

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

EXAMINATION REPORT  
OF

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
VANDERBURGH COUNTY, INDIANA

January 1, 2013 to December 31, 2013



**FILED**  
02/13/2015



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Accountant's Report.....	3
Financial Information:	
Statement of Net Position.....	4-5
Statement of Revenues, Expenses, and Changes in Net Position .....	6
Statement of Cash Flows .....	7-8
Notes to Financial Statements .....	9-22
Examination Result and Comment:	
Bank Account Reconciliations .....	23
Exit Conference.....	24
Official Response .....	25-26

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of the Utilities	Allen Mounts	01-01-13 to 12-31-14
Chief Financial Officer of Utilities	Jenny Collins	01-01-13 to 12-31-14
President of the Department of Waterworks Board	Jeffrey M. Hatfield, Sr.	01-01-13 to 12-31-14
Mayor	Lloyd Winnecke	01-01-12 to 12-31-15
City Controller	Russell Lloyd Jr.	01-01-13 to 12-31-14
President of the Common Council	Connie Robinson John Friend	01-01-13 to 12-31-13 01-01-14 to 12-31-14



**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](http://www.in.gov/sboa)

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 (City), as of and for the year ended December 31, 2013. 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 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, 2013, 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. Our opinion is not modified with respect to this matter.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water and Wastewater Utilities, departments of the City of Evansville, as of December 31, 2013, 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.

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

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

December 8, 2014

**WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF NET POSITION  
December 31, 2013**

<b>ASSETS</b>	<u>Water</u>	<u>Sewer</u>
Current Assets:		
Operating cash and cash equivalents	\$ 3,902,588	\$ 5,739,196
Restricted Assets:		
Bond and interest cash and cash equivalents	3,951,324	7,037,849
Debt service reserve cash and cash equivalents	679,427	5,210,683
Improvement fund cash and cash equivalents	122,809	-
Wastewater treatment plant cash and cash equivalents	-	1,781,937
Construction fund cash and cash equivalents	21,718,622	25,651,249
Cash with fiscal agent cash and cash equivalents	-	331,618
Retainage cash and cash equivalents	-	-
Consumer meter deposits cash and cash equivalents	1,095,178	-
Accounts receivable (net of allowance)	1,087,941	3,295,049
Interest receivable	-	-
Accounts receivable - other	84,693	-
Interfund receivables for services provided and used	329,402	-
Materials and supplies inventory	673,065	236,858
	<u>33,645,049</u>	<u>49,284,439</u>
Total Current Assets		
Non-Current Assets:		
Restricted Assets:		
Debt service reserve investments	3,349,000	7,220,000
Construction fund investments	11,526,000	1,440,000
Other receivable	-	30,375
Interest and customer deposits receivable	7,788	11,900
	<u>14,882,788</u>	<u>8,702,275</u>
Total Restricted Assets		
Capital Assets:		
Depreciable capital assets	168,365,076	343,486,508
Less accumulated depreciation	<u>(58,267,815)</u>	<u>(146,877,198)</u>
Sub-totals	110,097,261	196,609,310
Land and improvements to land	432,435	3,849,669
Construction work in progress	<u>7,567,531</u>	<u>38,175,748</u>
Net Capital Assets	<u>118,097,227</u>	<u>238,634,727</u>
Total Noncurrent Assets	<u>132,980,015</u>	<u>247,337,002</u>
Total Assets	<u>\$ 166,625,064</u>	<u>\$ 296,621,441</u>

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

**WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF NET POSITION  
December 31, 2013  
(Continued)**

<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>Water</u>	<u>Sewer</u>
Regulatory Assets	\$ 2,305,905	\$ 2,514,873
Deferred Amount on Refunding	33,717	1,357,314
<b>Total Deferred Outflows of Resources</b>	<u>\$ 2,339,622</u>	<u>\$ 3,872,187</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 168,964,686</u>	<u>\$ 300,493,628</u>
 <b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 421,119	\$ 914,644
Accrued sales and gross income taxes	91,344	-
Accrued payroll and withholdings payable	252,199	34,002
Interfund payables for services provided and usec	-	256,528
Intergovernmental payable	-	2,790
Compensated absences	517,165	432,247
Payable from restricted assets:		
Customer deposits	1,097,482	-
Contracts payable	644,493	400,016
Retainage payable	14,852	504,531
Accrued interest	1,639,759	2,614,908
Bonds payable	2,375,000	3,825,000
State revolving fund loans	-	2,938,000
<b>Total Current Liabilities</b>	<u>7,053,413</u>	<u>11,922,666</u>
Noncurrent Liabilities:		
Revenue bonds payable, net of unamortized premium and discounts	100,141,916	86,942,773
State revolving loans payable	-	88,054,199
Bond anticipation note payable	1,207,379	-
Payments in lieu of taxes payable to City of Evansville	702,956	-
<b>Total Noncurrent Liabilities</b>	<u>102,052,251</u>	<u>174,996,972</u>
<b>Total Liabilities</b>	<u>\$ 109,105,664</u>	<u>\$ 186,919,638</u>
 <b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	\$ 49,957,176	\$ 87,838,191
Restricted	5,808,940	18,104,907
Unrestricted	4,092,906	7,630,892
<b>Total Net Position</b>	<u>\$ 59,859,022</u>	<u>\$ 113,573,990</u>

