

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

ANNUAL FINANCIAL REPORT

2011

WATER, WASTEWATER, AND ELECTRIC UTILITIES

CITY OF AUBURN

DEKALB COUNTY, INDIANA



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TABLE OF CONTENTS

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

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia M. Miller	01-01-08 to 12-31-15
Mayor	Norman E. Yoder	01-01-08 to 12-31-15
President of the Board of Public Works and Safety	Norman E. Yoder	01-01-11 to 12-31-12
President of the Common Council	Richard L. Stahly	01-01-11 to 12-31-12
Superintendent of Electric Utility	Stuart Tuttle	01-01-11 to 12-31-12
Superintendent of Water Utility	Randy Harvey	01-01-11 to 12-31-12
Superintendent of Wastewater Utility	David Lochner	01-01-11 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER, WASTEWATER, AND ELECTRIC UTILITIES, CITY OF AUBURN, DEKALB COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the, Water, Wastewater, and Electric Utilities, departments of the City of Auburn, as of and for the year ended December 31, 2011, which collectively comprise the Utilities' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

As discussed in Note I, the financial statements of the Water, Wastewater, and Electric Utilities, City of Auburn, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Auburn as of December 31, 2011, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water, Wastewater, and Electric Utilities, as of December 31, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress as listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

STATE BOARD OF ACCOUNTS

March 7, 2012

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
STATEMENT OF NET ASSETS
December 31, 2011

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 169,939	\$ 1,125,217	\$ 3,026,344
Accounts receivable (net of allowance)	84,387	206,443	430,845
Inventories	68,403	-	560,497
Prepaid items	5,881	11,097	13,393
Total current assets	328,610	1,342,757	4,031,079
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation	1,348,235	1,686,054	1,696,164
Bond and interest	10,619	643,974	720
Construction	-	-	965,382
Debt service reserve	199,670	1,352,288	-
Cash reserve	-	20,700	81,317
Improvement	-	1,017,811	-
Customer deposits	53,112	49,424	140,741
Total restricted assets	1,611,636	4,770,251	2,884,324
Deferred charges	76,219	20,887	344,698
Capital assets:			
Land, improvements to land and construction in progress	1,097,244	19,248,800	7,124,571
Other capital assets (net of accumulated depreciation)	13,868,566	29,388,079	21,130,780
Total capital assets	14,965,810	48,636,879	28,255,351
Total noncurrent assets	16,653,665	53,428,017	31,484,373
Total assets	16,982,275	54,770,774	35,515,452
Liabilities			
Current liabilities:			
Accounts payable	40,675	54,914	2,377,390
Taxes payable	-	-	7,598
Wages payable	17,687	25,784	32,144
Other payable	-	-	339,152
Compensated absences	23,276	33,849	52,316
Current liabilities payable from restricted assets:			
Customer deposits	53,112	49,424	140,741
Accrued interest payable	-	223,974	16,640
Bond anticipation note	-	5,000,000	-
Revenue bonds payable	226,890	-	-
State Revolving Fund loan payable	-	850,000	-
Total current liabilities	361,640	6,237,945	2,965,981
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized premium)	1,632,645	-	3,380,000
State Revolving Fund loan payable	-	16,206,669	-
Total noncurrent liabilities	1,632,645	16,206,669	3,380,000
Total liabilities	1,994,285	22,444,614	6,345,981
Net Assets			
Invested in capital assets, net of related debt	13,106,275	26,580,210	24,875,351
Restricted for debt service	210,289	1,763,288	(15,920)
Restricted for other purposes	1,348,235	2,724,565	2,742,863
Unrestricted	323,191	1,258,097	1,567,177
Total net assets	\$ 14,987,990	\$ 32,326,160	\$ 29,169,471

