

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

EXAMINATION REPORT

OF

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
VANDERBURGH COUNTY, INDIANA

January 1, 2010 to December 31, 2010



FILED
09/13/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Harry Lawson	01-01-10 to 03-31-10
Director of the Utilities (Interim)	James Garrard	04-01-10 to 12-31-11
Controller	Jenny Collins	01-01-10 to 12-31-11
Mayor	Jonathan Weinzapfel	01-01-08 to 12-31-11
President of the Department of Waterworks Board	Stephen Titzer	01-01-10 to 12-31-11
President of the Common Council	B. J. Watts	01-01-10 to 12-31-11



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities, departments of the City of Evansville, as of and for the year ended December 31, 2010. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Water and Wastewater Utilities, City of Evansville, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Evansville as of December 31, 2010, 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 presents fairly, in all material respects, the respective financial position of the business-type activities for the Water and Wastewater Utilities, as of December 31, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Water and Wastewater Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

August 11, 2011

**WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF NET ASSETS
December 31, 2010**

ASSETS	Water	Wastewater
Current Assets:		
Cash and cash equivalents	\$4,202,923	\$8,410,217
Accounts receivable (net of allowance)	1,210,801	2,890,148
Interest receivable	78	417
Accounts receivable - other	21,948	-
Interfund receivables for services provided and used	300,131	-
Materials and supplies inventory	754,861	126,250
Prepays	6,493	-
Total Current Assets	6,497,235	11,427,032
Non-Current Assets:		
Restricted Assets:		
Bond and interest cash and cash equivalents	3,560,061	4,854,514
Bond and interest investments	187,361	-
Debt service reserve cash and cash equivalents	-	4,875,343
Debt service reserve investments	-	4,290,000
Wastewater treatment plant cash and cash equivalents	-	1,633,606
Construction fund cash and cash equivalents	4,823,267	26,268,253
Consumer meter deposits cash and cash equivalents	967,166	-
Cash with fiscal agent	-	609,655
Retainage cash and cash equivalents	-	8,212
Interest and customer deposits receivable	31,497	22,311
Total Restricted Assets	9,569,352	42,561,894
Deferred Charges		
Unamortized bond issuance costs	1,136,814	1,246,128
Miscellaneous	62,467	2,317,073
Total Deferred Charges	1,199,281	3,563,201
Capital Assets:		
Depreciable capital assets	146,718,172	284,976,513
Less accumulated depreciation	(48,134,280)	(113,661,974)
Sub-totals	98,583,892	171,314,539
Land and improvements to land	370,150	3,317,337
Construction work in progress	12,917,072	23,748,894
Net Capital Assets	111,871,114	198,380,770
Total Assets	\$129,136,982	\$255,932,897
LIABILITIES		
Current Liabilities:		
Accounts payable	\$247,548	\$1,424,984
Accrued sales and gross income taxes	105,571	-
Accrued payroll and withholdings payable	284,485	209,022
Retainage payable	-	943,189
Interfund payables for services provided and used	-	203,671
Intergovernmental payable	-	2,790
Compensated absences	339,849	309,985
Payable from restricted assets:		
Customer deposits	998,390	-
Contracts payable	84,986	3,024,543
Accrued interest	1,430,060	2,002,280
Bonds payable	2,130,000	1,395,000
State revolving fund loans	-	3,491,000
Total Current Liabilities	5,620,889	13,006,464

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, 2010
(Continued)**

LIABILITIES (continued)	<u>Water</u>	<u>Wastewater</u>
Revenue bonds payable, net of unamortized premium, discounts and losses on refunding	61,852,411	57,902,714
State revolving loans payable	-	68,565,240
Payments in lieu of taxes payable to City of Evansville	<u>702,956</u>	<u>-</u>
Total Noncurrent Liabilities	<u>62,555,367</u>	<u>126,467,954</u>
Total Liabilities	<u>\$68,176,256</u>	<u>\$139,474,418</u>
 NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$49,025,517	\$68,272,944
Restricted	8,570,401	41,944,027
Unrestricted	<u>3,364,808</u>	<u>6,241,508</u>
Total Net Assets	<u>\$60,960,726</u>	<u>\$116,458,479</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND NET ASSETS
December 31, 2010