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 CHANGES IN NET POSITION**  
**December 31, 2013**

	<u>Water</u>	<u>Sewer</u>
Operating Revenues:		
Residential	\$10,044,639	\$17,136,663
Commercial and industrial	6,941,634	13,089,037
Fire protection	2,256,477	-
Forfeited discounts	90,933	375,045
Refuse services	-	4,976,639
Tap-on fees	-	513,900
Pretreatment charges	-	290,000
Industrial surcharges and fines	-	361,791
Interfund charges for joint expenses	3,026,882	-
Other	157,652	251,696
	<u>22,518,217</u>	<u>36,994,771</u>
Total Operating Revenues		
Operating Expenses:		
Source of supply	995,288	-
Treatment	3,631,518	-
Transmission and distribution	4,412,960	-
Customer accounts	3,623,914	-
Collection system	-	4,458,830
Treatment and disposal	-	7,542,784
Customer service	-	3,266,782
Administrative and general	4,113,483	7,381,387
	<u>16,777,163</u>	<u>22,649,783</u>
Sub-totals		
Depreciation	3,306,077	10,913,988
	<u>20,083,240</u>	<u>33,563,771</u>
Total Operating Expenses		
Net Operating Revenues	<u>2,434,977</u>	<u>3,431,000</u>
Nonoperating Revenues:		
Interest income	2,135	26,690
BAB Subsidy income	-	316,965
Other	687,657	1,734,970
	<u>689,792</u>	<u>2,078,625</u>
Totals		
Nonoperating Expenses:		
Interest expense	2,610,000	4,022,810
Interest expense - amortization	171,473	635,189
Loss on disposal of assets	-	15,592
	<u>2,781,473</u>	<u>4,673,591</u>
Totals		
Net Income (Loss) Before Contributions and Transfers	<u>343,296</u>	<u>836,034</u>
Capital Contributions and (Transfers):		
Payment in lieu of taxes	(1,079,000)	(2,003,300)
Contributed Capital	404,806	405,146
	<u>(674,194)</u>	<u>(1,598,154)</u>
Totals		
Change In Net Position	(330,898)	(762,120)
Total Net Position - Beginning	<u>60,189,920</u>	<u>114,336,110</u>
Total Net Position - Ending	<u>\$59,859,022</u>	<u>\$113,573,990</u>

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

**WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF CASH FLOWS  
December 31, 2013**

	<u>Water</u>	<u>Sewer</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 22,756,236	\$ 37,142,100
Cash paid to suppliers, employees and others	<u>(16,532,513)</u>	<u>(22,973,292)</u>
Net cash from operating activities	<u>6,223,723</u>	<u>14,168,808</u>
Cash flows from noncapital financing activities:		
Payment in lieu of taxes	<u>(1,079,000)</u>	<u>(2,003,300)</u>
Cash flows from capital and related financing activities:		
Proceeds from bond anticipation note	1,014,987	-
Proceeds from revenue bonds	45,064,520	63,871,674
Proceeds from state revolving fund loans	-	5,768,678
Contributed capital	123,004	-
Acquisition and construction of capital assets	(8,101,448)	(14,972,045)
Redemption of BAN	(2,282,608)	-
Redemption of revenue bonds and state revolving fund loans	-	(35,176,196)
Other receivable	-	232,787
BAB subsidy payment	-	486,143
Principal paid on revenue bonds	(2,290,000)	(1,205,000)
Principal paid on state revolving fund loans	-	(2,985,000)
Interest paid on revenue bonds	(2,690,716)	(2,303,089)
Interest paid on state revolving loans	-	(2,810,427)
Bond issuance costs paid	(849,838)	(830,132)
Rate case costs paid	(139,175)	-
Contracts payable	644,493	(3,029,865)
Retainage payable	14,852	208,606
Nonoperating revenues	<u>687,657</u>	<u>1,734,970</u>
Net cash from capital and related financing activities	<u>31,195,728</u>	<u>8,991,104</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	-	17,090,000
Purchase of investments	(14,875,000)	(18,380,000)
Interest income	<u>(196)</u>	<u>19,588</u>
Net cash from investing activities	<u>(14,875,196)</u>	<u>(1,270,412)</u>
Net (decrease)/increase in cash and cash equivalents	21,465,255	19,886,200
Cash and cash equivalents January 1, 2013	<u>10,004,693</u>	<u>25,866,332</u>
Cash and cash equivalents December 31, 2013	<u>\$ 31,469,948</u>	<u>\$ 45,752,532</u>

