

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

ANNUAL FINANCIAL REPORT

2007

WATER AND WASTEWATER UTILITY

CITY OF EVANSVILLE

VANDERBURGH COUNTY, INDIANA



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Harry Lawson	01-01-07 to 12-31-08
Controller	Lisa Acobert	01-01-07 to 10-01-08
Mayor	Jonathan Weinzapfel	01-01-04 to 12-31-11
President of the Department of Waterworks Board	Stephen Titzer	01-01-07 to 12-31-08
President of the Common Council	Keith Jarboe	01-01-07 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITY,
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, 2007. 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, 2007, 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, 2007, 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

August 14, 2008

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF NET ASSETS
December 31, 2007

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>
Current assets:		
Cash and cash equivalents	\$ 1,840,493	\$ 10,117,329
Cash with fiscal agent	322,348	1,445,089
Interest receivable	787	8,078
Accounts receivable (net of allowance)	900,301	2,421,092
Accounts receivable - other	209,087	6,675
Interfund receivables:		
Interfund services provided and used	198,039	-
Advances for bad checks	(2,016)	-
Prepaid items	<u>72,093</u>	<u>79,060</u>
 Total current assets	 <u>3,541,132</u>	 <u>14,077,323</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Restricted retainage cash	108,230	38,544
Service charge - benefit of petitioners cash and cash equivalents	1,500	-
Bond anticipation note cash and cash equivalents	3,891	-
Bond and interest requirement cash and cash equivalents	1,859,192	-
Bond payment cash and cash equivalents	-	1,459,462
Sinking fund cash and cash equivalents	187,361	-
Sinking fund investments	-	2,141,691
Water bond 2004 cash and cash equivalents	1,031,420	-
Debt service reserve cash and cash equivalents	-	9
Debt service reserve investments	-	2,683,091
Deposits on new extension estimates cash and cash equivalents	21,055	-
Wastewater treatment plant cash and cash equivalents	-	1,425,182
Construction investments	-	19,084,107
Customer deposits cash and cash equivalents	970,173	-
Customer deposits receivable	53,660	-
Interest receivable	<u>2,243</u>	<u>22,593</u>
 Total restricted assets	 <u>4,238,725</u>	 <u>26,854,679</u>
Deferred charges		
Unamortized bond issuance costs	686,965	801,845
Miscellaneous	<u>236,495</u>	<u>1,629,112</u>
 Total deferred debits	 <u>923,460</u>	 <u>2,430,957</u>
Capital assets:		
Land, improvements to land and construction in progress	15,030,817	31,414,388
Other capital assets (net of accumulated depreciation)	<u>73,565,456</u>	<u>131,188,886</u>
 Total capital assets	 <u>88,596,273</u>	 <u>162,603,274</u>
 Total noncurrent assets	 <u>93,758,458</u>	 <u>191,888,910</u>
 Total assets	 <u>97,299,590</u>	 <u>205,966,233</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, 2007
(Continued)

<u>Liabilities</u>	<u>Water</u>	<u>Wastewater</u>
Current liabilities:		
Accounts payable	182,554	115,231
Accrued wages payable	87,811	60,587
Payroll withholdings payable	18,315	11,719
Accrued retirements payable	85,184	58,301
Deferred tap ins payable	-	9,600
Interfund payables:		
Interfund services provided and used	-	198,039
Contracts payable	845,670	2,115,759
Retainage payable	430,578	1,483,633
Intergovernmental payable	-	13,540
Taxes payable	48,531	-
Compensated absences payable	48,771	26,934
Current liabilities payable from restricted assets:		
Customer deposits	1,023,833	-
Deposits on new extension estimates	21,055	-
Service charge due petitioners	1,500	-
Revenue bonds payable	1,205,000	1,205,000
Bond anticipation note payable	2,819,166	-
State revolving loans payable	-	2,528,000
Accrued interest payable	654,192	1,707,330
	<u>7,472,160</u>	<u>9,533,673</u>
Total current liabilities		
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts/premiums and deferred amount on refunding)	30,687,765	32,588,753
State revolving loans payable	-	50,378,510
Compensated absences payable	181,859	116,506
	<u>30,869,624</u>	<u>83,083,769</u>
Total noncurrent liabilities		
Total liabilities	<u>38,341,784</u>	<u>92,617,442</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	57,390,472	76,704,856
Restricted for debt service	2,426,024	25,108,805
Unrestricted	<u>(858,690)</u>	<u>11,535,130</u>
Total net assets	<u>\$ 58,957,806</u>	<u>\$ 113,348,791</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, 2007

