

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

ANNUAL FINANCIAL REPORT

2006

WATER AND WASTEWATER UTILITIES

CITY OF EVANSVILLE

VANDERBURGH COUNTY, INDIANA



FILED
12/31/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Harry Lawson	01-01-06 to 12-31-07
Controller	Lisa Acobert	01-01-06 to 12-31-07
Mayor	Jonathan Weinzapfel	01-01-04 to 12-31-07
President of the Department of Waterworks Board	Stephen Titzer	01-01-06 to 12-31-07
President of the Common Council	B. J. Watts Keith Jarboe	01-01-06 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities (Utilities), departments of the City of Evansville, as of and for the year ended December 31, 2006. 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, 2006, 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, 2006, 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 is not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

September 24, 2007

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF NET ASSETS
December 31, 2006

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>
Current assets:		
Cash and cash equivalents	\$ 2,425,235	\$ 11,056,729
Cash with fiscal agent	409,883	235,925
Interest receivable	1,019	18,124
Accounts receivable (net of allowance)	887,791	2,247,884
Accounts receivable - other	333,421	5,920
Interfund receivables:		
Interfund services provided and used	189,005	-
Advances for bad checks	816	-
Prepaid items	<u>67,075</u>	<u>73,661</u>
 Total current assets	 <u>4,314,245</u>	 <u>13,638,243</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Restricted retainage cash	29,483	39,646
Service charge - benefit of petitioners cash and cash equivalents	1,500	-
Bond and interest requirement cash and cash equivalents	1,846,817	-
Bond payment cash and cash equivalents	-	3,344,410
Sinking fund cash and cash equivalents	187,361	-
Water bond 2004 cash and cash equivalents	7,455,635	-
Debt service reserve cash and cash equivalents	39,426	2,246,414
Deposits on new extension estimates cash and cash equivalents	21,055	-
Bond fund 1997 cash and cash equivalents	-	331,509
Bond fund 2003 cash and cash equivalents	-	512,714
Wastewater treatment plant cash and cash equivalents	-	1,542,199
Customer deposits cash and cash equivalents	952,990	-
Customer deposits receivable	44,767	-
Interest receivable	<u>20,584</u>	<u>69,186</u>
 Total restricted assets	 <u>10,599,618</u>	 <u>8,086,078</u>
Deferred debits:		
Unamortized bond issuance costs	655,530	686,897
Miscellaneous	<u>200,815</u>	<u>445,047</u>
 Total deferred debits	 <u>856,345</u>	 <u>1,131,944</u>
Capital assets:		
Land, improvements to land and construction in progress	5,909,206	12,665,361
Other capital assets (net of accumulated depreciation)	<u>73,456,285</u>	<u>132,682,744</u>
 Total capital assets	 <u>79,365,491</u>	 <u>145,348,105</u>
 Total noncurrent assets	 <u>90,821,454</u>	 <u>154,566,127</u>
 Total assets	 <u>95,135,699</u>	 <u>168,204,370</u>

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, 2006
(Continued)

<u>Liabilities</u>	<u>Water</u>	<u>Wastewater</u>
Current liabilities:		
Accounts payable	83,519	133,895
Accrued wages payable	65,748	50,122
Payroll withholdings payable	15,832	11,263
Accrued retirements payable	72,336	52,635
Deferred tap ins payable	-	9,600
Interfund payables:		
Interfund services provided and used	-	189,005
Contracts payable	1,180,165	1,721,893
Retainage payable	439,366	275,571
Intergovernmental payable	-	5,020
State revolving loan payable	-	3,135,000
Taxes payable	52,348	-
Compensated absences payable	18,955	5,623
Current liabilities payable from restricted assets:		
Customer deposits	997,756	-
Deposits on new extension estimates	21,055	-
Service charge due petitioners	1,500	-
Revenue bonds payable	1,175,000	1,155,000
Accrued interest payable	671,817	1,131,822
	<u>4,795,397</u>	<u>7,876,449</u>
Total current liabilities		
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts/premium and deferred amount on refunding)	31,881,764	33,655,528
State revolving loans payable	-	12,971,552
Compensated absences	121,461	27,131
	<u>32,003,225</u>	<u>46,654,211</u>
Total noncurrent liabilities		
Total liabilities	<u>36,798,622</u>	<u>54,530,660</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	41,944,671	86,136,650
Restricted for debt service	7,703,006	2,624,610
Unrestricted	8,689,400	24,912,450
Total net assets	<u>\$ 58,337,077</u>	<u>\$ 113,673,710</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, 2006