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

**WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF CASH FLOWS  
December 31, 2013  
(Continued)**

	<b>Water</b>	<b>Sewer</b>
Reconciliation of net operating revenues to cash provided from operations:		
Net operating revenues	\$ 2,434,977	\$ 3,431,000
Adjustments to reconcile net operating revenue to net cash provided from operating activities:		
Depreciation expense	3,306,077	10,913,988
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable - customer	266,550	147,329
Accounts receivable - other	(28,531)	-
Materials and supplies Inventory	52,611	(84,208)
Interfund services provided	(22,520)	-
Customer deposits receivable	8,579	-
Increase (decrease) in:		
Accounts payable	28,578	(215,960)
Taxes payable	26,152	-
Accrued payroll and withholdings payable	(27,201)	(144,538)
Compensated absences payable	103,821	98,677
Customer deposits	74,630	-
Interfund services used	-	22,520
Net cash provided from operations	\$ 6,223,723	\$ 14,168,808
Noncash investing, capital and financing activities:		
Construction of capital assets on account	\$ 644,493	\$ 400,016
Capital assets transferred from construction in progress	55,051	4,420,172
Contributions of lines by developers	281,802	405,146

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 the results of its operations and cash flows of its enterprise funds. These financial statements are not intended to present fairly the position of the City of Evansville (City). 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

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 in conformity with U.S. generally accepted accounting principles, including the application of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained In Pre-November 30, 1989 FASB and AICPA Pronouncements, as the guidance related to Regulated Operations. The guidance allows for the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

Enterprise funds distinguish operating revenues and expenses 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, Deferred Outflows, Liabilities, and Net Position

1. Deposits and Investments

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

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

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

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 non-operating revenue in the operating statement.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

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 and other ordinances.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Water Utility:			
Infrastructure	\$ 750	Composite	2%
Buildings	750	Composite	2%
Improvements other than buildings	750	Composite	2%
Machinery and equipment	750	Composite	2%
Transportation equipment	750	Composite	2%
Wastewater Utility:			
Infrastructure	5,000	Straight-line	5 to 100 years
Buildings	5,000	Straight-line	5 to 100 years
Improvements other than buildings	5,000	Straight-line	5 to 100 years
Machinery and equipment	5,000	Straight-line	5 to 25 years

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

The 2 percent composite rate for the Water Utility is required pursuant to an Indiana Utility Regulatory Commission rate order. This depreciation rate is applied to the total cost of all of the Water assets. When property is retired, accumulated depreciation is charged for the original cost of the assets in addition to the cost to remove, sell, or dispose of the asset net of the salvage value. No gain or loss is recognized on the retirement. 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 charged to operating expense when incurred.

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 \$2,690,716 and \$5,113,516, respectively. Of the amount, \$383,796 and \$1,478,387 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. Regulatory Assets

In accordance with GASB Statements No. 62, "Codification of Accounting and Financial Reporting Guidance" (GASB 62), No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" (GASB 63), and No. 65 "Items Previously Reported as Assets and Liabilities" (GASB 65), these financial statements reflect the rate making actions of the Indiana Utility Regulatory Commission for Water and the Evansville City Council for Wastewater that result in the recognition of revenues and expenses in different time periods than entities that are not rate regulated. Regulatory assets are expenditures incurred by the Agency that will be recovered in rates in future periods. Deferred inflows of resources are revenues collected in rates for expenses not yet incurred.

6. Compensated Absences

- a. Sick Leave - Full-time Non-Union Utility employees are awarded 8 sick days per year. 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 30 days, provided the employee has five 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 30 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. Non-union employees can carry over 50 percent of their annual vacation entitlement for use in the following 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. Compensatory time is available to employees for hours they work beyond 40 hours in a week with approval of the employee's supervisor.

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

- d. 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.

7. 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 regulatory assets and amortized over the term of the related debt.

8. Restricted Net Position

The financial statements for the Water and Wastewater Utilities report \$5,808,940 and \$18,104,907, respectively, of restricted net position which is restricted by bond resolution or other ordinances.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

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, 2013, the Water and Wastewater Utilities had deposit balances in the amount of \$46,344,948 and \$54,412,532, 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, 2013, was as follows:

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 432,435	\$ -	\$ -	\$ 432,435
Construction in progress	709,600	6,912,982	55,051	7,567,531
<b>Total capital assets, not being depreciated</b>	<b>1,142,035</b>	<b>6,912,982</b>	<b>55,051</b>	<b>7,999,966</b>
Capital assets, being depreciated:				
Infrastructure	102,392,536	1,053,697	181,503	103,264,730
Buildings	35,867,770	42,006	-	35,909,776
Improvements other than buildings	172,672	-	-	172,672
Machinery and equipment	28,186,849	877,709	46,660	29,017,898
<b>Totals</b>	<b>166,619,827</b>	<b>1,973,412</b>	<b>228,163</b>	<b>168,365,076</b>
Less accumulated depreciation for:				
Infrastructure	36,605,465	1,983,211	63,898	38,524,778
Buildings	14,276,384	732,195	-	15,008,579
Improvements other than buildings	10,331	3,423	-	13,754
Machinery and equipment	4,233,424	549,660	62,380	4,720,704
<b>Totals</b>	<b>55,125,604</b>	<b>3,268,489</b>	<b>126,278</b>	<b>58,267,815</b>
<b>Total capital assets, being depreciated, net</b>	<b>111,494,223</b>	<b>(1,295,077)</b>	<b>101,885</b>	<b>110,097,261</b>
<b>Total capital assets, net</b>	<b>\$ 112,636,258</b>	<b>\$ 5,617,905</b>	<b>\$ 156,936</b>	<b>\$ 118,097,227</b>
<b>Wastewater Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,678,964	\$ 170,705		\$ 3,849,669
Construction in progress	28,460,706	14,135,214	4,420,172	38,175,748
<b>Total capital assets, not being depreciated</b>	<b>32,139,670</b>	<b>14,305,919</b>	<b>4,420,172</b>	<b>42,025,417</b>
Capital assets, being depreciated:				
Infrastructure	173,730,616	3,781,573	1,319,611	176,192,578
Buildings	153,493,848	1,889,813	46,177	155,337,484
Improvements other than buildings	1,844,609	26,958	54,853	1,816,714
Machinery and equipment	7,731,115	2,684,893	276,276	10,139,732
<b>Totals</b>	<b>336,800,188</b>	<b>8,383,237</b>	<b>1,696,917</b>	<b>343,486,508</b>
Less accumulated depreciation for:				
Infrastructure	51,624,496	4,954,885	36,962	56,542,419
Buildings	79,261,301	5,019,946	1,009	84,280,238
Improvements other than buildings	913,149	63,632	889	975,892
Machinery and equipment	4,452,501	890,740	264,592	5,078,649
<b>Totals</b>	<b>136,251,447</b>	<b>10,929,203</b>	<b>303,452</b>	<b>146,877,198</b>
<b>Total capital assets, being depreciated, net</b>	<b>200,548,741</b>	<b>(2,545,966)</b>	<b>1,393,465</b>	<b>196,609,310</b>
<b>Total capital assets, net</b>	<b>\$ 232,688,411</b>	<b>\$ 11,759,953</b>	<b>\$ 5,813,637</b>	<b>\$ 238,634,727</b>

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

Depreciation expense was charged to functions/programs of the Utility for 2013 as follows:

	2013
Water	\$ 3,306,077
Wastewater	10,913,988
Total depreciation expense	\$ 14,220,065

C. Construction Commitments

At December 31, 2013, construction work in progress was composed of the following:

Project	2013	
	Expended to December 31	Committed
Water lines and plant improvements	\$ 7,567,531	\$ 33,244,622
Sewer modifications, extensions and treatment plant	38,175,748	28,375,112
Totals	\$ 45,743,279	\$ 61,619,734

D. Interfund Receivables and Payables

As of December 31, 2013, the Wastewater Utility owed the Water Utility \$256,528. Vanderburgh County owed the Water Utility \$72,874 for its share of Geographical Information System ("GIS") expenses. The Water Utility also carried a long-term liability for Payments in Lieu of Tax to the City of Evansville for \$702,956. The Water Utility does not anticipate paying the Payments in Lieu of Tax in 2014. The City is not accruing interest on the unpaid Payments in Lieu of Tax.

E. Short-Term Liabilities

The Water Utility's Board during December of 2011 approved the issuance of a Bond Anticipation Note (BAN) not to exceed the amount of \$4,000,000 for various waterworks improvements, due on or before December 1, 2012. The BAN was sold to The Evansville Local Public Improvement Bond Bank (EBB) pursuant to a Bond Anticipation Note Purchase Agreement between the City and the EBB. In November 2012, the Water Utility Board decided to extend the BAN due to a delay in issuing Water Utility Long-Term Bonds for the purpose of constructing various waterworks improvements and retiring the BAN. The renewed BAN was sold to the EBB with substantive terms similar to that of the prior BAN, and became due on or before November 15, 2013.

The Waterworks Revenue Bonds, Series 2013A and the Waterworks Revenue Bonds and Series 2013C Bonds refinanced portions of the renewed BAN. There was a portion of the BAN not eligible to be refinanced from each respective bond issue in the approximate amount of \$1,200,000. Again, the Water Utility Board decided to extend the BAN and to repay through Utility Revenues. The renewed BAN was sold to the EBB with substantive terms similar to that of the prior BANs on November 27, 2013, in the not to exceed amount of \$1,300,000, due on or before November 26, 2014.

