

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

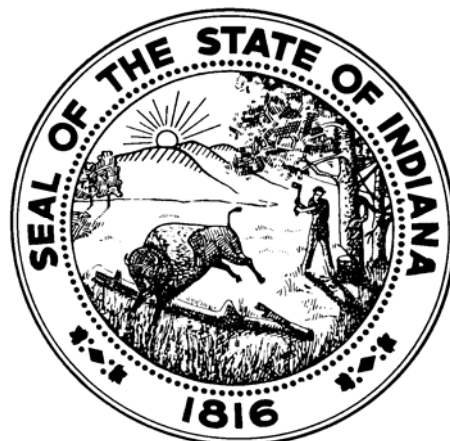
ANNUAL FINANCIAL REPORT

2005

WATER AND WASTEWATER UTILITIES

CITY OF EVANSVILLE

VANDERBURGH COUNTY, INDIANA



**FILED**  
12/29/2006



## TABLE OF CONTENTS

| <u>Description</u>   | <u>Page</u> |
|--|-------------|
| Officials .....  | 2           |
| Independent Auditor's Report.....  | 3           |
| Statement of Net Assets.....   | 4-5         |
| Statement of Revenues, Expenses and Other Changes in Fund Net Assets ..... | 6           |
| Statement of Cash Flows .....  | 7           |
| Notes to Financial Statements .....  | 8-19        |
| Supplementary Information:<br>Schedule of Funding Progress .....           | 20          |
| Audit Result and Comment:<br>Separate Bank Accounts .....                  | 21          |
| Exit Conference.....   | 22          |

OFFICIALS

| <u>Office</u>                                      | <u>Official</u>               | <u>Term</u>                                  |
|--|-------------------------------|--|
| General Manager                                    | Harry Lawson                  | 01-01-05 to 12-31-06                         |
| Controller   | Lisa Acobert                  | 01-01-05 to 12-31-06                         |
| Mayor  | Jonathan Weinzapfel           | 01-01-04 to 12-31-07                         |
| President of the Department<br>of Waterworks Board | Randy Brown<br>Stephen Titzer | 01-01-05 to 12-31-05<br>01-01-06 to 12-31-06 |
| President of the<br>City Council                   | Steve Bagbey<br>B. J. Watts   | 01-01-05 to 12-31-05<br>01-01-06 to 12-31-06 |



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,  
CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities, departments of the City of Evansville, 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 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, 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 and Wastewater 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Utilities have 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 1, 2006

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

| <u>Assets</u>   | 2005         |               |
|---|--------------|---------------|
|   | Water        | Wastewater    |
| Current assets:   |              |               |
| Cash and cash equivalents   | \$ 3,787,404 | \$ 10,289,169 |
| Cash with fiscal agent  | 502,674      | -             |
| Interest receivable   | 836          | 69,373        |
| Accounts receivable (net of allowance)                            | 939,044      | 2,238,777     |
| Accounts receivable - other                                       | 342,131      | 13,925        |
| Interfund receivables:  |              |               |
| Interfund loans   | -            | 3,000,000     |
| Interfund services provided and used                              | 185,968      | -             |
| Advances for bad checks   | 3,448        | -             |
| Prepaid items   | 67,909       | 73,665        |
| Total current assets  | 5,829,414    | 15,684,909    |
| Noncurrent assets:  |              |               |
| Restricted cash, cash equivalents and investments:                |              |               |
| Restricted retainage cash   | 5,304        | 45,503        |
| Service charge - benefit of petitioners cash and cash equivalents | 1,500        | -             |
| Bond and interest requirement cash and cash equivalents           | 1,656,367    | -             |
| Bond payment cash and cash equivalents                            | -            | 2,195,842     |
| Sinking fund cash and cash equivalents                            | 187,361      | -             |
| Water bond 2004 cash and cash equivalents                         | 11,380,028   | -             |
| Debt service reserve cash and cash equivalents                    | 39,426       | 1,304,365     |
| Deposits on new extension estimates cash and cash equivalents     | 21,055       | -             |
| Bond fund 1997 cash and cash equivalents                          | -            | 682,583       |
| Bond fund 2003 cash and cash equivalents                          | -            | 901,966       |
| Wastewater treatment plant cash and cash equivalents              | -            | 1,346,303     |
| Customer deposits cash and cash equivalents                       | 947,573      | -             |
| Customer deposits receivable                                      | 38,140       | -             |
| Interest receivable   | 29,330       | -             |
| Total restricted assets   | 14,306,084   | 6,476,562     |
| Deferred debits:  |              |               |
| Unamortized bond issuance costs                                   | 701,617      | 733,585       |
| Miscellaneous   | 220,285      | 408,482       |
| Total deferred debits   | 921,902      | 1,142,067     |
| Capital assets:   |              |               |
| Land, improvements to land and construction in progress           | 7,248,071    | 5,031,165     |
| Other capital assets (net of accumulated depreciation)            | 66,164,245   | 136,599,463   |
| Total capital assets  | 73,412,316   | 141,630,628   |
| Total noncurrent assets   | 88,640,302   | 149,249,257   |
| Total assets  | 94,469,716   | 164,934,166   |