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2011

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Operating revenues:			
Metered water revenue:			
Residential	\$ 1,043,586	\$ -	\$ -
Commercial	327,882	-	-
Industrial	490,696	-	-
Residential sales	-	-	4,158,109
Commercial and industrial sales	-	-	22,588,120
Public street and highway lighting	-	-	166,403
Fire protection revenue	127,343	-	-
Penalties	12,484	35,409	81,072
Flat rate revenues	-	99,237	-
Measured revenue:			
Residential	-	2,138,921	-
Commercial	-	1,999,822	-
Network service fees	-	-	1,010,718
Other	<u>60,168</u>	<u>257,681</u>	<u>393,740</u>
 Total operating revenues	 <u>2,062,159</u>	 <u>4,531,070</u>	 <u>28,398,162</u>
 Operating expenses:			
Salaries and wages	705,649	1,028,295	1,291,147
Employee benefits	251,787	342,943	458,525
Materials and supplies	76,505	194,680	158,301
Maintenance	207,432	167,904	-
Purchased power	227,974	230,229	25,190,821
Chemicals	13,252	266,924	-
Contractual services	44,832	185,981	402,369
Transmission and distribution	-	-	468,866
Network service expense	-	-	527,481
Transportation expense	30,027	16,090	-
Insurance	28,158	53,696	63,860
Depreciation	282,752	506,004	1,159,691
Utility receipts tax	27,051	-	388,676
Payment in lieu of taxes	81,000	165,000	115,020
Bad debt expense	1,516	2,578	40,993
Miscellaneous expense	<u>31,078</u>	<u>55,585</u>	<u>350,546</u>
 Total operating expenses	 <u>2,009,013</u>	 <u>3,215,909</u>	 <u>30,616,296</u>
 Operating income (loss)	 <u>53,146</u>	 <u>1,315,161</u>	 <u>(2,218,134)</u>
 Nonoperating revenues (expenses):			
Interest and investment revenue	2,122	6,302	64,502
Miscellaneous revenue	12,487	10,648	176,329
Interest expense	(68,060)	(159,019)	(73,017)
Amortization of deferred charges	<u>(10,888)</u>	<u>(3,797)</u>	<u>(8,712)</u>
 Total nonoperating revenues (expenses)	 <u>(64,339)</u>	 <u>(145,866)</u>	 <u>159,102</u>
 Income (loss) before contributions and transfers	 (11,193)	 1,169,295	 (2,059,032)
Capital contributions	<u>195,628</u>	<u>-</u>	<u>669,644</u>
 Change in net assets	 184,435	 1,169,295	 (1,389,388)
Total net assets - beginning	<u>14,803,555</u>	<u>31,156,865</u>	<u>30,558,859</u>
Total net assets - ending	<u>\$ 14,987,990</u>	<u>\$ 32,326,160</u>	<u>\$ 29,169,471</u>

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2011

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,049,340	\$ 4,520,621	\$ 28,271,602
Payments to suppliers and contractors	(827,820)	(1,696,872)	(28,292,182)
Payments to employees	(960,804)	(1,030,153)	(1,287,041)
Other receipts	12,487	10,648	176,329
	<u>273,203</u>	<u>1,804,244</u>	<u>(1,131,292)</u>
Net cash provided (used) by operating activities			
Cash flows from capital and related financing activities:			
Proceeds from capital debt	-	4,241,028	3,380,000
Acquisition and construction of capital assets	(232,545)	(4,395,616)	(2,927,042)
Capital contributions	195,628	-	669,644
Principal paid on capital debt	(213,540)	(820,000)	-
Interest paid on capital debt	(78,970)	(308,028)	(56,377)
Bond issue costs paid	-	-	(124,935)
	<u>(329,427)</u>	<u>(1,282,616)</u>	<u>941,290</u>
Net cash provided (used) by capital and related financing activities			
Cash flows from investing activities:			
Interest received	2,122	6,302	64,502
	<u>2,122</u>	<u>6,302</u>	<u>64,502</u>
Net increase (decrease) in cash and cash equivalents			
	(54,102)	527,930	(125,500)
Cash and cash equivalents, January 1			
	<u>1,835,677</u>	<u>5,367,538</u>	<u>6,036,168</u>
Cash and cash equivalents, December 31			
	<u>\$ 1,781,575</u>	<u>\$ 5,895,468</u>	<u>\$ 5,910,668</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 53,146	\$ 1,315,161	\$ (2,218,134)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	282,752	506,004	1,159,691
Miscellaneous nonoperating revenues	12,487	10,648	176,329
Miscellaneous nonoperating expenses	-	-	-
(Increase) decrease in assets:			
Accounts receivable	(12,819)	(10,449)	(126,560)
Inventories	(6,260)	-	174,978
Prepaid items	286	185	(450)
Increase (decrease) in liabilities:			
Accounts payable	(39,893)	(21,837)	(31,235)
Taxes payable	(10,198)	-	(64,726)
Wages payable	439	2,483	3,246
Other payable	-	-	(235,401)
Compensated absence payable	(3,807)	(4,341)	860
Customer deposits	(2,930)	6,390	30,110
	<u>220,057</u>	<u>489,083</u>	<u>1,086,842</u>
Total adjustments	<u>220,057</u>	<u>489,083</u>	<u>1,086,842</u>
Net cash provided by operating activities	<u>\$ 273,203</u>	<u>\$ 1,804,244</u>	<u>\$ (1,131,292)</u>
Noncash investing, capital and financing activities:			
Capital asset acquisitions included in accounts payable	\$ -	\$ -	\$ 339,637

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

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Auburn (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, 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 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 receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

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 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.