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

Short-term debt activity for the year ended December 31, 2013, was as follows:

2013	Beginning Balance	Issued/ Draws	Redeemed/ Repayments	Ending Balance
Water Utility:				
Bond anticipation note	\$ 2,475,000	\$ 1,014,987	\$ (2,282,608)	\$ 1,207,379

F. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Amount
2004 Waterworks revenue bonds	4.00% to 4.625%	\$ 20,540,000	\$ (2,493)	\$ 20,542,493
2005 Waterworks refunding bonds	3.70% to 4.00%	3,620,000	-	3,620,000
2008 Waterworks revenue bonds	4.125% to 4.875%	33,485,000	188,997	33,296,003
2013A Waterworks revenue bonds	3.00% to 5.00%	29,060,000	(536,712)	29,596,712
2013C Waterworks revenue bonds	1.60% to 5.50%	15,500,000	38,292	15,461,708
2010 Wastewater revenue bonds - Series B-1	3.20% to 6.50%	27,450,000	(42,104)	27,492,104
2013A Wastewater revenue bonds	1.50%	31,860,000	-	31,860,000
2013B Wastewater revenue bonds	3.00% to 6.50%	29,255,000	(2,160,669)	31,415,669
Totals		<u>\$ 190,770,000</u>	<u>\$ (2,514,689)</u>	<u>\$ 193,284,689</u>

The 2010 series B-1 and B-2 revenue bonds are taxable bonds. The Series B-1 bonds were issued under Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009. The Series B-1 bonds are eligible for federal subsidies in the form of refundable tax credits paid to Sewer. The tax credits are equal to 35 percent of the total coupon interest payable. The tax credits received by the Utility will be recorded as revenue in the year the credit it is earned.

2. Refunding Bonds

On February 25, 2013, the Common Council approved the issuance of the aggregate principal amount not to exceed \$35,400,000 in Sewage Works Revenue Refunding Bonds, Series 2013A. On May 2, 2013, the bonds were issued in the principal amount of \$32,440,000 to currently refund \$34,408,510 of the outstanding Sewage Works Revenue Bonds of 1998, Series C and the Sewage Works Revenue Bonds of 2003, Series A. Bond proceeds together with funds on hand were used to purchase U.S. government securities and placed in an irrevocable escrow account to refund the outstanding bonds. The reacquisition price exceeded the net carrying value of the prior bonds by \$1,439,933. This amount is being netted against the new bond and expensed over the remaining life of the new bond as a deferred outflow.

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
2014	\$ 2,375,000	\$ 3,876,180	\$ 3,825,000	\$ 2,847,588
2015	2,470,000	4,423,520	3,890,000	3,356,351
2016	2,645,000	4,321,216	4,310,000	3,279,726
2017	2,950,000	4,208,244	4,190,000	3,189,914
2018	3,090,000	4,085,619	4,260,000	3,100,189
2019 - 2023	18,080,000	18,238,193	25,580,000	13,706,810
2024 - 2028	23,505,000	13,629,263	17,105,000	9,873,600
2029 - 2033	30,885,000	7,435,144	18,025,000	4,482,750
2034 - 2038	16,205,000	904,266	7,380,000	725,750
2039 - 2043	-	-	-	-
Totals	\$ 102,205,000	\$ 61,121,645	\$ 88,565,000	\$ 44,562,678

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 Wastewater Utility as construction costs are accrued to the maximum allowed. The 2010A and 2012E loans established a maximum draw of \$7,120,000 and \$5,975,000, respectively. As of December 31, 2013, the loan principal amounts drawn for 2010A and 2012E loans were \$6,528,028 and \$5,286,673, respectively. Annual debt service requirements for the 2010A and 2012E loans will not be determined until planned construction projects are completed. Principal repayments on the 2010A and 2012E loans to date total \$2,000 and \$1,000, respectively.

The State placed the proceeds of the 2008B and 2011D into a trust account in the Wastewater Utility's name. Cash drawdowns are made from this account after approval is given by the state. The cash balance not yet drawn down, reported as part of the Construction Fund Cash and Cash Equivalents is \$187,684 and \$380,793, respectively.

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 2004, 2007, 2008B, 2009, 2011C, and 2011D loans established a maximum draw of \$7,130,000, \$37,518,000, \$18,452,000, \$27,730,498, \$3,801,000, and \$1,215,000, respectively. At the completion of construction, the outstanding principal balance was amortized over a 20 year period. Annual debt service requirements to maturity for the loans, including interest of \$32,681,855 are as follows:

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

2014	\$ 5,767,507
2015	5,766,357
2016	5,768,096
2017	5,766,530
2018	5,766,656
2019 - 2023	28,831,876
2024 - 2028	41,233,200
2029 - 2033	24,773,834
2034 - 2038	<u>-</u>
 Total	 <u>\$ 123,674,054</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