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

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF NET ASSETS  
December 31, 2005  
(Continued)

| <u>Liabilities</u>   | 2005                 |                       |
|--|----------------------|-----------------------|
|  | Water                | Wastewater            |
| Current liabilities:   |                      |                       |
| Accounts payable   | 393,572              | 17,412                |
| Accrued wages payable  | 62,630               | 48,650                |
| Payroll withholdings payable   | 18,653               | 12,556                |
| Accrued retirements payable  | 69,496               | 49,656                |
| Deferred tap ins payable   | -                    | 9,600                 |
| Interfund payables:  |                      |                       |
| Interfund services provided and used   | -                    | 185,968               |
| Contracts payable  | 789,442              | 862,467               |
| Retainage payable  | 507,978              | 45,503                |
| Intergovernmental payable  | -                    | 5,910                 |
| State revolving loan payable   | -                    | 1,081,000             |
| Taxes payable  | 53,646               | -                     |
| Compensated absences payable   | 24,944               | 7,277                 |
| Arbitrage payable  | -                    | 351,074               |
| Current liabilities payable from restricted assets:  |                      |                       |
| Customer deposits  | 985,713              | -                     |
| Deposits on new extension estimates  | 21,055               | -                     |
| Service charge due petitioners   | 1,500                | -                     |
| Revenue bonds payable  | 970,000              | 1,105,000             |
| Accrued interest payable   | 686,367              | 1,102,842             |
|  | <u>4,584,996</u>     | <u>4,884,915</u>      |
| Total current liabilities  |                      |                       |
| Noncurrent liabilities:  |                      |                       |
| Revenue bonds payable (net of unamortized discounts/premium<br>and deferred amount on refunding) | 33,045,762           | 34,672,304            |
| State revolving loans payable  | -                    | 12,117,564            |
| Compensated absences   | 72,196               | 19,235                |
|  | <u>33,117,958</u>    | <u>46,809,103</u>     |
| Total noncurrent liabilities   |                      |                       |
| Total liabilities  | <u>37,702,954</u>    | <u>51,694,018</u>     |
| <br><u>Net Assets</u>  |                      |                       |
| Invested in capital assets, net of related debt  | 33,488,633           | 89,890,582            |
| Restricted for debt service  | 11,636,145           | 2,791,143             |
| Unrestricted   | 11,641,984           | 20,558,423            |
| Total net assets   | <u>\$ 56,766,762</u> | <u>\$ 113,240,148</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 OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2005