	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 7,044,084	\$ -
Commercial and Industrial	4,978,105	-
Allocation of joint costs	2,372,633	-
Fire protection revenue	1,548,728	-
Penalties	111,408	445,672
Other water revenue	135,051	-
Measured revenue:		
Residential	-	12,347,993
Commercial	-	8,803,300
Refuse services	-	4,715,745
Wastewater tap fees	-	1,089,787
Street sweeping	-	17,780
Waste pretreatment charge	-	290,000
Industrial surcharges and fees	-	506,811
Other	-	391,370
	<u>16,190,009</u>	<u>28,608,458</u>
Operating expenses:		
Source of supply and expense/collection system expense - operations and maintenance:		
Salaries and wages	214,004	986,593
Employee pensions and benefits	-	403,767
Contractual services	-	948,617
Transmission and distribution/pumping expense - operations and maintenance:		
Salaries and wages	1,271,454	-
Employee pensions and benefits	503,280	-
Treatment and disposal expense - operations and maintenance:		
Salaries and wages	368,186	1,644,394
Employee pensions and benefits	237,367	690,942
Contractual services	-	4,486,873
Other	-	13,043
Customer accounts expense:		
Salaries and wages	1,222,616	-
Employee pensions and benefits	526,877	-
Contractual services	-	2,372,633
Bad debt expense	65,353	125,092

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, 2007
(Continued)

	<u>Water</u>	<u>Wastewater</u>
Operating expenses (continued):		
Administrative and general expense:		
Salaries and wages	698,868	-
Employee pensions and benefits	251,267	-
Materials and supplies	26,438	-
Contractual services	7,793,334	5,951,284
Transportation expense	3,244	-
Payment in lieu of taxes	502,450	2,003,230
Depreciation and amortization	2,457,690	8,448,043
Other	<u>581,843</u>	<u>641,156</u>
Total operating expenses	<u>16,724,271</u>	<u>28,715,667</u>
Operating loss	<u>(534,262)</u>	<u>(107,209)</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	189,487	501,649
Dividend income on investments	-	37,764
Miscellaneous revenue	30,801	-
Interest expense	(298,629)	(2,202,556)
Miscellaneous expense	<u>(46,087)</u>	<u>(55,193)</u>
Total nonoperating revenues (expenses)	<u>(124,428)</u>	<u>(1,718,336)</u>
Loss before capital contributions	(658,690)	(1,825,545)
Capital contributions	<u>1,279,419</u>	<u>1,500,626</u>
Change in net assets	620,729	(324,919)
Total net assets - beginning	<u>58,337,077</u>	<u>113,673,710</u>
Total net assets - ending	<u>\$ 58,957,806</u>	<u>\$ 113,348,791</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, 2007

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 16,286,738	\$ 28,443,529
Payments to suppliers and contractors	(9,540,583)	(16,467,219)
Payments to employees	(5,166,311)	(3,598,423)
Other payments	<u>(198,184)</u>	<u>(1,295,536)</u>
Net cash provided by operating activities	<u>1,381,660</u>	<u>7,082,351</u>
Cash flows from capital and related financing activities:		
Proceeds from bond anticipation note	2,819,166	-
Proceeds from state revolving loans	-	39,785,958
Capital contributions	133,859	258,190
Acquisition and construction of capital assets	(9,157,365)	(22,720,670)
Principal paid on revenue bonds	(1,175,000)	(1,155,000)
Interest paid on revenue bonds	(1,326,009)	(1,741,500)
Principal paid on state revolving loans	-	(2,986,000)
Interest paid on state revolving loans	-	(835,096)
Bond issuance costs paid	<u>(77,522)</u>	<u>(170,142)</u>
Net cash provided (used) by capital and related financing activities	<u>(8,782,871)</u>	<u>10,435,740</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	152,112,508	43,933,377
Purchase of investments	(152,112,508)	(67,842,266)
Dividend received	-	37,764
Interest received	<u>377,489</u>	<u>1,529,103</u>
Net cash provided (used) by investing activities	<u>377,489</u>	<u>(22,342,022)</u>
Net decrease in cash and cash equivalents	(7,023,722)	(4,823,931)
Cash and cash equivalents, January 1	<u>13,369,385</u>	<u>19,309,546</u>
Cash and cash equivalents, December 31	<u>\$ 6,345,663</u>	<u>\$ 14,485,615</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, 2007
(Continued)

