

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

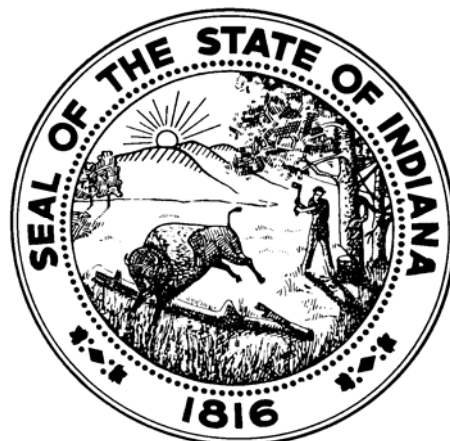
ANNUAL FINANCIAL REPORT

2005

WATER, WASTEWATER AND ELECTRIC UTILITIES

CITY OF AUBURN

DEKALB COUNTY, INDIANA



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia M. Miller	01-01-04 to 12-31-07
Mayor	Norman E. Yoder	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Norman E. Yoder	01-01-04 to 12-31-07
President of the Common Council	Richard Ring Richard Crawford Dave Painter	01-01-05 to 12-31-05 01-01-06 to 02-21-06 02-22-06 to 12-31-06
Superintendent Water Utility	Richard Miller Steve Blaugh	01-01-05 to 03-01-06 03-02-06 to 12-31-06
Superintendent Wastewater Utility	David Lochner	01-01-05 to 12-31-06
Superintendent Electric Utility	Stuart Tuttle	01-01-05 to 12-31-06



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, WASTEWATER AND ELECTRIC
UTILITIES, CITY OF AUBURN, DEKALB COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water, Wastewater and Electric Utilities, departments of the City of Auburn, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Water, Wastewater and Electric Utilities, departments of the City of Auburn, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Auburn as of December 31, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water, Wastewater and Electric Utilities, as of December 31, 2005, 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 Schedule of Funding Progress as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Management has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements

STATE BOARD OF ACCOUNTS

November 29, 2006

WATER, WASTEWATER AND ELECTRIC UTILITIES
CITY OF AUBURN
STATEMENT OF NET ASSETS
December 31, 2005

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 1,047,030	\$ 2,202,050	\$ 4,441,322
Accounts receivable (net of allowance)	88,850	120,835	470,529
Interfund receivables	800	800	800
Inventories	67,235	-	714,488
Prepaid items	<u>7,790</u>	<u>12,822</u>	<u>14,786</u>
Total current assets	<u>1,211,705</u>	<u>2,336,507</u>	<u>5,641,925</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Customer deposits	42,015	19,448	60,144
Revenue bond covenant accounts	1,079,531	844,719	720
Capital asset replacement accounts	1,135,740	1,847,439	4,269,160
Reserve	<u>-</u>	<u>14,700</u>	<u>139,517</u>
Total restricted assets	<u>2,257,286</u>	<u>2,726,306</u>	<u>4,469,541</u>
Deferred charges	<u>96,634</u>	<u>43,671</u>	<u>272,035</u>
Capital assets:			
Land, improvements to land and construction in progress	1,519,168	2,360,473	7,888,458
Other capital assets (net of accumulated depreciation)	<u>13,155,700</u>	<u>28,586,416</u>	<u>13,588,884</u>
Total capital assets	<u>14,674,868</u>	<u>30,946,889</u>	<u>21,477,342</u>
Total noncurrent assets	<u>17,028,788</u>	<u>33,716,866</u>	<u>26,218,918</u>
Total assets	<u>18,240,493</u>	<u>36,053,373</u>	<u>31,860,843</u>
Liabilities			
Current liabilities:			
Accounts payable	25,832	39,689	1,584,494
Taxes payable	7,127	-	26,806
Compensated absences	23,867	29,715	44,249
Current liabilities payable from restricted assets:			
Accounts payable	-	-	190,143
Customer deposits	42,015	19,448	60,144
Revenue bonds payable	220,000	-	-
Capital lease payable	2,260	2,260	2,260
Loan payable	<u>-</u>	<u>30,000</u>	<u>-</u>
Total current liabilities	<u>321,101</u>	<u>121,112</u>	<u>1,908,096</u>
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts)	3,588,720	-	-
Capital leases payable	3,794	3,794	3,794
State revolving fund loan payable	<u>-</u>	<u>6,285,000</u>	<u>-</u>
Total noncurrent liabilities	<u>3,592,514</u>	<u>6,288,794</u>	<u>3,794</u>
Total liabilities	<u>3,913,615</u>	<u>6,409,906</u>	<u>1,911,890</u>
Net Assets			
Invested in capital assets, net of related debt	10,860,124	24,625,835	21,281,145
Restricted for debt service	1,079,531	844,719	720
Restricted for other purposes	1,135,740	1,862,139	4,408,677
Unrestricted	<u>1,251,483</u>	<u>2,310,774</u>	<u>4,258,411</u>
Total net assets	<u>\$ 14,326,878</u>	<u>\$ 29,643,467</u>	<u>\$ 29,948,953</u>