|  | 2005                 |                       |
|--|----------------------|-----------------------|
|  | <u>Water</u>         | <u>Wastewater</u>     |
| Operating revenues:  |                      |                       |
| Metered water revenue:   |                      |                       |
| Residential  | \$ 6,907,979         | \$ -                  |
| Commercial and Industrial  | 4,837,580            | -                     |
| Allocation of Joint Costs  | 2,225,868            | -                     |
| Fire protection revenue  | 1,493,624            | -                     |
| Penalties  | 106,958              | 411,157.00            |
| Other water revenue  | 271,005              | -                     |
| Measured revenue:  |                      |                       |
| Residential  | -                    | 11,878,341            |
| Commercial   | -                    | 8,396,052             |
| Refuse services  | -                    | 4,473,474             |
| Wastewater tap fees  | -                    | 1,193,651             |
| Street sweeping  | -                    | 150,210               |
| Waste pretreatment charge  | -                    | 281,296               |
| Industrial surcharges and fees   | -                    | 589,507               |
| Other  | -                    | 393,459               |
|  | <u>15,843,014</u>    | <u>27,767,147</u>     |
| <br>   |                      |                       |
| Operating expenses:  |                      |                       |
| Source of supply and expense/collection system expense - operations and maintenance: |                      |                       |
| Salaries and wages   | 181,039              | 852,244               |
| Employee pensions and benefits   | -                    | 431,279               |
| Contractual services   | -                    | 878,915               |
| Transmission and distribution/pumping expense - operations and maintenance:          |                      |                       |
| Salaries and wages   | 1,111,078            | -                     |
| Employee pensions and benefits   | 537,091              | -                     |
| Treatment and disposal expense - operations and maintenance:                         |                      |                       |
| Salaries and wages   | 327,139              | 1,538,705             |
| Employee pensions and benefits   | 254,299              | 759,434               |
| Contractual services   | -                    | 3,996,730             |
| Other  | -                    | 11,533                |
| Customer accounts expense:   |                      |                       |
| Salaries and wages   | 1,131,755            | 2,225,868             |
| Employee pensions and benefits   | 589,607              | -                     |
| Bad debt expense   | 54,512               | 116,468               |
| Administrative and general expense:  |                      |                       |
| Salaries and wages   | 563,251              | -                     |
| Employee pensions and benefits   | 234,563              | -                     |
| Materials and supplies   | 52,631               | -                     |
| Contractual services   | 5,785,500            | 4,923,561             |
| Transportation expense   | 7,181                | -                     |
| Payment in lieu of taxes   | 542,654              | 2,162,072             |
| Depreciation and amortization  | 2,124,341            | 7,929,158             |
| Other  | 541,865              | 445,883               |
|  | <u>14,038,506</u>    | <u>26,271,850</u>     |
| <br>   |                      |                       |
| Operating income   | <u>1,804,508</u>     | <u>1,495,297</u>      |
| <br>   |                      |                       |
| Nonoperating revenues (expenses):  |                      |                       |
| Interest and investment revenue  | 198,472              | 323,044               |
| Miscellaneous revenue  | 47,079               | -                     |
| Interest expense   | (520,175)            | (2,357,142)           |
| Miscellaneous expense  | (49,492)             | (46,687)              |
|  | <u>(324,116)</u>     | <u>(2,080,785)</u>    |
| <br>   |                      |                       |
| Income (loss) before extraordinary loss and capital contributions                    | 1,480,392            | (585,488)             |
| <br>   |                      |                       |
| Extraordinary loss   | -                    | (3,438,304)           |
| Capital contributions  | 962,682              | 1,498,750             |
|  | <u>2,443,074</u>     | <u>(2,525,042)</u>    |
| <br>   |                      |                       |
| Total net assets - beginning   | <u>54,323,688</u>    | <u>115,765,190</u>    |
| <br>   |                      |                       |
| Total net assets - ending  | <u>\$ 56,766,762</u> | <u>\$ 113,240,148</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  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2005