2013	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 59,935,000	\$ 44,560,000	\$ 2,290,000	\$ 102,205,000	\$ 2,375,000
Payment in lieu of tax	702,956	-	-	702,956	-
Compensated absences	<u>413,344</u>	<u>103,821</u>	<u>-</u>	<u>517,165</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 61,051,300</u>	<u>\$ 44,663,821</u>	<u>\$ 2,290,000</u>	<u>\$ 103,425,121</u>	<u>\$ 2,375,000</u>
Wastewater Utility:					
Revenue bonds payable	\$ 56,885,000	\$ 61,695,000	\$ 30,015,000	\$ 88,565,000	\$ 3,825,000
State revolving loan	93,807,031	5,768,678	8,583,510	90,992,199	2,938,000
Compensated absences	<u>333,570</u>	<u>98,677</u>	<u>-</u>	<u>432,247</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 151,025,601</u>	<u>\$ 67,562,355</u>	<u>\$ 38,598,510</u>	<u>\$ 179,989,446</u>	<u>\$ 6,763,000</u>

G. Restricted Assets

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

	2013	
	Water	Wastewater
Revenue bond covenant accounts	\$ 41,224,373	\$ 48,372,093
Customer deposits cash	1,095,178	-
Customer deposits receivable	5,457	-
Other restricted cash	122,809	331,618
Interest receivable	<u>2,331</u>	<u>11,900</u>
Total restricted assets	<u>\$ 42,450,148</u>	<u>\$ 48,715,611</u>

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

III. Other Information

A. Risk Management

The City, including the Utilities, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; 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 \$250,000 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 \$250,000 per incident depending on the type of loss. Also, all claims in excess of \$2,440,000 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.

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 rate structure in effect in 2013 was approved by the Indiana Utility Regulatory Commission (IURC) on September 26, 2007. The Utility has approximately 61,652 customers. During May 2012, the Water Utility filed a rate petition with the IURC which was subsequently approved as described below.

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

The proposed three-phase across-the-board rate increase was approved by the IURC on February 13, 2013, pursuant to IURC Order in Cause No. 44137. Phase I of the increase is a 15.83% increase over the present rates effective March 18, 2013, Phase II of the increase is an 8.54% increase over the Phase I rates effective January 1, 2014, and Phase III of the increase is an 7.85% increase over the Phase II rates to be effective January 1, 2015.

2. Wastewater Utility

In 2010, the Common Council 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. The Utility has approximately 51,520 customers.

The Wastewater Utility had a Cost of Service Study (COSS) conducted during 2012 and 2013. On September 23, 2013, the Common Council approved a three-phase increase, subsequently amended on October 28, 2013, with Phase I effective January 1, 2014, and Phases II and III effective each January 1st thereafter.

The Wastewater Utility entered into a revised contract with BFI Waste Services of Indiana LP for refuse collection and recycling services on September 11, 2012. The agreement became effective January 1, 2013, and covers a term of ten years. Pursuant to this contract the Common Council approved a revised refuse monthly fee effective January 1, 2013.

C. Dividend Income

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

D. Syngenta Settlement

In January of 2013, the Water Utility received \$374,096 from the Atrazine Class Action Settlement Fund with respect to the class action entitled *City of Greenville, et al., vs. Syngenta Crop Protection, Inc. et al.*

E. Guaranteed Performance Contract with Johnson Controls, Inc.

The Utilities' Board on November 15, 2011, entered into a Guaranteed Performance Contract (GPC) with Johnson Controls, Inc. (JCI) for the installation of an automated meter reading system (AMR) and advanced metering infrastructure system (AMI). The GPC also included process improvements of the water/wastewater treatment system, the creation of renewable energy derived from methane produced by the fats, oil and greases (FOG) program at the wastewater treatment plants, and various other efficiency improvement measures. Through the installation of the automated meters and other efficiency measures Johnson Controls anticipates the Utilities would produce increased revenues and reduced costs that would in turn pay for the respective bonds issued to fund the costs of the contract.

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

As the Water Utility is regulated by the IURC, the Utility along with JCI filed a joint petition to authorize the Water Utility to enter into the contract with JCI, and for the Water Utility portion of the GPC financing. The petition was filed with the IURC in Cause No. 44123 on November 28, 2011. On August 15, 2011, the IURC issued an Order in Cause No. 44123 denying the request to issue bonds for the Water Utility portion of the GPC due to various issues. On December 11, 2012, the Utility and JCI revised the GPC for the removal or reduction of certain projects, and again on January 1, 2013, filed a joint petition with the IURC in Cause No. 44295 addressing several of the issues for denying the prior petition. On March 27, 2013, the IURC approved Cause No. 44295 allowing the Water Utility to issue bonds for the GPC financing.

F. Environmental Management Corporation Settlement

The City and the Wastewater Utility reached an agreement to settle the lawsuit with the former Wastewater Utility operator Environmental Management Corporation (EMC). The lawsuit resulted from violations related to the Wastewater Utility's NDPEs permit, the Clean Water Act and the recovery of the \$490,000 fine the utility paid in 2011 to Indiana Department of Environmental Management (IDEM) and Environmental Protection Agency (EPA), and litigation fees. The violations occurred during the period that EMC was the day-to-day operator of the Wastewater Utility (1992 - 2010). The settlement was reached in March 2013 in the amount of \$2,500,000, with the Wastewater Utility receiving approximately \$1,625,000 and the remainder of the settlement going to the City.