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

WATER, WASTEWATER AND ELECTRIC UTILITIES
CITY OF AUBURN
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Electric Utility
Operating revenues:			
Metered water revenue:			
Residential	\$ 1,075,546	\$ -	\$ -
Commercial	453,681	-	-
Industrial	645,779	-	-
Residential sales	-	-	2,962,400
Commercial and industrial sales	-	-	18,592,334
Public street and highway lighting	-	-	154,868
Fire protection revenue	125,384	-	-
Penalties	12,139	42,812	56,601
Flat rate revenues	-	45,619	-
Measured revenue:			
Residential	-	1,275,657	-
Commercial	-	1,612,017	-
Network service fees	-	-	65,321
Other	3,993	448,141	39,625
	<u>2,316,522</u>	<u>3,424,246</u>	<u>21,871,149</u>
Total operating revenues			
Operating expenses:			
Source of supply and expense - operations and maintenance	118,687	-	-
Water treatment expense - operations and maintenance	362,191	-	-
Transmission and distribution	490,583	-	-
Collection system - operations and maintenance	-	251,981	-
Pumping - operations and maintenance	-	190,064	-
Treatment and disposal - operations and maintenance	-	983,018	-
Operations and maintenance	-	-	1,574,423
Customer accounts	57,618	69,672	59,035
Administration and general	546,009	570,190	893,860
Depreciation	245,448	547,023	765,900
Insurance claims and premiums	35,895	51,147	71,213
Other	160,959	168,000	396,147
Purchased power	-	-	17,312,250
Network service	-	-	93,445
Bad debt expense	8,425	12,315	38,774
	<u>2,025,815</u>	<u>2,843,410</u>	<u>21,205,047</u>
Total operating expenses			
Operating income	<u>290,707</u>	<u>580,836</u>	<u>666,102</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	79,708	110,448	212,064
Miscellaneous revenue	57,615	23,376	40,305
Interest expense	(217,665)	(216,122)	(647)
Amortization of deferred charges	(11,420)	(3,800)	(8,712)
	<u>(91,762)</u>	<u>(86,098)</u>	<u>243,010</u>
Total nonoperating revenues (expenses)			
Income before contributions	198,945	494,738	909,112
Capital contributions	158,475	257,320	280,000
Change in net assets	357,420	752,058	1,189,112
Total net assets - beginning	<u>13,969,458</u>	<u>28,891,409</u>	<u>28,759,841</u>
Total net assets - ending	<u>\$ 14,326,878</u>	<u>\$ 29,643,467</u>	<u>\$ 29,948,953</u>