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
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. Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

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

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

The financial statements report \$ 9,266,211 of restricted assets, of which all is restricted by enabling legislation.

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	Estimated Useful Life
Buildings	\$ 1,000	Composite	1.5% to 3.0%
Improvements other than buildings	1,000	Composite	1.5% to 3.0%
Machinery and equipment	1,000	Composite	1.5% to 3.0%
Transportation equipment	1,000	Composite	1.5% to 3.0%

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
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.

5. Compensated Absences

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

Vacation leave is accrued when incurred.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2011, the Utilities had deposit balances in the amount of \$13,587,711.

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.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

<u>2011 Water Utility</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 735,068	\$ -	\$ -	\$ 735,068
Construction in progress	129,631	232,545	-	362,176
Total capital assets, not being depreciated	864,699	232,545	-	1,097,244
Capital assets, being depreciated:				
Buildings	3,532,927	-	22,250	3,510,677
Improvements other than buildings	13,746,336	-	-	13,746,336
Machinery and equipment	1,298,851	22,250	-	1,321,101
Transportation equipment	272,050	-	-	272,050
Totals	18,850,164	22,250	22,250	18,850,164
Less accumulated depreciation	(4,698,846)	(282,752)	-	(4,981,598)
Total capital assets, being depreciated, net	14,151,318	(260,502)	22,250	13,868,566
Total capital assets, net	<u>\$ 15,016,017</u>	<u>\$ (27,957)</u>	<u>\$ 22,250</u>	<u>\$ 14,965,810</u>
<u>2011 Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 377,757	\$ -	\$ -	\$ 377,757
Construction in progress	14,329,915	4,541,128	-	18,871,043
Total capital assets, not being depreciated	14,707,672	4,541,128	-	19,248,800
Capital assets, being depreciated:				
Buildings	6,288,738	-	-	6,288,738
Improvements other than buildings	23,781,254	2,604	-	23,783,858
Machinery and equipment	10,506,924	41,271	-	10,548,195
Transportation equipment	321,214	58,995	-	380,209
Totals	40,898,130	102,870	-	41,001,000
Less accumulated depreciation:	(11,106,917)	(506,004)	-	(11,612,921)
Total capital assets, being depreciated, net	29,791,213	(403,134)	-	29,388,079
Total capital assets, net	<u>\$ 44,498,885</u>	<u>\$ 4,137,994</u>	<u>\$ -</u>	<u>\$ 48,636,879</u>

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

<u>2011 Electric Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 701,589	\$ -	\$ -	\$ 701,589
Construction in progress	<u>8,054,952</u>	<u>-</u>	<u>1,631,970</u>	<u>6,422,982</u>
Total capital assets, not being depreciated	<u>8,756,541</u>	<u>-</u>	<u>1,631,970</u>	<u>7,124,571</u>
Capital assets, being depreciated:				
Buildings	3,136,945	-	599,624	2,537,321
Improvements other than buildings	26,947,483	561,358	-	27,508,841
Machinery and equipment	2,610,744	4,784,901	-	7,395,645
Transportation equipment	<u>1,576,109</u>	<u>152,014</u>	<u>-</u>	<u>1,728,123</u>
Totals	<u>34,271,281</u>	<u>5,498,273</u>	<u>599,624</u>	<u>39,169,930</u>
Less accumulated depreciation:	<u>(16,879,459)</u>	<u>(1,159,691)</u>	<u>-</u>	<u>(18,039,150)</u>
Total capital assets, being depreciated, net	<u>17,391,822</u>	<u>4,338,582</u>	<u>599,624</u>	<u>21,130,780</u>
Total capital assets, net	<u>\$ 26,148,363</u>	<u>\$ 4,338,582</u>	<u>\$ 2,231,594</u>	<u>\$ 28,255,351</u>

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

	<u>2011</u>
Water	\$ 282,752
Wastewater	506,004
Electric	<u>1,159,691</u>
Total depreciation expense	<u>\$ 1,948,447</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2011 Expended to December 31</u>
Water Utility:	
Westside Main	2,446
SCADA	29,774
Water Main Rest Park	328,272
AMI Project	<u>1,684</u>
Total for Water Utility	<u>362,176</u>