|  | 2005                 |                      |
|--|----------------------|----------------------|
|  | Water                | Wastewater           |
| Cash flows from operating activities:  |                      |                      |
| Receipts from customers and users  | \$ 15,602,223        | \$ 26,318,118        |
| Payments to suppliers and contractors  | (6,404,144)          | (13,672,589)         |
| Payments to employees  | (6,977,253)          | (5,809,678)          |
| Other receipts (payments)  | 105,114              | (184,579)            |
| Net cash provided by operating activities  | <u>2,325,940</u>     | <u>6,651,272</u>     |
| Cash flows from capital and related financing activities:                                      |                      |                      |
| Proceeds from state revolving loan   | -                    | 1,079,054            |
| Capital contributions  | 335,670              | -                    |
| Acquisition and construction of capital assets   | (6,929,616)          | (4,155,244)          |
| Principal paid on revenue bonds  | (1,080,000)          | (1,055,000)          |
| Interest paid on revenue bonds   | (1,216,444)          | (1,870,167)          |
| Principal paid on state revolving loan   | -                    | (801,000)            |
| Interest paid on state revolving loan  | -                    | (387,112)            |
| Defeasance of bonds  | (1,303,895)          | -                    |
| Net cash used by capital and related financing activities                                      | <u>(10,194,285)</u>  | <u>(7,189,469)</u>   |
| Cash flows from investing activities:  |                      |                      |
| Proceeds from sales and maturities of investments  | 118,595,112          | 29,800,000           |
| Purchase of investments  | (105,930,745)        | (21,800,000)         |
| Interest received  | 660,443              | 287,729              |
| Net cash provided by investing activities  | <u>13,324,810</u>    | <u>8,287,729</u>     |
| Net increase in cash and cash equivalents  | 5,456,465            | 7,749,532            |
| Cash and cash equivalents, January 1   | <u>13,072,227</u>    | <u>9,016,199</u>     |
| Cash and cash equivalents, December 31   | <u>\$ 18,528,692</u> | <u>\$ 16,765,731</u> |
| Reconciliation of operating income to net cash provided by operating activities:               |                      |                      |
| Operating income   | <u>\$ 1,804,508</u>  | <u>\$ 1,495,297</u>  |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: |                      |                      |
| Depreciation expense   | 2,124,341            | 7,929,158            |
| Miscellaneous nonoperating revenue (expense)   | 105,114              | (184,579)            |
| (Increase) decrease in assets:   |                      |                      |
| Accounts receivable - customers  | (22,521)             | (820)                |
| Accounts receivable - other  | (164,642)            | 1,595                |
| Interfund services provided and used   | (50,196)             | 50,196               |
| Interfund receivable   | -                    | (1,500,000)          |
| Advances for bad checks  | 3,122                | -                    |
| Customer deposits receivable   | (6,554)              | -                    |
| Prepaid items  | (1,520)              | (626)                |
| Increase (decrease) in liabilities:  |                      |                      |
| Accounts payable   | (67,572)             | (417,075)            |
| Accrued wages, deductions and retirements payable  | (19,371)             | (5,406)              |
| Contracts payable  | (1,364,613)          | (429,758)            |
| Retainage payable  | (60,829)             | (263,177)            |
| Arbitrage payable  | -                    | (28,401)             |
| Taxes payable  | 2,177                | -                    |
| Intergovernmental payable  | -                    | 1,610                |
| Compensated absence payable  | 26,461               | 3,258                |
| Customer deposits payable  | 18,035               | -                    |
| Total adjustments  | <u>521,432</u>       | <u>5,155,975</u>     |
| Net cash provided by operating activities  | <u>\$ 2,325,940</u>  | <u>\$ 6,651,272</u>  |
| Noncash investing, capital and financing activities:   |                      |                      |
| Customer accounts written off  | \$ 39,135            | \$ 84,468            |
| Contributions of capital assets from developer   | 627,012              | 1,498,750            |
| Acquisition of capital assets on account   | 490,863              | -                    |
| Construction of capital assets on account  | 329,587              | 540,969              |
| Deletion of fully depreciated assets   | 592,817              | 904,633              |
| Capital assets transferred from construction in progress                                       | 5,325,657            | 4,510,246            |

On April 20, 2005, the Evansville Water Utility issued \$9,245,000 in refunding revenue bonds to refund \$10,050,000 of outstanding 1997 series bonds. The net proceeds of \$9,003,408 (after payment of \$241,592 in issuance costs and local contributions of \$1,303,895 were deposited in an irrevocable trust with an escrow agent. The accounting loss of \$134,868 has been recognized on the Balance Sheet as Deferral of Loss on Refunding and will be amortized using the straight-line method and charged to interest expense over the next 12 years.

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

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Evansville (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, 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.

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.

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

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

2. Prepaid Items

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

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants and other ordinances.

4. Capital Assets

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

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

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

|                                      | Capitalization<br>Threshold | Depreciation<br>Method | Estimated<br>Useful Life |
|--------------------------------------|-----------------------------|------------------------|--------------------------|
| <u>Water Utility</u>                 |                             |                        |                          |
| Buildings                            | \$ 750                      | Composite              | 2%                       |
| Improvements Other Than<br>Buildings | 750                         | Composite              | 2%                       |
| Machinery and Equipment              | 750                         | Composite              | 2%                       |
| <u>Wastewater Utility</u>            |                             |                        |                          |
| Buildings                            | 750                         | Straight-line          | 5 to 100 years           |
| Improvements Other Than<br>Buildings | 750                         | Straight-line          | 5 to 100 years           |
| Machinery and Equipment              | 750                         | Straight-line          | 5 to 25 years            |
| Transportation Equipment             | 750                         | Straight-line          | 5 to 25 years            |

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water and Wastewater Utilities during the current year was \$1,135,932 and \$2,369,625, respectively. Of these amounts, \$615,757 and \$12,483 were included as part of the cost of capital assets under construction in connection with water line extensions and wastewater improvements, respectively.

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

5. Compensated Absences

- a. Sick Leave – Non-Union Utility employees earn sick leave at the rate of two-thirds days per month. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave is paid to employees through cash payments upon retirement up to a maximum of 24 days, provided the employee has 3 years of continuous service.