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

WATER, WASTEWATER AND ELECTRIC UTILITIES
CITY OF AUBURN
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,313,551	\$ 4,061,337	\$ 20,967,025
Payments to suppliers and contractors	(1,146,033)	(1,942,585)	(19,673,217)
Payments to employees	(650,448)	(908,620)	(979,319)
Other receipts	57,615	23,376	40,305
Net cash provided by operating activities	<u>574,685</u>	<u>1,233,508</u>	<u>354,794</u>
Cash flows from capital and related financing activities:			
Capital contributions	-	-	280,000
Acquisition and construction of capital assets	(178,293)	(455,328)	(1,851,356)
Principal paid on capital debt	(205,773)	(30,000)	-
Interest paid on capital debt	(217,018)	(215,475)	-
Capital lease down payment	(2,067)	(2,067)	(2,067)
Interest paid on capital lease	(647)	(647)	(647)
Net cash used by capital and related financing activities	<u>(603,798)</u>	<u>(703,517)</u>	<u>(1,574,070)</u>
Cash flows from investing activities:			
Interest received	<u>79,708</u>	<u>110,448</u>	<u>212,064</u>
Net increase in cash and cash equivalents	50,595	640,439	(1,007,212)
Cash and cash equivalents, January 1	<u>3,253,721</u>	<u>4,287,917</u>	<u>9,918,075</u>
Cash and cash equivalents, December 31	<u>\$ 3,304,316</u>	<u>\$ 4,928,356</u>	<u>\$ 8,910,863</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 290,707	\$ 580,836	\$ 666,102
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	245,448	547,023	765,900
Bad debt expense	8,425	12,315	38,774
Other non operating revenue	57,615	23,376	40,305
(Increase) decrease in assets:			
Accounts receivable	(11,396)	(12,247)	(160,798)
Interfund services provided or used	-	90,000	-
Inventories	(10,142)	-	(28,516)
Prepaid items	(300)	(320)	625
Increase (decrease) in liabilities:			
Accounts payable	2,740	6,934	(177,346)
Taxes payable	(144)	-	1,580
Accrued wages and benefits payable	(13,382)	(17,078)	(18,164)
Compensated absence payable	1,754	1,309	7,185
Deferred revenue	-	-	(782,100)
Customer deposits	3,360	1,360	1,247
Total adjustments	<u>283,978</u>	<u>652,672</u>	<u>(311,308)</u>
Net cash provided by operating activities	<u>\$ 574,685</u>	<u>\$ 1,233,508</u>	<u>\$ 354,794</u>
Noncash investing, capital and financing activities:			
Contributions of capital assets from local	\$ 158,475	\$ 257,320	

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

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Auburn (City), and the results of its operations and cash flows of its enterprise funds. The Utilities whose operations are controlled by the City, 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 Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The activity has been classified Class (A or B), requiring full accrual accounting records, by the National Association of Regulatory Utility Commissioners.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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.

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

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets since their use is limited by applicable bond indentures or governing body action.

4. Capital Assets

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

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Composite	1.5% to 3.0%
Improvements other than buildings	5,000	Composite	1.5% to 3.0%
Machinery and equipment	5,000	Composite	1.5% to 3.0%
Transportation equipment	5,000	Composite	1.5% to 3.0%

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

5. Compensated Absences

- a. Sick Leave – Utilities employees earn sick leave at the rate of 6 days per year. Sick leave does not accumulate from year to year. Unused sick leave is not paid to employees upon termination.
- b. Vacation Leave – Utilities employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. Unused vacation leave is paid to employees through cash payments upon termination.
- c. Personal Leave – Utilities employees earn personal leave at the rate of 6 days per year. Personal leave does not accumulate from year to year. Unused personal leave is not paid to employees upon termination.

Vacation leave is accrued when incurred.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits 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. At December 31, 2005, the bank balance held at Wells Fargo Bank, NA in the amount of \$17,141,435 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-City's name. The remaining 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

Authorization for investment activity is stated in Indiana Code 5-13. As of June 30, 2005, the Utilities had the following investments:

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>		<u>Duration</u>
		<u>Less Than 1 Year</u>	<u>1-2 Years</u>	
Repurchase Agreement	<u>\$ 17,141,435</u>	<u>\$ 17,141,435</u>	<u>\$ -</u>	<u>\$ -</u>

Investment Policies

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 unit 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% 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 unit's 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. At December 31, 2005, the Utilities held investments in Wells Fargo Bank, NA in the amount of \$17,141,435. Of these investments \$17,141,435 were held by the counterparty's trust department or agent but not in the Utilities' name.