	<u>Water</u>	<u>Wastewater</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating loss	\$ (534,262)	\$ (107,209)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	2,457,690	8,448,043
Miscellaneous nonoperating revenue (expense)	(198,184)	(1,295,536)
(Increase) decrease in assets:		
Accounts receivable	(12,510)	(173,208)
Accounts receivable - other	124,334	(755)
Interfund services provided or used	(9,034)	9,034
Advances for bad checks	2,832	-
Customer deposits receivable	(8,893)	-
Prepaid items	(5,018)	(5,399)
Increase (decrease) in liabilities:		
Accounts payable	99,035	(120,298)
Accrued wages, deductions and retirements payable	37,394	16,587
Contracts payable	(666,529)	(1,016,176)
Retainage payable	(17,669)	1,208,062
Taxes payable	(3,817)	-
Intergovernmental payable	-	8,520
Compensated absence payable	90,214	110,686
Customer deposits	26,077	-
Total adjustments	<u>1,915,922</u>	<u>7,189,560</u>
Net cash provided by operating activities	<u>\$ 1,381,660</u>	<u>\$ 7,082,351</u>
Noncash investing, capital and financing activities:		
Customer accounts written off	\$ 53,363	\$ 90,972
Contributions of capital assets from developer	1,145,560	1,242,436
Construction of capital assets on account	340,915	1,419,016
Capital assets transferred from construction in progress	140,040	2,704,577
Purchase of capital assets on account	-	61,020
Miscellaneous deferred debits on account	-	31,640

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

WATER AND WASTEWATER UTILITY
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 UTILITY
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 in both government-wide and fund financial statements.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets 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	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 UTILITY
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 \$1,308,384 and \$3,152,105, respectively. Of the amount, \$1,020,756 and \$1,087,774 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 – Non-Union Utility employees earn sick leave at the rate of 2/3 day 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 UTILITY
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Utilities' investments are categorized below to give an indication of the level of risk assumed by the Utilities at year end. Category 1 includes investments that are insured or registered or for which the securities are held by a Utility or its agent in the Utility's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in a Utility's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in a Utility's name.

	Category			Reported Amount	Fair Value
	1	2	3		
Commercial paper	\$ -	\$ 14,998,117	\$ -	\$ -	\$ -
Totals	\$ -	\$ 14,998,117	\$ -	-	-
Investments not subject to categorization:					
Open-end mutual funds				8,910,772	8,910,772
Total investments				\$ 8,910,772	\$ 8,910,772

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 370,150	\$ -	\$ -	\$ 370,150
Construction in progress	5,539,056	9,261,651	140,040	14,660,667
Total capital assets, not being depreciated	5,909,206	9,261,651	140,040	15,030,817
Capital assets, being depreciated:				
Buildings	30,068,219	40,236	-	30,108,455
Improvements other than buildings	79,167,301	2,384,602	396,442	81,155,461
Machinery and equipment	1,009,092	43,779	-	1,052,871
Transportation equipment	1,634,044	257,161	92,692	1,798,513
Totals	111,878,656	2,725,778	489,134	114,115,300
Less accumulated depreciation for:				
Buildings	12,582,608	601,767	-	13,184,375
Improvements other than buildings	24,891,945	1,606,746	132,277	26,366,414
Machinery and equipment	347,757	20,620	-	368,377
Transportation equipment	600,061	35,252	4,635	630,678
Totals	38,422,371	2,264,385	136,912	40,549,844
Total capital assets, being depreciated, net	73,456,285	461,393	352,222	73,565,456
Total capital assets, net	\$ 79,365,491	\$ 9,723,044	\$ 492,262	\$ 88,596,273