Union Utility employees earn sick leave at the rate of 9 days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees through cash payments upon retirement up to a maximum of 42 days.

- b. Vacation Leave – Utility employees earn vacation leave at rates from 10 days to 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. Accumulated vacation leave is paid to employees through cash payments upon death, retirement or termination. If an employee is terminated for cause, all accrued benefits are forfeited.
- c. Personal Leave – Utility employees earn personal leave at the rate of 3 days per year. Personal leave is not paid to employees upon termination and does not accumulate from year to year.

Vacation and sick leave 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

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.

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

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

|  | Beginning<br>Balance | Increases            | Decreases           | Ending<br>Balance    |
|--|----------------------|----------------------|---------------------|----------------------|
| <u>Water Utility</u>                         |                      |                      |                     |                      |
| Capital assets, not being depreciated:       |                      |                      |                     |                      |
| Land   | \$ 370,150           | \$ -                 | \$ -                | \$ 370,150           |
| Construction in progress                     | <u>5,996,293</u>     | <u>6,207,285</u>     | <u>5,325,657</u>    | <u>6,877,921</u>     |
| Total capital assets, not being depreciated  | <u>6,366,443</u>     | <u>6,207,285</u>     | <u>5,325,657</u>    | <u>7,248,071</u>     |
| Capital assets, being depreciated:           |                      |                      |                     |                      |
| Buildings                                    | 29,894,432           | 81,840               | -                   | 29,976,272           |
| Improvements other than buildings            | 62,672,318           | 7,708,522            | 381,605             | 69,999,235           |
| Machinery and equipment                      | 777,410              | 228,153              | 30,109              | 975,454              |
| Transportation equipment                     | <u>1,698,101</u>     | <u>92,691</u>        | <u>181,102</u>      | <u>1,609,690</u>     |
| Totals                                       | <u>95,042,261</u>    | <u>8,111,206</u>     | <u>592,816</u>      | <u>102,560,651</u>   |
| Less accumulated depreciation for:           |                      |                      |                     |                      |
| Buildings                                    | 11,383,456           | 598,707              | -                   | 11,982,163           |
| Improvements other than buildings            | 22,568,224           | 1,330,531            | 381,605             | 23,517,150           |
| Machinery and equipment                      | 340,664              | 17,228               | 30,109              | 327,783              |
| Transportation equipment                     | <u>660,798</u>       | <u>31,581</u>        | <u>123,069</u>      | <u>569,310</u>       |
| Totals                                       | <u>34,953,142</u>    | <u>1,978,047</u>     | <u>534,783</u>      | <u>36,396,406</u>    |
| Total capital assets, being depreciated, net | <u>60,089,119</u>    | <u>6,133,159</u>     | <u>58,033</u>       | <u>66,164,245</u>    |
| Total capital assets, net                    | <u>\$ 66,455,562</u> | <u>\$ 12,340,444</u> | <u>\$ 5,383,690</u> | <u>\$ 73,412,316</u> |
| <u>Wastewater Utility</u>                    |                      |                      |                     |                      |
| Capital assets, not being depreciated:       |                      |                      |                     |                      |
| Land   | \$ 80,987            | \$ -                 | \$ -                | \$ 80,987            |
| Construction in progress                     | <u>9,544,321</u>     | <u>3,539,737</u>     | <u>8,133,880</u>    | <u>4,950,178</u>     |
| Total capital assets, not being depreciated  | <u>9,625,308</u>     | <u>3,539,737</u>     | <u>8,133,880</u>    | <u>5,031,165</u>     |
| Capital assets, being depreciated:           |                      |                      |                     |                      |
| Buildings                                    | 110,588,446          | 3,545,513            | 433,872             | 113,700,087          |
| Improvements other than buildings            | 87,367,768           | 3,719,616            | 14,954              | 91,072,430           |
| Machinery and equipment                      | <u>2,296,167</u>     | <u>98,157</u>        | <u>455,808</u>      | <u>1,938,516</u>     |
| Totals                                       | <u>200,252,381</u>   | <u>7,363,286</u>     | <u>904,634</u>      | <u>206,711,033</u>   |

