$ 220,867
Bond and interest	10,628	666,113	720
Construction	-	1,012,495	225
Debt service reserve	199,670	1,352,288	-
Cash reserve	-	20,696	81,315
Improvement	-	1,089,811	-
Customer deposits	53,307	55,150	162,372
 Total restricted assets	 \$ 1,607,382	 \$ 6,256,484	 \$ 465,499

G. Revenues Pledged

Water Utility Revenues Pledged

The Utilities have pledged future water revenues, net of specified operating expenses, to repay revenue bonds issued in 2010. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and are payable through 2019. Annual principal and interest payments are expected to require less than 14 percent of operating revenues.

Wastewater Utility Revenues Pledged

The Utilities have 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. Annual principal and interest payments are expected to require less than 30 percent of operating revenues.

Electric Utility Revenues Pledged

The Utilities have pledged future electric revenues, net of specified operating expenses, to repay revenue bonds issued in 2011. Proceeds from the bonds provided financing for electric improvements. The bonds are payable solely from electric net revenues and are payable through 2031. Annual principal and interest payments are expected to require less than 2 percent of operating revenues.

CITY OF AUBURN MUNICIPAL UTILITIES
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; 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.

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. Rate Structure

1. Water Utility

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

2. Wastewater Utility

The current rate structure was approved by the City Council on September 8, 2009.

3. Electric Utility

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

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Pension Plan

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

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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 this 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 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 members' contributions, set by state statute at 3 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. That report may be obtained by contacting:

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

Funding Policy

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

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.

CITY OF AUBURN MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2013, with Patricia M. Miller, Clerk-Treasurer, and Norman E. Yoder, Mayor. Our examination disclosed no material items that warrant comment at this time.