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 80,987	\$ -	\$ -	\$ 80,987
Construction in progress	<u>12,584,374</u>	<u>21,460,578</u>	<u>2,711,551</u>	<u>31,333,401</u>
 Total capital assets, not being depreciated	 <u>12,665,361</u>	 <u>21,460,578</u>	 <u>2,711,551</u>	 <u>31,414,388</u>
Capital assets, being depreciated:				
Buildings	113,725,549	3,918,597	-	117,644,146
Improvements other than buildings	94,102,678	2,319,082	-	96,421,760
Machinery and equipment	<u>1,937,525</u>	<u>573,395</u>	<u>126,278</u>	<u>2,384,642</u>
 Totals	 <u>209,765,752</u>	 <u>6,811,074</u>	 <u>126,278</u>	 <u>216,450,548</u>
Less accumulated depreciation for:				
Buildings	48,476,630	4,560,609	-	53,037,239
Improvements other than buildings	27,443,834	3,419,639	-	30,863,473
Machinery and equipment	<u>1,162,544</u>	<u>324,684</u>	<u>126,278</u>	<u>1,360,950</u>
 Totals	 <u>77,083,008</u>	 <u>8,304,932</u>	 <u>126,278</u>	 <u>85,261,662</u>
 Total capital assets, being depreciated, net	 <u>132,682,744</u>	 <u>(1,493,858)</u>	 <u>-</u>	 <u>131,188,886</u>
 Total capital assets, net	 <u>\$ 145,348,105</u>	 <u>\$ 19,966,720</u>	 <u>\$ 2,711,551</u>	 <u>\$ 162,603,274</u>

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

Water	\$ 2,264,385
Wastewater	<u>8,304,932</u>
 Total depreciation expense	 <u>\$ 10,569,317</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007	Committed	Required Future Funding
Water lines and plant improvements	\$ 15,440,198	\$ 14,660,667	\$ 779,531	\$ -
Sewer modifications, extensions and treatment plant	<u>53,872,821</u>	<u>31,333,401</u>	<u>22,539,420</u>	<u>-</u>
 Totals	 <u>\$ 69,313,019</u>	 <u>\$ 45,994,068</u>	 <u>\$ 23,318,951</u>	 <u>\$ -</u>

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

D. Interfund Balances and Activity

The composition of interfund balances as of December 31, 2007, is as follows:

<u>Due To</u>	<u>Due From Wastewater Utility</u>
Water Utility	<u>\$ 198,039</u>

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

E. Short-Term Liabilities

The Utilities may use short-term notes and loans to finance a variety of public projects, including various water line and plant improvements.

Short-term debt activity for the year ended December 31, 2007, was as follows:

	<u>Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u>
Water - bond anticipation note	<u>\$ -</u>	<u>\$ 2,819,166</u>	<u>\$ -</u>	<u>\$ 2,819,166</u>

F. Long-Term Liabilities

1. Revenue Bonds

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Unamortized Premium</u>	<u>Less: Unamortized Deferred Loss on Refunding</u>	<u>Amount</u>
2004 Waterworks revenue bonds	3% to 4.625%	\$ 23,885,000	\$ 3,917	\$ -	\$ 23,888,917
2005 Waterworks refunding bonds	3% to 4%	8,105,000	-	(101,152)	8,003,848
1997 Series A Wastewater refunding bonds	5%	4,725,000	19,697	(206,900)	4,537,797
2003 Wastewater refunding bonds	3% to 5%	<u>30,745,000</u>	<u>432,276</u>	<u>(1,921,320)</u>	<u>29,255,956</u>
Totals		<u>\$ 67,460,000</u>	<u>\$ 455,890</u>	<u>\$ (2,229,372)</u>	<u>\$ 65,686,518</u>

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
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	1,370,000	1,121,712	1,465,000	1,461,150
2013-2017	7,670,000	4,771,347	8,935,000	6,285,773
2018-2022	10,385,000	2,923,457	15,960,000	3,554,250
2023-2025	7,520,000	531,540	3,915,000	195,750
Totals	<u>\$ 31,990,000</u>	<u>\$ 14,272,764</u>	<u>\$ 35,470,000</u>	<u>\$ 17,991,410</u>