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

|   | Beginning<br>Balance  | Increases           | Decreases           | Ending<br>Balance     |
|---|-----------------------|---------------------|---------------------|-----------------------|
| <u>Wastewater Utility (continued)</u>             |                       |                     |                     |                       |
| Capital assets, being depreciated<br>(continued): |                       |                     |                     |                       |
| Less accumulated depreciation for:                |                       |                     |                     |                       |
| Buildings   | 40,905,095            | 4,222,163           | 433,872             | 44,693,386            |
| Improvements other than buildings                 | 20,972,272            | 3,177,693           | 14,954              | 24,135,011            |
| Machinery and equipment                           | 1,433,515             | 305,466             | 455,808             | 1,283,173             |
| Totals  | <u>63,310,882</u>     | <u>7,705,322</u>    | <u>904,634</u>      | <u>70,111,570</u>     |
| Total capital assets, being<br>depreciated, net   | <u>136,941,499</u>    | <u>(342,036)</u>    | -                   | <u>136,599,463</u>    |
| Total capital assets, net                         | <u>\$ 146,566,807</u> | <u>\$ 3,197,701</u> | <u>\$ 8,133,880</u> | <u>\$ 141,630,628</u> |

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

|                            |                     |
|----------------------------|---------------------|
| Water                      | \$ 1,978,047        |
| Wastewater                 | <u>7,705,322</u>    |
| Total depreciation expense | <u>\$ 9,683,369</u> |

C. Construction Commitments

Construction work in progress is composed of the following:

| Project  | Total<br>Project<br>Authorized | Expended to<br>December 31,<br>2005 | Committed           | Required<br>Future<br>Funding |
|--|--------------------------------|-------------------------------------|---------------------|-------------------------------|
| Water lines and plant improvements                     | \$ 7,509,389                   | \$ 6,877,921                        | \$ 631,468          | \$ -                          |
| Sewer modifications, extensions and<br>treatment plant | <u>6,695,365</u>               | <u>4,950,178</u>                    | <u>1,745,187</u>    | <u>-</u>                      |
| Totals   | <u>\$ 14,204,754</u>           | <u>\$ 11,828,099</u>                | <u>\$ 2,376,655</u> | <u>\$ -</u>                   |

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

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

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

| Due To             | Due From<br>City - General<br>Fund |
|--------------------|------------------------------------|
| Wastewater Utility | \$ 3,000,000                       |

Interfund balances resulted from the time lag between the dates that interfund loans are repaid.

2. Interfund Services Provided and Used

Interfund services provided and used at December 31, 2005, were as follows:

| Due To        | Due From<br>Wastewater<br>Utility |
|---------------|-----------------------------------|
| Water Utility | \$ 185,968                        |

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

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end, including the unamortized premium and unamortized deferred loss on refundings, are as follows:

| Purpose                                     | Interest<br>Rates | Amount        | Unamortized<br>Premium | Unamortized<br>Deferred Loss<br>on Refunding | Amount        |
|---|-------------------|---------------|------------------------|--|---------------|
| 2004 Water revenue bonds                    | 3% to 4.625%      | \$ 24,890,000 | \$ 4,391               | \$ -   | \$ 24,894,391 |
| 2005 Water refunding bonds                  | 3% to 4%          | 9,245,000     | -                      | (123,629)                                    | 9,121,371     |
| 1997 Series A Wastewater<br>refunding bonds | 5%                | 6,720,000     | 32,828                 | (310,350)                                    | 6,442,478     |
| 2003 Wastewater refunding<br>bonds          | 2.5% to 5%        | 31,010,000    | 486,311                | (2,161,485)                                  | 29,334,826    |
| Totals                                      |                   | \$ 71,865,000 | \$ 523,530             | \$ (2,595,464)                               | \$ 69,793,066 |

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

Revenue bonds debt service requirements to maturity are as follows:

| Year Ended<br>December 31 | Water Utility        |                      | Wastewater Utility   |                      |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
|                           | Principal            | Interest             | Principal            | Interest             |
| 2006                      | \$ 970,000           | \$ 1,358,184         | \$ 1,105,000         | \$ 1,820,950         |
| 2007                      | 1,175,000            | 1,326,009            | 1,155,000            | 1,769,075            |
| 2008                      | 1,205,000            | 1,290,309            | 1,205,000            | 1,713,925            |
| 2009                      | 1,240,000            | 1,252,965            | 1,265,000            | 1,656,175            |
| 2010                      | 1,275,000            | 1,212,637            | 1,330,000            | 1,594,725            |
| 2011-2015                 | 7,115,000            | 5,334,968            | 7,930,000            | 6,996,835            |
| 2016-2020                 | 9,190,000            | 3,758,320            | 12,545,000           | 4,892,000            |
| 2021-2025                 | 11,965,000           | 1,423,565            | 11,195,000           | 1,137,750            |
| Totals                    | <u>\$ 34,135,000</u> | <u>\$ 16,956,957</u> | <u>\$ 37,730,000</u> | <u>\$ 21,581,435</u> |

2. State Revolving Loan Fund

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 draw of \$63,100,000. As of December 31, 2005, the loan principal amount drawn was \$1,129,054. Annual debt service requirements for the 2004 loan will not be determined until planned construction projects are completed.