	<u>Water</u>	<u>Wastewater</u>
Operating Revenues:		
Residential	\$9,592,253	\$15,644,645
Commercial and industrial	6,489,691	11,195,701
Fire protection	2,248,098	-
Forfeited discounts	138,052	560,087
Refuse services	-	5,362,411
Tap-on fees	-	371,606
Pretreatment charges	-	290,000
Industrial surcharges and fines	-	457,536
Interfund charges for joint expenses	2,465,498	-
Other	154,215	328,495
	<u>21,087,807</u>	<u>34,210,481</u>
Total Operating Revenues		
Operating Expenses:		
Source of supply	1,299,661	-
Treatment	2,466,645	-
Transmission and distribution	2,175,740	-
Customer accounts	3,089,530	-
Collection system	-	3,484,013
Treatment and disposal	-	5,684,378
Customer service	-	2,566,689
Administrative and general	5,206,749	8,279,169
	<u>14,238,325</u>	<u>20,014,249</u>
Sub-totals		
Depreciation	2,935,452	10,741,650
	<u>17,173,777</u>	<u>30,755,899</u>
Total Operating Expenses		
Net Operating Revenues	<u>3,914,030</u>	<u>3,454,582</u>
Nonoperating Revenues:		
Interest income	10,940	56,064
Other	75,738	-
	<u>86,678</u>	<u>56,064</u>
Totals		
Nonoperating Expenses:		
Interest expense	1,214,033	3,208,966
Amortization	158,140	387,490
Estimated fines from U.S. Environmental Protection Agency	-	490,000
	<u>1,372,173</u>	<u>4,086,456</u>
Totals		
Net Income (Loss) Before Contributions and Transfers	<u>2,628,535</u>	<u>(575,810)</u>
Capital Contributions and (Transfers):		
Contributed Capital	1,003,789	6,558,570
	<u>1,003,789</u>	<u>6,558,570</u>
Totals		
Change In Net Assets	3,632,324	5,982,760
Total Net Assets - Beginning	<u>57,328,402</u>	<u>110,475,719</u>
Adjustment to Net Assets		
Total Net Assets - Ending	<u><u>\$60,960,726</u></u>	<u><u>\$116,458,479</u></u>

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

**WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF CASH FLOWS
December 31, 2010**

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Cash received from customers and users	\$21,051,317	\$34,205,621
Cash paid to suppliers, employees and others	<u>(17,380,073)</u>	<u>(23,540,541)</u>
Net cash from operating activities	<u>3,671,244</u>	<u>10,665,080</u>
Cash flows from capital and related financing activities:		
Proceeds from bond anticipation note	-	892,685
Proceeds from 2010 revenue bonds	-	28,840,000
Proceeds from state revolving fund loans	-	6,372,788
Contributed capital	84,783	4,012,811
Acquisition and construction of capital assets	(4,815,720)	(9,386,725)
Redemption of BAN	-	(3,714,076)
Principal paid on revenue bonds	(1,275,000)	(1,330,000)
Principal paid on state revolving fund loans	-	(3,381,000)
Interest paid on revenue bonds	(2,881,181)	(1,594,725)
Interest paid on state revolving loan	-	(2,186,167)
Bond issuance costs paid	-	(745,981)
Nonoperating revenues	75,738	-
Nonoperating expenses and deferred assets	<u>-</u>	<u>-</u>
Net cash from capital and related financing activities	<u>(8,811,380)</u>	<u>17,779,610</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	135,137,324	42,093,649
Purchase of investments	(135,137,324)	(42,093,649)
Interest income	<u>32,166</u>	<u>3,913</u>
Net (decrease)/increase in cash and cash equivalents	(5,107,970)	28,448,603
Cash and cash equivalents January 1, 2010	<u>18,848,748</u>	<u>22,501,197</u>
Cash and cash equivalents December 31, 2010	<u><u>\$13,740,778</u></u>	<u><u>\$50,949,800</u></u>
Reconciliation of net operating revenues to cash provided from operations:		
Net operating revenues	\$3,914,030	\$3,454,582

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

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF CASH FLOWS
December 31, 2010
(Continued)