2. State Revolving Loan Fund

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, 1998, 2004, and 2007 loans established a maximum draw of \$2,059,074, \$14,953,074, \$7,130,000, and \$37,518,000, respectively. At the completion of construction, the outstanding principal balance was amortized over a period of 16 years, 19 years, 20 years, and 20 years, respectively. Annual debt service requirements to maturity for the loans, including interest of \$17,099,619, are as follows:

2008	\$ 4,228,734
2009	4,226,992
2010	4,224,703
2011	4,226,801
2012	4,222,077
2013-2017	20,530,158
2018-2022	16,188,866
2023-2026	<u>12,157,798</u>
Total	<u>\$ 70,006,129</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Revenue bonds payable	\$ 33,165,000	\$ -	\$ 1,175,000	\$ 31,990,000	\$ 1,205,000
Compensated absences	<u>140,416</u>	<u>90,214</u>	<u>-</u>	<u>230,630</u>	<u>48,771</u>
 Total Water Utility long-term liabilities	 <u>\$ 33,305,416</u>	 <u>\$ 90,214</u>	 <u>\$ 1,175,000</u>	 <u>\$ 32,220,630</u>	 <u>\$ 48,771</u>
 Wastewater Utility:					
Revenue bonds payable	\$ 36,625,000	\$ -	\$ 1,155,000	\$ 35,470,000	\$ 1,205,000
State revolving loan	16,106,552	39,785,958	2,986,000	52,906,510	2,528,000
Compensated absences	<u>32,754</u>	<u>110,686</u>	<u>-</u>	<u>143,440</u>	<u>26,934</u>
 Total Wastewater Utility long-term liabilities	 <u>\$ 52,764,306</u>	 <u>\$ 39,896,644</u>	 <u>\$ 4,141,000</u>	 <u>\$ 88,519,950</u>	 <u>\$ 2,554,934</u>

G. Restricted Assets

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

Revenue bond covenant accounts	\$ 29,875,406
Customer deposits cash	970,173
Customer deposits receivable	53,660
Other restricted cash	169,329
Interest receivable	<u>24,836</u>
 Total restricted assets	 <u>\$ 31,093,404</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.

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

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 \$1,980,000 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.

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 \$13,297,044 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

In 2008, the Utility issued bonds in the amount of \$36,000,000 in order to repay the Bond Anticipation Note and for various water projects.

Wastewater Utility

In 2008, the City Council passed Ordinance F2008-04 which provides for a 17.1% rate increase effective September 1, 2008.

The Utility will receive an additional State Revolving Loan in the amount of \$18,452,000 for the completion of various wastewater projects.

C. Rate Structures

1. Water Utility

The current rate structure was approved by the Utility on November 24, 2004. The Utility has 60,403 customers. In 2007, the Utility approved a three tier rate increase effective each January 1 beginning in 2008.

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

2. Wastewater Utility

The current rate structure was approved by the Utility effective May 1, 2007. The Utility has 51,258 customers.

D. Dividend Income

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

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 City, including the Utilities, 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 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.

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 1,502,560
Interest on net pension obligation	(49,882)
Adjustment to annual required contribution	56,845
Annual pension cost	1,509,523
Contributions made	1,335,834
Increase in net pension obligation	173,689
Net pension obligation, beginning of year	(688,033)
Net pension obligation, end of year	\$ (514,344)
Contribution rates:	
City and Utilities	6.25%
Plan members	3%
Actuarial valuation date	07-01-07
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%

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

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-05	\$ 1,165,577	104%	\$ (896,019)
	06-30-06	1,449,980	86%	(688,033)
	06-30-07	1,590,523	88%	(514,344)

F. 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 dollar range, which 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)
07-01-05	\$ 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%)
07-01-07	33,545,348	36,642,152	(3,096,804)	92%	23,096,880	(13%)

WATER AND WASTEWATER UTILITY
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)

As stated in the prior report, 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 \$39,541, although immaterial to the financial statements, has continued to slowly increase over the past six 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)

WATER AND WASTEWATER UTILITY
CITY OF EVANSVILLE
EXIT CONFERENCE

The contents of this report were discussed on August 14, 2008, with Jenny Collins, Deputy Controller; Jeff Merrick, Assistant Director; and Desiree Khayum, Financial Accountant. The officials concurred with our audit findings.