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

<u>Project</u>	<u>2011</u> <u>Expended to</u> <u>December 31</u>
Wastewater Utility:	
Wastewater LTCP	18,835,450
Sewer Separation	3,493
Southeast Sewer Separation	17,100
Lift Station CR 48 & Auburn Dr.	15,000
Total for Wastewater Utility	18,871,043
Electric Utility:	
AES Phase II	\$ 398,040
AES Phase III	5,588,586
SmartGrid	380,192
11A Project	8,929
CR 35 Construction	22,180
AES NISC SIS	25,055
Total for Electric Utility	6,422,982
Totals	\$ 25,656,201

D. Short-Term Liabilities

The Utilities may use short-term notes and loans to finance a variety of public projects.

Short-term debt activity for the year ended December 31, 2011, was as follows:

2011	Beginning Balance	Issued/ Draws	Redeemed Repayments	Ending Balance
Wastewater Utility:				
SRF Bond Anticipation Note	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000

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:

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

Purpose	Interest Rates	Balance at December 31	Add: Unamortized Premium	Amount
Water Utility:				
2010 Waterworks refunding revenue bonds	3.80%	\$ 1,783,160	\$ 76,375	\$ 1,859,535
Electric Utility:				
2011 Electric refunding revenue bonds	2.0 to 4.75%	<u>3,380,000</u>	-	<u>3,380,000</u>
Totals		<u>\$ 5,163,160</u>	<u>\$ 76,375</u>	<u>\$ 5,239,535</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Electric Utility	
	Principal	Interest	Principal	Interest
2012	\$ 226,890	\$ 65,625	\$ -	\$ 95,195
2013	235,600	56,921	-	134,922
2014	244,640	47,883	-	134,922
2015	254,010	38,499	150,000	133,422
2016	263,760	28,754	155,000	129,985
2017-2021	558,260	26,767	830,000	576,921
2022-2026	-	-	1,005,000	401,808
2027-2031	-	-	<u>1,240,000</u>	<u>151,553</u>
Totals	<u>\$ 1,783,160</u>	<u>\$ 264,449</u>	<u>\$ 3,380,000</u>	<u>\$ 1,758,728</u>

2. Loans Payable

During 1995 and 2009 the Utilities entered into finance assistance agreements with the State of Indiana's Wastewater Revolving Loan program that allow for a maximum of \$6,600,000 and \$15,470,000, in 1995 and 2009, respectively, for improvements at the Wastewater treatment facility and sewer separation. At December 31, 2011, \$6,600,000 and \$13,336,669, had been drawn down against the 1995 and 2009 agreement, resulting in unissued loan principal of \$2,133,331. The Utilities do not intend to draw any more funds against the 1995 agreement. The following debt service requirements to maturity reflect the anticipated loan payments after the loans have been drawn down 100 percent.

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

	<u>Principal</u>	<u>Interest</u>
Wastewater Utility:		
2012	\$ 850,000	\$ 491,463
2013	875,000	464,425
2014	910,000	436,581
2015	945,000	407,557
2016	970,000	377,581
2017-2021	4,670,000	1,500,640
2022-2026	5,350,000	889,695
2027-2030	4,195,000	209,455
Principal not drawn down	<u>(1,708,331)</u>	<u>-</u>
Totals	<u>\$ 17,056,669</u>	<u>\$ 4,777,397</u>

3. Advance Refunding

In prior year, the Utilities defeased the 2000 Waterworks revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utilities' financial statements. The following outstanding bonds, at December 31, 2011, were considered defeased:

	<u>2011</u>
Water Utility:	
2000 Waterworks revenue bonds	<u>\$ 2,515,000</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

<u>2011</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Revenue bond payable	<u>\$ 1,996,700</u>	<u>\$ 1,783,160</u>	<u>\$ 1,996,700</u>	<u>\$ 1,783,160</u>	<u>\$ 226,890</u>
Wastewater Utility:					
SRF loans payable	<u>\$ 13,635,641</u>	<u>\$ 4,241,028</u>	<u>\$ 820,000</u>	<u>\$ 17,056,669</u>	<u>\$ 850,000</u>
Electric Utility:					
Revenue bond payable	<u>\$ -</u>	<u>\$ 3,380,000</u>	<u>\$ -</u>	<u>\$ 3,380,000</u>	<u>\$ -</u>

