

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

FINANCIAL STATEMENTS AUDIT REPORT
OF

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
VANDERBURGH COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
12/12/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Utilities	Allen Mounts	01-01-15 to 12-31-16
Chief Financial Officer of Utilities	Jenny Collins	01-01-15 to 12-31-16
President of the Department of Waterworks Board	W. Harold Calloway Robert R. Dillow	01-01-15 to 12-31-15 01-01-16 to 12-31-16
Mayor	Lloyd Winnecke	01-01-12 to 12-31-19
President of the Common Council	Dr. H. Dan Adams Missy Mosby	01-01-15 to 12-31-15 01-01-16 to 12-31-16
Controller	Russell G. Lloyd Jr., CPA	01-01-15 to 12-31-16



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 (City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the 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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Utilities. They do not purport to, and do not, present fairly the financial position of the City of Evansville as of December 31, 2015, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Water and Wastewater Utilities, departments of the City of Evansville, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter


As discussed in Note II H to the financial statements, the Utilities have adopted new accounting guidance, GASB Statement 68 *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter,

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer Contribution, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.


Paul D. Joyce, CPA
State Examiner

November 22, 2016

BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Utilities. The financial statements and notes are presented as intended by the Utilities.

WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
STATEMENT OF NET POSITION
December 31, 2015

ASSETS	Water	Wastewater
Current Assets:		
Operating cash and cash equivalents	\$2,530,555	\$5,143,383
Restricted Assets:		
Bond and interest cash and cash equivalents	90,952	8,963,574
Debt service reserve cash and cash equivalents	1,164,065	4,163,316
Improvement fund cash and cash equivalents	347,011	-
Wastewater treatment plant cash and cash equivalents	-	6,249,944
Construction fund cash and cash equivalents	12,391,463	21,455,218
Cash with fiscal agent cash and cash equivalents	-	1,434,646
Consumer meter deposits cash and cash equivalents	1,296,637	-
Accounts receivable (net of allowance)	1,623,491	4,535,941
Accounts receivable - other	219,974	-
Interfund receivables for services provided and used	593,673	-
Materials and supplies inventory	867,855	308,542
Due from other	-	76,884
Prepays	68,992	1,457,125
Total Current Assets	21,194,668	53,788,573
Non-Current Assets:		
Restricted Assets:		
Debt service reserve investments	3,181,898	11,325,000
Construction fund investments	-	5,408,772
BAB debt service subsidy receivable	-	236,818
Other receivable	-	2,338
Interest and customer deposits receivable	42,438	91,758
Total Restricted Assets	3,224,336	17,064,686
Capital Assets:		
Depreciable capital assets	178,412,977	378,459,607
Less accumulated depreciation	(64,630,377)	(168,434,219)
Sub-totals	113,782,600	210,025,388
Land and improvements to land	432,435	3,779,669
Construction work in progress	23,887,919	90,554,242
Net Capital Assets	138,102,954	304,359,299
Total Noncurrent Assets	141,327,290	321,423,985
Total Assets	\$162,521,958	\$375,212,558
DEFERRED OUTFLOWS OF RESOURCES		
Regulatory Assets	\$1,711,095	\$1,691,380
Defined Benefit Pension Deferred Outflows	2,357,549	1,803,246
Deferred Amount on Refunding	1,019,036	1,074,048
Total Deferred Outflows of Resources	\$5,087,680	\$4,568,674
Total Assets and Deferred Outflows	\$167,609,638	\$379,781,232
LIABILITIES		
Current Liabilities:		
Accounts payable	\$672,968	\$782,125
Accrued sales and gross income taxes	133,909	-
Accrued payroll and withholdings payable	341,735	243,043
Net Pension Liability	5,214,330	4,039,711
Interfund payables for services provided and used	-	444,874
Intergovernmental payable	-	2,790
Compensated absences	485,993	482,231
Payable from restricted assets:		
Customer deposits	1,323,223	-
Contracts payable	970,846	5,756,970
Retainage payable	358,370	1,845,110
Accrued interest	-	2,428,909
Bonds payable	-	5,275,000
State revolving fund loans	-	5,221,000
Total Current Liabilities	9,501,374	26,521,763
Noncurrent Liabilities:		
Revenue bonds payable, net of unamortized premium and discounts	96,017,294	103,037,931
State revolving loans payable	-	121,331,733
Bond anticipation note payable	-	2,900,000
Payments in lieu of taxes payable to City of Evansville	702,956	-
Total Noncurrent Liabilities	96,720,250	227,269,664
Total Liabilities	\$106,221,624	\$253,791,427
DEFERRED INFLOWS OF RESOURCES		
Defined Benefit Pension Deferred Inflows	578,879	448,476
Total Liabilities and Deferred Inflows	\$106,800,503	\$254,239,903
NET POSITION		
Invested in Capital Assets, Net of Related Debt	\$57,207,254	\$96,223,053
Restricted	34,902	19,751,464
Unrestricted	3,566,979	9,566,812
Total Net Position	\$60,809,135	\$125,541,329