	<u>Water</u>	<u>Wastewater</u>
Adjustments to reconcile net operating revenue		
to net cash provided from operating activities:		
Depreciation expense	2,935,452	10,741,650
Miscellaneous nonoperating revenue (expense)	-	(1,170,098)
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable - customer	(106,083)	3,308
Accounts receivable - other	161,171	4,679
Materials and supplies inventory	(754,861)	(126,250)
Interfund receivable	(83,613)	-
Prepaid expenses	73,396	88,650
Customer deposits receivable	(7,965)	-
Increase (decrease) in:		
Accounts payable	(1,343,311)	(1,189,681)
Taxes payable	26,161	-
Accrued payroll and withholdings payable	100,899	77,905
Contracts payable	(788,562)	(1,201,438)
Retainage payable	(467,785)	-
Customer deposits	12,315	-
Interfund payable	-	(12,847)
Intergovernmental payable	-	(5,380)
Net cash provided from operations	<u>\$3,671,244</u>	<u>\$10,665,080</u>
Noncash investing, capital and financing activities:		
Customer accounts written off	\$ 61,934	\$ 89,866
Construction of capital assets on account	134,084	4,690,533
Capital assets transferred from construction in progress	8,069,532	43,683,651
Contributions of lines by developers	919,006	2,545,758

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

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise 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 and administrative costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets

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.

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

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.

Open-end mutual funds are reported at fair value.

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

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

2. 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 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:

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Water Utility:			
Buildings	\$ 750	Composite	2%
Improvements other than buildings	750	Composite	2%
Machinery and equipment	750	Composite	2%
Transportation 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

The 2% composite rate for the Water Utility is required pursuant to an Indiana Utility Regulatory Commission rate order. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are charged to operating expense when incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water and Wastewater Utilities during the current year was \$2,882,577 and \$4,045,448, respectively. Of the amount, \$1,668,544 and \$902,631, respectively was included as part of the cost of capital assets under construction in connection with various water line and plant improvement projects and wastewater modifications and extension projects.

5. Compensated Absences

- a. Sick Leave – Full-time Non-Union Utility employees are awarded 8 sick days per year. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave is paid to employees through cash payments upon retirement to a maximum of 30 days, provided the employee has five years of continuous service.

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

- b. Vacation Leave – Utility employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Employees are expected to use earned vacation time by the end of the next succeeding employment year. Non-union employees can carry over 50% of their annual vacation entitlement for use in the following year. Accumulated vacation leave is paid to employees through cash payments upon death, retirement or termination. If an employee is terminated for cause, all accrued benefits are forfeited.
- c. Compensatory time is available to employees for hours they work beyond 40 hours in a week with approval of the employee's supervisor.

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

- d. Personal Leave – Utility employees earn personal leave at the rate of 3 days per year. Personal leave is not paid to employees upon termination and does not accumulate from year to year.

Vacation and sick leave are accrued when incurred.

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

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2010, the Water and Wastewater Utilities had deposit balances in the amount of \$13,740,778 and \$50,949,800, respectively.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended December 31, 2010, 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>15,448,008</u>	<u>5,538,596</u>	<u>8,069,532</u>	<u>12,917,072</u>
Total capital assets, not being depreciated	<u>15,818,158</u>	<u>5,538,596</u>	<u>8,069,532</u>	<u>13,287,222</u>
Capital assets, being depreciated:				
Buildings	33,761,814	-	-	33,761,814
Improvements other than buildings	99,674,285	10,086,928	211,849	109,549,364
Machinery and equipment	1,135,892	22,132	-	1,158,024
Transportation equipment	<u>2,248,970</u>	<u>-</u>	<u>-</u>	<u>2,248,970</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for:				
Buildings	14,487,905	675,236	-	15,163,141
Improvements other than buildings	29,821,215	2,198,573	211,849	31,807,939
Machinery and equipment	412,155	16,664	-	428,819
Transportation equipment	689,402	44,979	-	734,381
	<u>45,410,677</u>	<u>2,935,452</u>	<u>211,849</u>	<u>48,134,280</u>
Totals				
Total capital assets, being depreciated, net	91,410,284	7,173,608	-	98,583,892
Total capital assets, net	<u>\$107,228,442</u>	<u>\$ 12,712,204</u>	<u>\$ 8,069,532</u>	<u>\$ 111,871,114</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 80,987	\$ 3,236,350	\$ -	\$ 3,317,337
Construction in progress	52,787,859	14,644,687	43,683,652	23,748,894
	<u>52,868,846</u>	<u>17,881,037</u>	<u>43,683,652</u>	<u>27,066,231</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	124,719,417	275,063	-	124,994,480
Improvements other than buildings	112,717,174	43,825,730	273,281	156,269,623
Machinery and equipment	3,571,711	140,699	-	3,712,410
	<u>241,008,302</u>	<u>44,241,492</u>	<u>273,281</u>	<u>284,976,513</u>
Totals				
Less accumulated depreciation for:				
Buildings	62,436,138	4,983,869	-	67,420,007
Improvements other than buildings	38,710,844	5,136,709	-	43,847,553
Machinery and equipment	1,773,336	621,078	-	2,394,414
	<u>102,920,318</u>	<u>10,741,656</u>	<u>-</u>	<u>113,661,974</u>
Totals				
Total capital assets, being depreciated, net	138,087,984	33,499,836	273,281	171,314,539
Total capital assets, net	<u>\$190,956,830</u>	<u>\$ 51,380,873</u>	<u>\$ 43,956,933</u>	<u>\$ 198,380,770</u>