	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 6,606,157	\$ -
Commercial and Industrial	4,767,151	-
Allocation of joint costs	2,265,994	-
Fire protection revenue	1,514,786	-
Penalties	106,469	407,574
Other water revenue	225,491	-
Measured revenue:		
Residential	-	11,526,348
Commercial	-	8,338,845
Refuse services	-	4,602,949
Wastewater tap fees	-	999,134
Street sweeping	-	17,780
Waste pretreatment charge	-	290,000
Industrial surcharges and fees	-	366,047
Other	-	425,342
	<u>15,486,048</u>	<u>26,974,019</u>
Total operating revenues		
Operating expenses:		
Source of supply and expense/collection system expense - operations and maintenance:		
Salaries and wages	203,787	867,767
Employee pensions and benefits	-	394,276
Contractual services	-	912,288
Transmission and distribution/pumping expense - operations and maintenance:		
Salaries and wages	1,097,234	-
Employee pensions and benefits	487,491	-
Treatment and disposal expense - operations and maintenance:		
Salaries and wages	353,448	1,552,704
Employee pensions and benefits	238,512	693,239
Contractual services	-	4,030,798
Other	-	12,465
Customer accounts expense:		
Salaries and wages	1,184,317	2,265,994
Employee pensions and benefits	534,426	-
Bad debt expense	43,790	73,961
Administrative and general expense:		
Salaries and wages	610,393	-
Employee pensions and benefits	231,850	-
Materials and supplies	31,648	-
Contractual services	6,664,256	5,341,153
Transportation expense	5,067	-
Payment in lieu of taxes	564,591	2,162,072
Depreciation and amortization	2,277,059	8,208,424
Other	497,594	509,018
	<u>15,025,463</u>	<u>27,024,159</u>
Total operating expenses		
Operating income (loss)	<u>460,585</u>	<u>(50,140)</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	256,861	524,721
Miscellaneous revenue	145,670	-
Interest expense	(318,579)	(2,281,752)
Miscellaneous expense	(46,087)	(46,687)
	<u>37,865</u>	<u>(1,803,718)</u>
Total nonoperating revenues (expenses)		
Income (loss) before capital contributions	498,450	(1,853,858)
Capital contributions	<u>1,071,865</u>	<u>2,287,420</u>
Change in net assets	1,570,315	433,562
Total net assets - beginning	<u>56,766,762</u>	<u>113,240,148</u>
Total net assets - ending	<u>\$ 58,337,077</u>	<u>\$ 113,673,710</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, 2006

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 15,538,979	\$ 29,975,954
Payments to suppliers and contractors	(8,643,219)	(13,622,818)
Payments to employees	(4,895,045)	(5,764,580)
Other receipts (payments)	<u>116,864</u>	<u>(132,863)</u>
Net cash provided by operating activities	<u>2,117,579</u>	<u>10,455,693</u>
Cash flows from capital and related financing activities:		
Proceeds from state revolving loan	-	3,732,988
Capital contributions	143,059	-
Acquisition and construction of capital assets	(5,840,259)	(7,994,692)
Principal paid on revenue bonds	(970,000)	(1,105,000)
Interest paid on revenue bonds	(1,358,183)	(406,008)
Principal paid on state revolving loan	-	(825,000)
Interest paid on state revolving loan	<u>-</u>	<u>(1,820,950)</u>
Net cash used by capital and related financing activities	<u>(8,025,383)</u>	<u>(8,418,662)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	139,065,320	39,400,000
Purchase of investments	(139,065,320)	(39,400,000)
Interest received	<u>748,497</u>	<u>506,784</u>
Net cash provided by investing activities	<u>748,497</u>	<u>506,784</u>
Net increase in cash and cash equivalents	(5,159,307)	2,543,815
Cash and cash equivalents, January 1	<u>18,528,692</u>	<u>16,765,731</u>
Cash and cash equivalents, December 31	<u>\$ 13,369,385</u>	<u>\$ 19,309,546</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 460,585</u>	<u>\$ (50,140)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	2,277,059	8,208,424
Miscellaneous nonoperating revenue (expense)	116,864	(132,863)
Accounts receivable - customers	51,253	(9,107)
Accounts receivable - other	8,710	8,005
Interfund services provided and used	(3,037)	3,037
Interfund receivable	-	3,000,000
Advances for bad checks	2,632	-
Customer deposits receivable	(6,627)	-
Prepaid items	834	4
Increase (decrease) in liabilities:		
Accounts payable	(364,691)	(4,597)
Accrued wages, deductions and retirements payable	3,137	3,158
Contracts payable	(414,549)	(454,574)
Retainage payable	(68,612)	230,068
Arbitrage payable	-	(351,074)
Taxes payable	(1,298)	-
Intergovernmental payable	-	(890)
Compensated absence payable	43,276	6,242
Customer deposits payable	<u>12,043</u>	<u>-</u>
Total adjustments	<u>1,656,994</u>	<u>10,505,833</u>
Net cash provided by operating activities	<u>\$ 2,117,579</u>	<u>\$ 10,455,693</u>
Noncash investing, capital and financing activities:		
Customer accounts written off	\$ 45,950	\$ 96,070
Contributions of capital assets from developer	928,805	2,287,419
Acquisition of capital assets on account	12,036	118,918
Construction of capital assets on account	805,272	1,293,033
Miscellaneous deferred debits on account	42,602	22,002
Capital assets transferred from construction in progress	6,705,620	-