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

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 must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Standard and Poor's Rating	Utilities' Investments Government Sponsored Enterprise
AAA	\$ <u>17,141,435</u>

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, 2005, was as follows:

Beginning balances have been reclassified for the Wastewater Utility and the Electric Utility to better describe the use of the asset. The net capital asset beginning balances for each Utility did not change.

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 735,068	\$ -	\$ -	\$ 735,068
Construction in progress	<u>556,840</u>	<u>227,260</u>	<u>-</u>	<u>784,100</u>
 Total capital assets, not being depreciated	 <u>1,291,908</u>	 <u>227,260</u>	 <u>-</u>	 <u>1,519,168</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Capital assets, being depreciated:				
Buildings	3,525,707	-	-	3,525,707
Improvements other than buildings	12,074,456	171,438	-	12,245,894
Machinery and equipment	526,793	1,799	-	528,592
Transportation equipment	<u>265,858</u>	<u>8,055</u>	<u>9,498</u>	<u>264,415</u>
Totals	<u>16,392,814</u>	<u>181,292</u>	<u>9,498</u>	<u>16,564,608</u>
Less accumulated depreciation	3,172,158	245,448	8,698	3,408,908
Total capital assets, being depreciated, net	<u>13,220,656</u>	<u>(64,156)</u>	<u>800</u>	<u>13,155,700</u>
Total Water Utility capital assets, net	<u>\$ 14,512,564</u>	<u>\$ 163,104</u>	<u>\$ 800</u>	<u>\$ 14,674,868</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 377,757	\$ -	\$ -	\$ 377,757
Construction in progress	<u>1,532,791</u>	<u>449,925</u>	<u>-</u>	<u>1,982,716</u>
Total capital assets, not being depreciated	<u>1,910,548</u>	<u>449,925</u>	<u>-</u>	<u>2,360,473</u>
Capital assets, being depreciated:				
Buildings	6,244,879	11,001	-	6,255,880
Improvements other than buildings	21,265,492	300,230	-	21,565,722
Machinery and equipment	8,650,296	40,222	-	8,690,518
Transportation equipment	<u>307,563</u>	<u>8,055</u>	<u>9,499</u>	<u>306,119</u>
Totals	<u>36,468,230</u>	<u>359,508</u>	<u>9,499</u>	<u>36,818,239</u>
Less accumulated depreciation	7,693,499	547,023	8,699	8,231,823
Total capital assets, being depreciated, net	<u>28,774,731</u>	<u>(187,515)</u>	<u>800</u>	<u>28,586,416</u>
Total Wastewater Utility capital assets, net	<u>\$ 30,685,279</u>	<u>\$ 262,410</u>	<u>\$ 800</u>	<u>\$ 30,946,889</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 701,589	\$ -	\$ -	\$ 701,589
Construction in progress	<u>5,672,806</u>	<u>1,514,063</u>	<u>-</u>	<u>7,186,869</u>
Total capital assets, not being depreciated	<u>6,374,395</u>	<u>1,514,063</u>	<u>-</u>	<u>7,888,458</u>
Capital assets, being depreciated:				
Buildings	2,540,806	-	-	2,540,806
Improvements other than buildings	20,153,599	100,014	-	20,253,613
Machinery and equipment	1,340,586	60,873	-	1,401,459
Transportation equipment	<u>1,488,025</u>	<u>8,278</u>	<u>9,500</u>	<u>1,486,803</u>
Totals	<u>25,523,016</u>	<u>169,165</u>	<u>9,500</u>	<u>25,682,681</u>
Less accumulated depreciation	11,336,597	765,900	8,700	12,093,797
Total capital assets, being depreciated, net	<u>14,186,419</u>	<u>(596,735)</u>	<u>800</u>	<u>13,588,884</u>
Total Electric Utility capital assets, net	<u>\$ 20,560,814</u>	<u>\$ 917,328</u>	<u>\$ 800</u>	<u>\$ 21,477,342</u>