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

F. Restricted Assets

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

	Water Utility	Wastewater Utility	Electric Utility
Depreciation	\$ 1,348,235	\$ 1,686,054	\$ 1,696,164
Bond and interest	10,619	643,974	720
Construction	-	-	965,382
Debt service reserve	199,670	1,352,288	-
Cash reserve	-	20,700	81,317
Improvement	-	1,017,811	-
Customer deposits	53,112	49,424	140,741
Total restricted assets	\$ 1,611,636	\$ 4,770,251	\$ 2,884,324

G. Revenues Pledged

1. Water Utility Revenues Pledged

The Utilities have pledged future water revenues, net of specified operating expenses, to repay revenue bonds issued in 2010. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and are payable through 2019. Annual principal and interest payments on the bonds are expected to require less than 14 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,047,609. Principal and interest paid for the current year and total net revenues were \$292,511 and \$2,062,159, respectively.

2. Wastewater Utility Revenues Pledged

The Utilities have pledged future wastewater revenues, net of specified operating expenses, to repay revenue bonds issued in 1995 and 2009, respectively. Proceeds from the bonds provided financing for Wastewater collection and treatment system improvements. The bonds are payable solely from wastewater net revenues and are payable through 2017 and 2030, respectively. Annual principal and interest payments on the bonds are expected to require less than 25 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$21,834,066. Principal and interest paid for the current year and total net revenues were \$1,143,096 and \$4,531,070, respectively.

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.

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties.

The City, including the Utilities, has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. The City purchases commercial insurance for claims in excess of coverage provided by the fund. Amounts are paid into the Self-Insurance Fund by all funds from which payroll is paid. The amounts paid by each fund are determined by a percentage of total payroll to the payroll paid from that fund.

During 2003, the City, including the Utilities, joined with other governmental entities in the Indiana Public Employers Plan, a public entity risk pool currently operating as a common risk management and insurance program for 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illness or injury (workers' comp). The City pays an annual premium to the risk pool for its job related illness or injury (workers' comp) coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$ 1,000,000 limit.

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. Subsequent Events

On January 26, 2012, the City awarded contracts for Electric Utility fiber installation (Turnkey - \$1,850,351 and OnTrac - \$339,838).

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 11, 2000.

2. Wastewater Utility

The current rate structure was approved by the City Council on September 8, 2009.

3. Electric Utility

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

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

D. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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 this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) 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 members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS 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. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

PERF members are required to contribute 3 percent of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 10.25 percent of annual covered payroll. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

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

Annual Pension Cost

For 2011, the Utility's annual pension cost of \$472,041 for PERF was equal to the City's required and actual contributions.

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 473,096
Interest on net pension obligation	6,972
Adjustment to annual required contribution	(8,027)
Annual pension cost	472,041
Contributions made	316,662
Increase (decrease) in net pension obligation	155,379
Net pension obligation, beginning of year	99,602
Net pension obligation, end of year	\$ 254,981
Contribution rates:	
Government	10.25%
Plan members	3%
Actuarial valuation date	07-01-11
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar, closed amortization period
Amortization period	30 years
Amortization period (from date)	07-01-11
Asset valuation method	4-year smoothing of gains/losses on market value with 20% corridor
Actuarial Assumptions	PERF
Investment rate of return	7.00%
Projected future salary increases:	
Total	3.25% to 4.5%
Cost-of-living adjustments	1.50%

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

Three Year Trend Information				
	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-09	\$ 306,960	98%	\$ 44,822
	06-30-10	361,747	85%	99,602
	06-30-11	472,041	67%	254,981

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of June 30, 2011, the most recent actuarial valuation date, is as follows:

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
Retirement Plan	\$ 3,849,105	\$ 7,818,291	\$ 3,969,186	49%	\$ 4,203,691	94%

The Schedule of Funding Progress, presented as RSI for the above plans following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

Public Employees Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-09	\$ 4,834,772	\$ 6,644,618	\$ (1,809,846)	73%	\$ 3,908,025	46%
07-01-10	4,693,029	7,530,624	(2,837,595)	62%	4,104,477	69%
07-01-11	3,849,105	7,818,291	(3,969,186)	49%	4,203,691	94%

WATER, WASTEWATER, AND ELECTRIC UTILITIES
CITY OF AUBURN
EXIT CONFERENCE

The contents of this report were discussed on March 7, 2012, with Patricia M. Miller, Clerk-Treasurer; Richard L. Stahly, President of the Common Council; and Norman E. Yoder, Mayor. Our audit disclosed no material items that warrant comment at this time.