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, represent 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 Other 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.

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 AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
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. 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 Threshold	Depreciation Method	Composite Rate/ Estimated Useful Life
Water Utility:			
Buildings	\$ 750	Composite	2%
Improvements other than buildings	750	Composite	2%
Machinery and equipment	750	Composite	2%
Wastewater Utility:			
Buildings	750	Straight-line	5 to 100 years
Improvements other than 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.

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

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 \$871,562 and \$2,394,164, respectively. Of the amount, \$552,983 and \$112,412 were included as part of the cost of capital assets under construction in connection with water line extensions and wastewater improvements, respectively.

5. Compensated Absences

- a. Sick Leave – Nonunion Utility employees earn sick leave at the rate of $\frac{2}{3}$ 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 are 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.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 370,150	\$ -	\$ -	\$ 370,150
Construction in progress	<u>6,877,921</u>	<u>5,366,755</u>	<u>6,705,620</u>	<u>5,539,056</u>
Total capital assets, not being depreciated	<u>7,248,071</u>	<u>5,366,755</u>	<u>6,705,620</u>	<u>5,909,206</u>
Capital assets, being depreciated:				
Buildings	29,976,272	91,947	-	30,068,219
Improvements other than buildings	69,999,235	9,286,117	118,051	79,167,301
Machinery and equipment	975,454	33,638	-	1,009,092
Transportation equipment	<u>1,609,690</u>	<u>66,519</u>	<u>42,165</u>	<u>1,634,044</u>
Totals	<u>102,560,651</u>	<u>9,478,221</u>	<u>160,216</u>	<u>111,878,656</u>
Less accumulated depreciation for:				
Buildings	11,982,163	600,445	-	12,582,608
Improvements other than buildings	23,517,150	1,492,846	118,051	24,891,945
Machinery and equipment	327,783	19,974	-	347,757
Transportation equipment	<u>569,310</u>	<u>32,297</u>	<u>1,546</u>	<u>600,061</u>
Totals	<u>36,396,406</u>	<u>2,145,562</u>	<u>119,597</u>	<u>38,422,371</u>
Total capital assets, being depreciated, net	<u>66,164,245</u>	<u>7,332,659</u>	<u>40,619</u>	<u>73,456,285</u>
Total capital assets, net	<u>\$ 73,412,316</u>	<u>\$ 12,699,414</u>	<u>\$ 6,746,239</u>	<u>\$ 79,365,491</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 80,987	\$ -	\$ -	\$ 80,987
Construction in progress	<u>4,950,178</u>	<u>7,634,196</u>	<u>-</u>	<u>12,584,374</u>
Total capital assets, not being depreciated	<u>5,031,165</u>	<u>7,634,196</u>	<u>-</u>	<u>12,665,361</u>
Capital assets, being depreciated:				
Buildings	113,700,087	621,360	595,898	113,725,549
Improvements other than buildings	91,072,430	3,034,002	3,754	94,102,678
Machinery and equipment	<u>1,938,516</u>	<u>518,044</u>	<u>519,035</u>	<u>1,937,525</u>
Totals	<u>206,711,033</u>	<u>4,173,406</u>	<u>1,118,687</u>	<u>209,765,752</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility (continued):				
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	44,693,386	4,379,143	595,899	48,476,630
Improvements other than buildings	24,135,011	3,312,577	3,754	27,443,834
Machinery and equipment	1,283,173	305,968	426,597	1,162,544
Totals	<u>70,111,570</u>	<u>7,997,688</u>	<u>1,026,250</u>	<u>77,083,008</u>
Total capital assets, being depreciated, net	<u>136,599,463</u>	<u>(3,824,282)</u>	<u>92,437</u>	<u>132,682,744</u>
Total capital assets, net	<u>\$ 141,630,628</u>	<u>\$ 3,809,914</u>	<u>\$ 92,437</u>	<u>\$ 145,348,105</u>