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

Water	\$ 245,448
Wastewater	547,023
Electric	765,900

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>
Water Utility:		
Technology master plan	\$ 626,666	\$ 626,666
Bear Creak project	5,304	5,304
Stand-by generator	200,000	3,144
Auburn Drive	20,000	18,510
Wells 17 & 18	3,106	3,106
Aerator	<u>127,370</u>	<u>127,370</u>
Total Water Utility	<u>\$ 982,446</u>	<u>\$ 784,100</u>

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

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>
Wastewater Utility:		
Technology master plan	\$ 626,667	\$ 626,667
SCADA	960,077	960,077
Rieke Park	700,000	18,136
Stormwater separation	325,819	325,819
Timber Trace CR 35	3,076	3,076
Highland storm sewer	15,123	15,123
South Wayne storm sewer	30,160	30,160
Auburn	<u>3,658</u>	<u>3,658</u>
 Total Wastewater Utility	 <u>\$ 2,664,580</u>	 <u>\$ 1,982,716</u>
 Electric Utility:		
Technology master plan	\$ 827,275	\$ 827,275
Guardian SCADA	152,964	152,964
CR 34 substation	1,847,381	1,847,381
SONET	874,993	874,993
69-04 line	1,573,431	1,573,431
Grandstaff	407,115	407,115
69-08 line	150,251	150,251
15th Street substation	6,697	6,697
Bridgewater	21,262	21,262
Auburn Essential Services	1,316,290	1,316,290
Mason Village	<u>9,210</u>	<u>9,210</u>
 Total Electric Utility	 <u>\$ 7,186,869</u>	 <u>\$ 7,186,869</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2005, is as follows:

<u>Due To</u>	<u>Due From City/ General Fund</u>
Water Utility	\$ 800
Wastewater Utility	800
Electric Utility	<u>800</u>
 Total	 <u>\$ 2,400</u>

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

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

E. Leases

Capital Leases

The Utilities have entered into capital leases for copiers. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2005, are as follows:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
2006	\$ 2,713	\$ 2,713	\$ 2,713
2007	2,714	2,714	2,714
2008	<u>1,356</u>	<u>1,356</u>	<u>1,356</u>
Total minimum lease payments	6,783	6,783	6,783
Less amount representing interest	<u>729</u>	<u>729</u>	<u>729</u>
Present value of net minimum lease payments	<u>\$ 6,054</u>	<u>\$ 6,054</u>	<u>\$ 6,054</u>

Assets acquired through capital leases still in effect are as follows:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Machinery and equipment	<u>\$ 9,087</u>	<u>\$ 9,087</u>	<u>\$ 9,087</u>

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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Balance at December 31</u>	<u>Less: Unamortized Discount</u>	<u>Revenue Bonds</u>
Water Utility:				
\$1,000,000 1993 Waterworks revenue bonds	5%	\$ 235,000	\$ 2,600	\$ 232,400
\$4,200,000 2000 Waterworks revenue bonds	4.9% to 5.65%	<u>3,620,000</u>	<u>43,680</u>	<u>3,576,320</u>
Total Water Utility		<u>\$ 3,855,000</u>	<u>\$ 46,280</u>	<u>\$ 3,808,720</u>

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2006	\$ 220,000	\$ 191,703
2007	230,000	185,160
2008	240,000	178,428
2009	250,000	167,553
2010	265,000	154,927
2011-2015	1,525,000	551,583
2016-2020	<u>1,125,000</u>	<u>113,528</u>
Totals	<u>\$ 3,855,000</u>	<u>\$ 1,542,882</u>