G. Subsequent Events

Wastewater Utility - Wastewater Revenue Bonds - Series 2014A

In January 2014, the Wastewater Utility issued in the principal amount of \$7,510,000 Sewage Works Revenue Bonds, Series 2014A through the Indiana State Revolving Fund (SRF) Loan program. This bond issue will fund the last two phases of the Cass Avenue Sewer Separation Project. The state placed the proceeds of the 2014A into a trust account in the Wastewater Utility's name. Cash drawdowns are made from this account after approval is given by the state.

Wastewater Utility - Wastewater Bond Anticipation Note

The Wastewater Utility during March of 2014 approved the issuance of a Bond Anticipation Note (BAN) in the not to exceed amount of \$5,000,000 for various sewage works improvements, due on or before March 25, 2016. The BAN was sold to the EBB pursuant to a Bond Anticipation Note Purchase Agreement between the City and the EBB.

Wastewater Utility - Wastewater Revenue Bonds - Series 2014B

In June 2014, the Wastewater Utility issued in the principal amount of \$5,760,000 Sewage Works Revenue Bonds, Series 2014B through the Indiana State Revolving Fund (SRF) Loan program. This bond issue will fund Advanced Facilities Planning and various other engineering services for the Integrated Overflow Control Plan (IOCP) and Wastewater Master Plan projects. The state placed the proceeds of the 2014B into a trust account in the Wastewater Utility's name. Cash drawdowns are made from this account after approval is given by the state.

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

Waterworks Utility - Waterworks Refunding Bonds - Series 2014B

On April 16, 2013, the Water Utility Board approved the issuance of the aggregate principal amount not to exceed \$29,150,000 in Waterworks Revenue Refunding Bonds, Series 2014B. On July 2, 2014, the bonds were issued in the principal amount of \$20,320,000 to currently refund \$2,770,000 of the outstanding Waterworks Refunding Bonds of 2005, and to advance refund \$19,920,000 of the outstanding Waterworks Revenue Bonds of 2004. Bond proceeds together with funds on hand were used to purchase U.S. government securities and placed in an irrevocable escrow account to refund the outstanding bonds. The reacquisition price exceeded the net carrying value of the prior bonds by \$1,344,201. This amount is being netted against the new bond and expensed over the remaining life of the new bond.

Wastewater Utility - Wastewater Revenue Bonds - Series 2014C

On December 9, 2013, the Common Council approved the issuance of the aggregate principal amount not to exceed \$25,255,000 in Sewage Works Revenue Bonds, Series 2014C. On August 21, 2014, the bonds were issued in the principal amount of \$25,255,000 for the purpose of constructing various sewage works improvements, which include IOCP and Wastewater Master Plan projects and funding a debt service reserve.

Litigation - Federal Lawsuit

The United States Department of Justice (DOJ), Environmental Protection Agency (EPA) and Indiana Department of Environmental Management (IDEM) have undertaken legal proceedings against the City of Evansville, by and through its Water and Wastewater Utility, concerning an enforcement action of the Clean Water Act due to combined and sanitary sewer overflows and violations of the National Pollutant Discharge Elimination System (NPDES) permit. The City, DOJ, EPA, and IDEM have reached a settlement with respect to a consent decree executed in November of 2010 pursuant to United States District Court in cause number 3:09CV128 WTL-WHG.

The City is not unique in its need to address with the regulatory agencies overflows from its combined sewer system. Approximately forty percent (40%) of the sewer systems in Evansville are combined, sanitary and storm drains which result in overflows into streams, and, ultimately, the Ohio River in severe wet weather events. The City has been very active in its attempts at mitigating the severe penalties and damages which may be assessed, including pursuing legal actions for indemnity and contribution from EMC, the City's prior private management firm, and previous and current insurance carriers. The City has paid a \$490,000 civil penalty to resolve all claims and liability for alleged past violations. The City submitted the IOCP to the EPA on May 31, 2013. The IOCP submitted provides for a \$540 million program implemented over 28 years.

The EPA and IDEM, on June 16, 2014, informed the City that it was not going to approve the IOCP as submitted due to technical reasons. In response, the City issued a Notice of Dispute on June 20, 2014, regarding the disapproval as allowed by the consent decree. The matter is now pending and negotiations are ongoing.

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

H. 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 Board of Trustees of PERF establishes the contribution requirements of plan members for PERF. The total contributions made to PERF by the Utilities during the period were \$1,268,211.

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  
EXAMINATION RESULT AND COMMENT

***BANK ACCOUNT RECONCILIATIONS***

Water and Wastewater cash and investment fund balances, including City funds, were not properly reconciled to bank balances. The difference between the reconciled bank balance reported by the Utilities and City combined and the fund ledger balance was \$395,157 cash short at December 31, 2013.

Errors noted on the Utilities' and City's combined reconciliation included:

1. One bank account was not included in the City's bank reconciliation.
2. The wrong balances from some of the bank statements were used in the City's reconciliation. In some cases, the December 31, 2013 bank balance was not used for reconciliation.
3. Transactions were not posted or were not posted properly to the fund.