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

Water	\$ 2,145,562
Wastewater	<u>7,997,688</u>
Total depreciation expense	<u>\$ 10,143,250</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Water lines and plant improvements	\$ 10,333,918	\$ 5,539,056	\$ 4,794,862	\$ -
Wastewater modifications, extensions and treatment plant	<u>16,657,449</u>	<u>12,584,374</u>	<u>4,073,075</u>	<u>-</u>
Totals	<u>\$ 26,991,367</u>	<u>\$ 18,123,430</u>	<u>\$ 8,867,937</u>	<u>\$ -</u>

D. Interfund Services Provided and Used

The composition of interfund balances as of December 31, 2006, is as follows:

Due To	Due From Wastewater Utility
Water Utility	<u>\$ 189,005</u>

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

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 Rates	Amount	Unamortized Premium	Less:	
				Unamortized Deferred Loss on Refunding	Amount
2004 Waterworks revenue bonds	3% to 4.625%	\$ 24,395,000	\$ 4,154	\$ -	\$ 24,399,154
2005 Waterworks refunding bonds	3% to 4%	8,770,000	-	(112,390)	8,657,610
1997 Series A Wastewater refunding bonds	5%	5,750,000	26,262	(258,624)	5,517,638
2003 Wastewater refunding bonds	3% to 5%	30,875,000	459,293	(2,041,403)	29,292,890
Totals		<u>\$ 69,790,000</u>	<u>\$ 489,709</u>	<u>\$ (2,412,417)</u>	<u>\$ 67,867,292</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
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	1,325,000	1,168,797	1,395,000	1,529,662
2012-2016	7,380,000	5,062,115	8,420,000	6,654,173
2017-2021	9,770,000	3,358,395	14,210,000	4,264,750
2022-2025	9,795,000	927,546	7,645,000	578,000
Totals	<u>\$ 33,165,000</u>	<u>\$ 15,598,773</u>	<u>\$ 36,625,000</u>	<u>\$ 19,760,485</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 totaling \$63,100,000. As of December 31, 2006, the loan principal amount drawn was \$4,862,042. Annual debt service requirements for the 2004 loan will not be determined until planned construction projects are completed.

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

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 16 years and 19 years, respectively. Annual debt service requirements to maturity for these loans, including interest of \$2,194,343, are as follows:

2007	\$ 1,185,947
2008	1,189,031
2009	1,187,232
2010	1,184,652
2011	1,186,292
2012-2016	5,477,885
2017-2018	<u>2,027,814</u>
 Total	 <u>\$ 13,438,853</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Revenue bonds	\$ 34,135,000	\$ -	\$ 970,000	\$ 33,165,000	\$ 1,175,000
Compensated absences	<u>97,140</u>	<u>43,276</u>	<u>-</u>	<u>140,416</u>	<u>18,955</u>
 Total Water Utility long-term liabilities	 <u>34,232,140</u>	 <u>43,276</u>	 <u>970,000</u>	 <u>33,305,416</u>	 <u>1,193,955</u>
Wastewater Utility:					
Revenue bonds	37,730,000	-	1,105,000	36,625,000	1,155,000
State revolving loan	13,198,564	3,732,988	825,000	16,106,552	3,135,000
Compensated absences	<u>26,512</u>	<u>6,242</u>	<u>-</u>	<u>32,754</u>	<u>5,623</u>
 Total Wastewater Utility long-term liabilities	 <u>50,955,076</u>	 <u>3,739,230</u>	 <u>1,930,000</u>	 <u>52,764,306</u>	 <u>4,295,623</u>
 Total long-term liabilities	 <u>\$ 85,187,216</u>	 <u>\$ 3,782,506</u>	 <u>\$ 2,900,000</u>	 <u>\$ 86,069,722</u>	 <u>\$ 5,489,578</u>