2. State Revolving Fund Loan

Under the terms of the State Revolving Fund Loan (SRF), revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were set aside to finance the construction of improvements to the Wastewater Utility. Funds were loaned to the Utility as construction costs were incurred. At the completion of construction, the outstanding principal balance of \$6,600,000 was amortized over a period of 18 years. Annual debt service requirements to maturity for the loan as of December 31, 2005, for the year ended December 31, are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2006	\$ 30,000	\$ 214,455
2007	535,000	209,185
2008	555,000	190,825
2009	575,000	171,785
2010	595,000	152,065
2011-2015	3,295,000	440,215
2016-2020	<u>730,000</u>	<u>18,700</u>
Totals	<u>\$ 6,315,000</u>	<u>\$ 1,397,230</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 4,065,000	\$ -	\$ 210,000	\$ 3,855,000	\$ 220,000
Capital lease	<u>8,121</u>	<u>-</u>	<u>2,067</u>	<u>6,054</u>	<u>2,260</u>
Total Water Utility	<u>\$ 4,073,121</u>	<u>\$ -</u>	<u>\$ 212,067</u>	<u>\$ 3,861,054</u>	<u>\$ 222,260</u>
Wastewater Utility:					
Loan payable	\$ 6,345,000	\$ -	\$ 30,000	\$ 6,315,000	\$ 30,000
Capital lease	<u>8,121</u>	<u>-</u>	<u>2,067</u>	<u>6,054</u>	<u>2,260</u>
Total Water Utility	<u>\$ 6,353,121</u>	<u>\$ -</u>	<u>\$ 32,067</u>	<u>\$ 6,321,054</u>	<u>\$ 32,260</u>
Electric Utility:					
Capital lease	<u>\$ 8,121</u>	<u>\$ -</u>	<u>\$ 2,067</u>	<u>\$ 6,054</u>	<u>\$ 2,260</u>

G. Restricted Assets

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

	Water Utility	Wastewater Utility	Electric Utility
Customer deposits	\$ 42,015	\$ 19,448	\$ 60,144
Revenue bond operations and maintenance account	1,658	78,999	720
Revenue bond construction account	535,788	-	-
Debt service reserve account	542,085	765,720	-
Depreciation account	1,135,740	946,241	4,269,160
Improvement account	-	901,198	-
Reserve account	<u>-</u>	<u>14,700</u>	<u>139,517</u>
Total restricted assets	<u>\$ 2,257,286</u>	<u>\$ 2,726,306</u>	<u>\$ 4,469,541</u>

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.

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

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. 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.

Group Health Insurance

The Utilities have chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$70,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for payroll. Inter-fund premiums are based primarily on the percentage of each fund's current number of employees.

However, claim liabilities cannot be reasonably estimated.

Workers' Compensation

During 2003 the Utilities joined the Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately 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 workers' compensation claims. The Utilities pay an annual premium to the risk pool for its workers' compensation 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.

B. Postemployment Benefits

In addition to the pension benefits described below, the Utilities provides postemployment health benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utilities on or after attaining age 50 with at least 15 years of service. Currently, 9 retirees meet these eligibility requirements. The Utilities and retirees provide 95% and 5%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2005, expenditures of \$31,518 were recognized for postemployment benefits.

C. 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 Common Council on July 2, 2002.

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

3. Electric Utility

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

D. 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 and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

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 presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds).

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 205,459
Interest on net pension obligation	1,371
Adjustment to annual required contribution	(1,562)
Annual pension cost	205,268
Contributions made	218,337
Decrease in net pension obligation	(13,069)
Net pension obligation, beginning of year	18,909
Net pension obligation, end of year	\$ 5,840
Contribution rates:	
Utilities	6.5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 244,248	72%	\$ 11,461
	06-30-04	199,509	96%	18,909
	06-30-05	205,268	109%	5,840

WATER, WASTEWATER AND ELECTRIC UTILITIES
CITY OF AUBURN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 3,727,539	\$ 4,322,517	\$ (594,978)	86%	\$ 3,373,420	(18%)
01-01-04	3,783,782	4,422,726	(638,944)	86%	3,374,017	(19%)
07-01-05	3,956,104	5,286,752	(1,330,648)	75%	3,485,147	(38%)

WATER, WASTEWATER AND ELECTRIC UTILITIES
CITY OF AUBURN
EXIT CONFERENCE

The contents of this report were discussed on November 29, 2006, with Patricia M. Miller, Clerk-Treasurer; and Norman E. Yoder, Mayor. Our audit disclosed no material items that warrant comment at this time.