Depreciation expense was charged to functions/programs of the Utility for 2010 as follows:

	<u>2010</u>
Water	\$ 2,935,452
Wastewater	<u>10,741,656</u>
Total depreciation expense	<u>\$ 13,677,108</u>

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

C. Construction Commitments

At December 31, 2010 construction work in progress was composed of the following:

<u>Project</u>	<u>2010</u>	
	<u>Expended to December 31,</u>	<u>Committed</u>
Water lines and plant improvements	\$ 12,917,072	\$ 3,478,248
Sewer modifications, extensions and treatment plant	23,748,894	50,913,659
Totals	<u>\$ 36,665,966</u>	<u>\$ 54,391,907</u>

D. Interfund Receivables and Payables

As of December 31, 2010 the Wastewater Utility owed the Water Utility \$203,671, and the county owed Water \$96,460 for reimbursement of Geographical Information System expenditures. The Water Utility also carried a long-term liability for Payments in Lieu of Tax to the City of Evansville for \$702,956. The Water Utility does not anticipate paying the Payments in Lieu of Tax in 2011 or 2012. The City is not accruing interest on the unpaid Payments in Lieu of Tax.

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 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Balance at December 31</u>	<u>Less: Unamortized (Premium) Discount</u>	<u>Less: Deferral on Refunding</u>	<u>Amount</u>
2004 Waterworks revenue bonds	3.625% to 4.625%	\$ 22,285,000	\$ (3,205)	\$ -	\$ 22,288,205
2005 Waterworks refunding bonds	3.30% to 4%	5,985,000	-	67,435	5,917,565
2008 Waterworks revenue bonds	4.125% to 4.875%	36,000,000	223,359	-	35,776,641
1997 Wastewater refunding bonds Series A	5%	1,285,000	-	51,725	1,233,275
2003 Wastewater refunding bonds	3.5% to 5%	30,385,000	(351,224)	1,561,072	29,175,152
2010 Wastewater revenue bonds - Series B-1	3.2% to 6.5%	27,450,000	(49,287)	-	27,499,287
2010 Wastewater revenue bonds - Series B-1	1.25% to 2.5%	1,390,000	-	-	1,390,000
Total		<u>\$ 124,780,000</u>	<u>\$ (180,357)</u>	<u>\$ 1,680,232</u>	<u>\$ 123,280,125</u>

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

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

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2011	\$ 2,130,000	\$ 2,820,738	\$ 1,395,000	\$ 2,423,112
2012	2,205,000	2,739,828	2,230,000	2,992,780
2013	2,290,000	2,653,584	2,150,000	2,924,617
2014	2,375,000	2,562,076	2,580,000	2,846,680
2015	2,470,000	2,465,964	2,670,000	2,747,637
2016 - 2020	13,920,000	10,698,941	17,195,000	11,779,076
2021 - 2025	17,225,000	7,298,938	18,315,000	6,807,620
2026 - 2030	21,655,000	2,736,681	11,420,000	3,063,995
2031 - 2035	-	-	2,555,000	166,075
Totals	\$ 64,270,000	\$ 33,976,750	\$ 60,510,000	\$ 35,751,592

2. State Revolving Loans Payable

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of various wastewater rehabilitation projects. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The 2010 and 2009 loans established a maximum draw of \$7,120,000 and \$27,750,000, respectively. As of December 31, 2010, the loan principal amount drawn for the 2010 and 2009 loans were \$766,514 and \$9,062,216, respectively. Annual debt service requirements for the 2010 and 2009 loan will not be determined until planned construction projects are completed.