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

F. Restricted Assets

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

Revenue bond covenant accounts	\$ 17,506,485
Customer deposits cash	952,990
Customer deposits receivable	44,767
Other restricted cash	91,684
Interest receivable	<u>89,770</u>
 Total restricted assets	 <u><u>\$ 18,685,696</u></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.

The risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. The City, including the Utilities, is self-insured for the first \$100,000 to \$150,000 of claims, depending on the type of loss. 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; Theft of, Damage to, and Destruction of Assets; Errors and Omissions; Job Related Illnesses or Injuries to Employees; and Natural Disasters

The City, including the Utilities, has chosen to establish three risk financing funds for risks associated with torts: theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters. The risk financing funds are accounted for in the City's Liability Insurance Fund, Auto Collision Fund, and the Workers' Compensation Fund, internal service funds, where assets are set aside for claim settlements. The City, including the Utilities, is self insured for the first \$100,000 to \$150,000 per incident depending on the type of loss. Also all claims in excess of \$1,925,000 per year are covered by commercial insurance. 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, including the Utilities, and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

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

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 total 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, including the Utilities, and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

B. Subsequent Events

Water Utility

On April 10, 2007, the Utility received an \$8,000,000 Bond Anticipation Note from the Evansville Bond Bank for improvements to the filtration plant.

Wastewater Utility

On July 24, 2007, the Utility awarded a contract in the amount of \$16,516,000 to Bowen Engineering for improvements to the West Treatment Plant which will be funded with the existing State Revolving Loan.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on November 24, 2004. The Utility has 59,826 customers.

2. Wastewater Utility

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

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 Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension

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

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 Utilities' 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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 1,440,912
Interest on net pension obligation	(64,961)
Adjustment to annual required contribution	74,029
Annual pension cost	1,449,980
Contributions made	1,241,994
Increase in net pension obligation	207,986
Net pension obligation, beginning of year	(896,019)
Net pension obligation, end of year	\$ (688,033)

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

	PERF
Contribution rates:	
Utilities	5.75%
Plan members	3%
Actuarial valuation date	07-01-06
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	06-30-04	\$ 1,027,023	110%	\$ (849,918)
	06-30-05	1,165,577	104%	(896,019)
	06-30-06	1,449,980	107%	(688,033)

E. Contingent Liability

The United States Department of Justice and the Indiana Department of Environmental Management have been in negotiations with the City of Evansville concerning an enforcement action of the Clean Water Act. The goal is to obtain a consent decree against the City of Evansville concerning its combined sewer overflows. The amount of the consent decree is unknown at this time, but is anticipated to be in the tens of millions of dollars range and will be utilized to correct the existing system.

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

City and Utilities Public Employees' Retirement Fund Pension Plan

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)
07-01-04	\$ 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%)
07-01-06	30,018,856	32,921,068	(2,902,212)	91%	22,197,140	(13%)

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
AUDIT RESULTS AND COMMENTS

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)

CUSTOMER DEPOSITS (Applies to Water Utility)

The customer deposit summary does not reconcile with the customer deposit amount recorded on the general ledger. The customer deposit payable is greater than the summary. The detail and control have not agreed for many years; however, the Utility officials have been working to identify the errors and can identify some, but not all, of the difference. The current total difference of \$26,140, although immaterial to the financial statements, has continued to slowly increase over the past five years. The current computer billing system does not allow for specific reports to be generated which could be of assistance in the determination of possible differences.

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

PENALTIES, INTEREST, AND OTHER CHARGES (Applies to Wastewater Utility)

The Wastewater Utility did not pay an arbitrage rebate on the Sewage Works Refunding Revenue and Revenue Bonds of 1997, Series A and B in a timely manner. The original due date was October 30, 2002, but the arbitrage rebate payment was not made until January 26, 2006. Interest of \$81,576 was remitted to the United States Department of the Treasury at that time.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2007, with Harry Lawson, General Manager; and Desiree Khayum, Financial Accountant. The officials concurred with our audit findings.