As a result of incomplete and inaccurate reconciliations, improper accounting for cash and investments and incorrect postings to the records remained undiscovered.

In addition, prior to 2012, most cash and investments of the Water and Wastewater Utilities were accounted for in the City's bank account. During 2012, separate bank accounts were established; however, the exact cash and investment balance of each Utility was not transferred to the new bank accounts at that time. Some of the cash and investment balances were transferred to the new bank accounts during 2013, but there still was an amount remaining to be transferred as of the date of this report. The City should determine the exact amount due to each Utility and transfer the balances to the appropriate bank accounts.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
EXIT CONFERENCE

The contents of this report were discussed on December 8, 2014, with Jenny Collins, Chief Financial Officer of Utilities; Russell Lloyd Jr., City Controller; John Friend, President of the Common Council; Conor O'Daniel, Finance Chairman of the Common Council; Allen Mounts, Director of the Utilities; and Elaine B. Smith, Senior Accountant.

LLOYD WINNECKE  
MAYOR



ALLEN R. MOUNTS  
DIRECTOR

## EVANSVILLE WATER & SEWER UTILITY

1 N.W. MARTIN LUTHER KING JR. BLVD, ROOM 104, EVANSVILLE, INDIANA 47708  
PO Box 19, Evansville, IN 47740-0001  
(812) 436-7846 FAX (812) 436-7863

12/15/14

Indiana State Board of Accounts  
302 W. Washington St. Room E418  
Indianapolis, IN 46204-2765

### OFFICIAL RESPONSE TO 2013 INDEPENDENT ACCOUNTANT'S REPORT

Reference: Official Response to 2013 State Board of Accounts Examination of the Financial Statements of the business-type activities of the Water and Wastewater Utilities, departments of the City of Evansville.

Dear State Board Member(s):

The City of Evansville Water and Wastewater Utilities ("Utilities") recognizes the efforts put forward by the Indiana State Board of Accounts ("the State") performing the 2013 examination of the financial statement of business-type activities. We submit below our responses to your findings. Our responses detail our understanding of the issues raised by the State and outline the Utilities' expected course of action to resolve these issues.

#### **BANK ACCOUNT RECONCILIATIONS (City, Water Utility and Wastewater Utility)**

In 2011 the City of Evansville converted the obsolete 25 year old computer financial accounting software system to the new Tyler Technology MUNIS financial accounting ERP system. During implementation there were errors in fund transactions, pooled cash and bank account set ups combined with inadequate training and personnel project management, so therefore the City was unable to reconcile bank accounts and subsequent fund balances for the year 2011 until September 2012. The City engaged Tyler Technology and financial consulting experts to correct system set ups and install necessary controls over transactions. "Best Practice" standard set up schemes used throughout the Tyler Technology municipal accounting universe have been implemented. The new set up scheme allows accurate accounting and reconciliation of bank accounts and fund balances as well as improved supervisory monitoring. It took several months after October 2012 changeover for the City Finance Dept. accounting staff to fully understand the system and make necessary corrections to fully utilize the

audit review and control features. This includes the bank account reconciliations which are performed monthly.

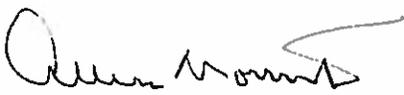
These improvements continue to be implemented and the City believes the financial accounting is now in balance and includes all transactions that would limit material risk and correct any material weaknesses identified in the future years' accounts. The City disputes the State's characterization that the City fund balances, cash and investments were not properly reconciled or contain undiscovered incorrect postings as of December 31, 2013.

The City enacted a long standing State audit recommendation and separated the City general from the Water Utility and the Wastewater Utility in 2012. The documented difficulties encountered by the City accounting staff during 2012 in reconciling the funds and transactions prohibited the City from transferring the exact amount due to the Utilities to the separate accounts as of the audit date. At the current time the City has calculated the amounts due to the Utilities to transfer from the City accounts and is making provision to complete this during 2014.

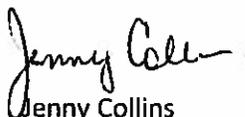
The City accounting staff along with the Utility accounting staff are now preparing timely balanced monthly bank reconciliations, recording accurate transactions and correcting fund balances so all funds are now balance. The new system controls used on funds and daily cash entries are reviewed by accounting staff and exceptions identified and corrected as prescribed by Indiana Code 5-13-6-1 (e).

Management believes the 2013 Water and Wastewater Utilities financial statements are presented fairly, in all material respects, the respective financial position of the business-type activities, therefore management believes no further action is required by the Utility.

Sincerely,



Allen Mounts  
Director  
Evansville Water & Sewer Utility



Jenny Collins  
Chief Financial Officer  
Evansville Water & Sewer Utility



Russell Lloyd, Jr. CPA  
City Controller  
City of Evansville