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of various wastewater rehabilitation projects. Funds were loaned to the Wastewater Utility as construction costs accrued to the maximum allowed. The 1993 and 1998 loans established a maximum draw of \$2,059,074 and \$14,953,074, respectively. At the completion of construction, the outstanding principal balance was amortized over a period of sixteen years and nineteen years, respectively. Annual debt service requirements to maturity for these loans, including interest of \$2,555,425, are as follows:

|           |                      |
|-----------|----------------------|
| 2006      | \$ 1,186,082         |
| 2007      | 1,185,947            |
| 2008      | 1,189,031            |
| 2009      | 1,187,232            |
| 2010      | 1,184,652            |
| 2011-2015 | 5,625,120            |
| 2016-2020 | <u>3,066,871</u>     |
| Total     | <u>\$ 14,624,935</u> |

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

3. Changes in Long-Term Liabilities

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

|                             | Beginning<br>Balance | Additions            | Reductions           | Ending<br>Balance    | Due<br>Within<br>One Year |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|---------------------------|
| Water Utility:              |                      |                      |                      |                      |                           |
| Revenue bonds               | \$ 36,020,000        | \$ 9,245,000         | \$ 11,130,000        | \$ 34,135,000        | \$ 970,000                |
| Compensated absences        | 70,679               | 26,461               | -                    | 97,140               | 24,944                    |
|                             | <u>36,090,679</u>    | <u>9,271,461</u>     | <u>11,130,000</u>    | <u>34,232,140</u>    | <u>994,944</u>            |
| Wastewater Utility:         |                      |                      |                      |                      |                           |
| Revenue bonds               | 38,785,000           | -                    | 1,055,000            | 37,730,000           | 1,105,000                 |
| State revolving loan        | 12,920,510           | 1,079,054            | 801,000              | 13,198,564           | 1,081,000                 |
| Compensated absences        | 23,254               | 3,258                | -                    | 26,512               | 7,277                     |
|                             | <u>51,728,764</u>    | <u>1,082,312</u>     | <u>1,856,000</u>     | <u>50,955,076</u>    | <u>2,193,277</u>          |
| Total long-term liabilities | <u>\$ 87,819,443</u> | <u>\$ 10,353,773</u> | <u>\$ 12,986,000</u> | <u>\$ 85,187,216</u> | <u>\$ 3,188,221</u>       |

F. Restricted Assets

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

|                                |                      |
|--------------------------------|----------------------|
| Revenue bond covenant accounts | \$ 19,694,241        |
| Customer deposits cash         | 947,573              |
| Customer deposits receivable   | 38,140               |
| Other restricted cash          | 73,362               |
| Interest receivable            | <u>29,330</u>        |
| Total restricted assets        | <u>\$ 20,782,646</u> |

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 (excluding postemployment benefits); and natural disasters. Information is not available to segregate the Utilities' portion.

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

The risks of theft of, damage to, and destruction of assets (excluding the risk of loss related to the involvement of the government's vehicles valued at less than \$50,000 in an at-fault accident); 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.

Torts

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with torts. The risk financing fund is accounted for in the City's Liability 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 \$100,000 to \$150,000 depending on the type of claim. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claim, 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 interfund transactions.

Damage to and Destruction of City Automobiles

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with damage to and destruction of assets related to the involvement of the government's vehicles valued at less than \$50,000 in an at-fault collision. The risk financing fund is accounted for in the City's Auto Collision Fund, an internal service fund, where assets are set aside for claim settlements. Interfund premiums are paid into the fund by all affected funds and are available to pay claim, 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 interfund 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. An excess policy through commercial insurance covers individual claims in excess of \$11,961,076 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claim, 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 interfund transactions.

Job Related Illnesses or Injury to Employees

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with job related illnesses or injuries to employees. The risk financing fund is accounted for in the City's Workmen's Compensation 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 \$150,000. Settled claims resulting from this risk did not exceed commercial insurance coverage in the

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

past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claim, 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 interfund transactions.