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of improvements and extensions to the Wastewater Utility. Funds were loaned to the Wastewater Utility as construction costs accrued to the maximum allowed. The 1993, 1998, 2004, 2007 and 2008 loans established a maximum draw of \$2,059,074, \$14,953,074, \$7,130,000, \$37,518,000 and \$18,452,000, respectively. At the completion of construction, the outstanding principal balance was amortized over a period of sixteen years, nineteen years, twenty years and twenty years, respectively. Annual debt service requirements to maturity for the loans, including interest of \$19,090,945, are as follows:

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

2011	\$	5,500,695
2012		5,495,663
2013		5,497,216
2014		5,351,003
2015		5,348,788
2016- 2020		24,636,189
2021 - 2025		21,568,212
2026 - 2030		<u>6,861,594</u>
Totals	\$	<u>80,259,360</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

<u>2010</u>	<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	\$ 65,545,000	\$ -	\$ 1,275,000	\$ 64,270,000	\$ 2,130,000
Payments in lieu of taxes	702,956	-	-	702,956	-
Compensated absences	<u>339,849</u>	<u>-</u>	<u>-</u>	<u>339,849</u>	<u>39,873</u>
Total Long-term liabilities	<u>\$ 66,587,805</u>	<u>\$ -</u>	<u>\$ 1,275,000</u>	<u>\$ 65,312,805</u>	<u>\$ 2,169,873</u>
Wastewater Utility:					
Revenue bonds payable	\$ 35,821,391	\$ 29,732,685	\$ 5,044,076	\$ 60,510,000	\$ 1,395,000
State revolving loan (As restated)	69,064,452	6,372,788	3,381,000	72,056,240	3,491,000
Compensated absences	<u>309,986</u>	<u>-</u>	<u>-</u>	<u>309,986</u>	<u>35,883</u>
Total Long-term liabilities	<u>\$ 105,195,829</u>	<u>\$ 36,105,473</u>	<u>\$ 8,425,076</u>	<u>\$ 132,876,226</u>	<u>\$ 4,921,883</u>

F. Restricted Assets

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

	<u>2010</u>
Revenue bond covenant accounts	\$ 50,492,405
Customer deposits cash	967,166
Customer deposits receivable	31,209
Other restricted cash	617,867
Interest receivable	<u>22,599</u>
Total restricted assets	<u>\$ 52,131,246</u>

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

III. Other Information

A. Risk Management

The City, including the Utilities, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters. Information is not available to segregate the Utilities' portion.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to; and natural disasters are covered by commercial insurance from independent third parties. The City, including the Utilities, is self-insured for the first \$100,000 to \$150,000 of claims depending on the type of loss.

Torts; Theft of, Damage to, and Destruction of Assets; Errors and Omissions; Job Related Illnesses or Injuries to Employees; and Natural Disasters

The City, including the Utilities, has chosen to establish three risk financing funds for risks associated with torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters. The risk financing funds are accounted for in the City's Liability Insurance Fund, Auto Collision Fund, and the Workers' Compensation Fund, internal service funds, where assets are set aside for claim settlements. The City, including the Utilities, is self-insured for the first \$100,000 to \$150,000 per incident depending on the type of loss. Also all claims in excess of \$2,052,500 per year are covered by commercial insurance. Interfund premiums are paid into the funds by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external transactions.

Medical Benefits to Employees, Retirees, and Dependents

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with Medical benefits to employees, retirees and dependents. Coverage is provided for life insurance, dental, health care management, vision, prescription, wellness, and employee assistance. The risk financing fund is accounted for in the City's Hospitalization Fund, an internal service fund, where assets are set aside for claim settlements. The City, including the Utilities, purchases commercial insurance for claims in excess of coverage provided by the fund. Amounts are paid into the health insurance fund by all funds from which payroll is paid. The amounts paid by each fund are based on an amount per employee in that fund.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on September 26, 2007. The Utility has approximately 60,615 customers.

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

2. Wastewater Utility - Rate Increase

In 2010, the Wastewater Utility approved a rate ordinance allowing for an increase in rates to be phased in over a period of time. Phase I of the increase is a 9% increase over the present rates and charges to be effective January 1, 2011, and Phase II of the increase is an 11% increase over the Phase I rates and charges to be effective January 1, 2012. The Utility has approximately 51,715 customers.

C. Dividend Income

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

D. Subsequent Events

In July, 2011 the Wastewater Utility paid \$420,000 to the Department of Justice and \$70,000 to the Indiana Department of Environmental Management as ordered in the Clean Water Act lawsuit settlement consent decree in 2010.

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 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

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

Funding Policy

The Board of Trustees of PERF establishes the contribution requirements of plan members for PERF. The total contributions made to PERF by the Utilities during the period were \$727,885.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole.

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
EXAMINATION RESULT AND COMMENT

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 August 11, 2011, with James Garrard, Interim Director of the Utilities, and David Heuck, Accountant.