Unemployment Benefits

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with unemployment benefits. The risk financing fund is accounted for in the City's Unemployment Fund, an internal service fund, where assets are set aside for claim settlements. Interfund premiums are paid into the fund by all affected funds and are available to pay claim, 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 interfund transactions.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on November 24, 2004. The Utility has 59,449 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on December 20, 2004. The Utility has 51,503 customers.

C. Extraordinary Loss

In 2005, the Wastewater Utility discontinued plans to build a new wastewater treatment plant and therefore recognized an extraordinary loss of \$3,438,304 consisting of primarily design and engineering expenses.

D. Refunding Bond Issue

On April 20, 2005, the Water Utility issued \$9,245,000 in refunding revenue bonds with an average interest rate of 3.66% to advance refund \$10,050,000 of outstanding 1997 series bonds with an average interest rate of 5.06%. The net proceeds of \$9,003,408 (after payment of \$241,592 in issuance costs) and local contributions of \$1,303,895 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 series bonds. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets. The refunding resulted in the accounting loss of \$134,868 which has been recognized on the Statement of Net Assets as a Deferral of Loss on Refunding. This amount will be amortized using the straight-line method and charged to interest expense over the next 12 years. The Water Utility in effect decreased its aggregate debt service payment by \$896,112 over the next 12 years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$3,449,317.

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

E. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utility 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 Utility'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.

Actuarial Information for the Above Plan

|  | PERF         |
|--|--------------|
| Annual required contribution               | \$ 1,156,976 |
| Interest on net pension obligation         | (61,619)     |
| Adjustment to annual required contribution | 70,220       |
| Annual pension cost                        | 1,165,577    |
| Contributions made                         | 1,211,678    |
| Decrease in net pension obligation         | (46,101)     |
| Net pension obligation, beginning of year  | (849,918)    |
| Net pension obligation, end of year        | \$ (896,019) |

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

|                                 | PERF  |
|---------------------------------|---|
| Contribution rates:             |   |
| Utilities                       | 5.5%  |
| Plan members                    | 3%  |
| Actuarial valuation date        | 07-01-05  |
| Actuarial cost method           | Entry age   |
| Amortization method             | Level percentage<br>of projected<br>payroll, closed               |
| Amortization period             | 40 years  |
| Amortization period (from date) | 07-01-97  |
| Asset valuation method          | 75% of expected<br>actuarial value<br>plus 25% of<br>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<br>Pension Cost<br>(APC) | Percentage<br>of APC<br>Contributed | Net<br>Pension<br>Obligation |
|--------------------|-------------|---------------------------------|-------------------------------------|------------------------------|
| City and Utilities |             |                                 |                                     |                              |
| PERF               | 06-30-03    | \$ 1,217,499                    | 84%                                 | \$ (745,721)                 |
|                    | 06-30-04    | 1,027,023                       | 110%                                | (849,918)                    |
|                    | 06-30-05    | 1,165,577                       | 118%                                | (896,019)                    |

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

City and Utilities Public Employees' Retirement Fund Pension Plan

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(a-b) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | Unfunded<br>AAL as a<br>Percentage<br>of Covered<br>Payroll<br>((a-b)/c) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| 07-01-03                       | \$ 26,157,091                          | \$ 26,798,365                                     | \$ (641,274)             | 98%                      | \$ 20,817,307             | (3%)   |
| 07-01-04                       | 26,372,983                             | 28,282,016  | (1,909,033)              | 93%                      | 21,306,381                | (9%)   |
| 07-01-05                       | 27,324,967                             | 31,763,368  | (4,438,401)              | 86%                      | 22,008,817                | (20%)  |

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
AUDIT RESULT AND COMMENT

SEPARATE BANK ACCOUNTS – (Applies to Water and Wastewater Utilities)

As stated in several prior reports, all Water and Wastewater Utility funds were accounted for in the bank account of the City of Evansville.

When two or more governmental units are authorized by statute to have the same fiscal officer there should be separate bank accounts and accounting records for each governmental unit unless authorized by statute, appropriate federal or state rule or regulation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A single bank account should be provided for all city or town funds, separate bank accounts for the funds belonging to each utility, and possibly a separate bank account for other funds if required by ordinance or regulation. Some bond ordinances and federal regulations require separate bank accounts for various funds and must be followed. Funds of other entities held by the city or town's fiscal officer must be accounted for in separate bank accounts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
EXIT CONFERENCE

The contents of this report were discussed on November 16, 2006, with Harry Lawson, General Manager; and Desiree Khayum, Financial Accountant. The officials concurred with our audit finding.