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 CHANGES IN NET POSITION
December 31, 2015**

	<u>Water</u>	<u>Wastewater</u>
Operating Revenues:		
Residential	\$11,188,398	\$23,072,018
Industrial	3,212,321	5,067,978
Commercial	4,872,646	13,959,771
Public authority	760,917	1,477,695
Fire protection	3,152,855	-
Forfeited discounts	127,178	780,654
Refuse services	-	5,025,228
Tap-on fees	-	1,176,433
Pretreatment charges	-	446,300
Industrial surcharges and fines	-	359,943
Interfund charges for joint expenses	5,338,491	-
Other	487,501	239,585
	<u>29,140,307</u>	<u>51,605,605</u>
Total Operating Revenues		
Operating Expenses:		
Source of supply	1,371,808	-
Treatment	3,737,457	-
Transmission and distribution	4,861,326	-
Customer accounts	4,412,475	-
Collection system	-	6,336,125
Treatment and disposal	-	8,982,408
Customer service	-	5,552,448
Administrative and general	6,413,824	6,680,067
	<u>20,796,890</u>	<u>27,551,048</u>
Sub-totals		
Depreciation	3,331,192	10,929,055
	<u>24,128,082</u>	<u>38,480,103</u>
Total Operating Expenses		
Net Operating Revenues	<u>5,012,225</u>	<u>13,125,502</u>
Nonoperating Revenues:		
Interest income	41,231	76,550
Other	221,544	153,750
BAB Subsidy income	-	374,474
	<u>262,775</u>	<u>604,774</u>
Totals		
Nonoperating Expenses:		
Interest expense	2,652,326	3,866,982
Interest expense - amortization	188,852	516,712
Miscellaneous	264,562	282,549
Loss on disposal of assets	-	(46,704)
	<u>3,105,740</u>	<u>4,619,539</u>
Totals		
Net Income Before Contributions and Transfers	<u>2,169,260</u>	<u>9,110,737</u>
Capital Contributions and (Transfers):		
Payment in lieu of taxes	(1,363,900)	(2,428,000)
Contributions - PERF	683,876	529,821
Contributed Capital	1,622,234	572,573
	<u>942,210</u>	<u>(1,325,606)</u>
Totals		
Change In Net Position	3,111,470	7,785,131
Total Net Position - Beginning	60,789,265	120,174,588
Adjustment to Net Position	<u>(3,091,600)</u>	<u>(2,418,390)</u>
Total Net Position - Ending	<u>\$60,809,135</u>	<u>\$125,541,329</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, 2015**

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Cash received from customers and users	\$28,851,709	\$50,706,051
Cash paid to suppliers, employees and others	<u>(19,785,332)</u>	<u>(25,785,205)</u>
Net cash from operating activities	<u>9,066,377</u>	<u>24,920,846</u>
Cash flows from noncapital financing activities:		
Payment in lieu of taxes	<u>(1,363,900)</u>	<u>(2,428,000)</u>
Cash flows from capital and related financing activities:		
Proceeds from bond anticipation note	-	2,300,000
Proceeds from state revolving fund draw loans	-	27,135,965
Contributed capital	1,559,204	-
Acquisition and construction of capital assets	(8,144,091)	(45,783,119)
Other receivable	-	(2,338)
BAB debt service subsidy receivable	-	(236,818)
BAB subsidy payment	-	240,401
Principal paid on revenue bonds	(4,105,000)	(3,890,000)
Principal paid on state revolving fund loans	-	(3,263,000)
Interest paid on revenue bonds	(6,320,946)	(4,600,622)
Interest paid on state revolving loans	-	(3,068,473)
Bond issuance costs paid	(1,450)	-
Rate case costs paid	(50,317)	-
Contracts payable	729,420	2,625,328
Retainage payable	(131,006)	1,260,227
Nonoperating revenues	221,544	390,568
Nonoperating expenses	<u>(207,938)</u>	<u>(272,146)</u>
Net cash from capital and related financing activities	<u>(16,450,580)</u>	<u>(27,164,027)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	6,276,859	31,620,000
Purchase of investments	(2,478,902)	(18,993,288)
Interest income	<u>67,540</u>	<u>97,080</u>
Net cash from investing activities	<u>3,865,497</u>	<u>12,723,792</u>
Net (decrease)/increase in cash and cash equivalents	(4,882,606)	8,052,611
Cash and cash equivalents January 1, 2015	<u>22,703,289</u>	<u>39,357,470</u>
Cash and cash equivalents December 31, 2015	<u>\$17,820,683</u>	<u>\$47,410,081</u>
Reconciliation of net operating revenues to cash provided from operations:		
Net operating revenues	\$5,012,225	\$13,125,502
Adjustments to reconcile net operating revenue to net cash provided from operating activities:		
Depreciation expense	3,331,192	10,929,055
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable - customer	(189,155)	(899,554)
Accounts receivable - other	(99,443)	-
Materials and supplies Inventory	(146,438)	(69,825)
Interfund services provided	(178,670)	-
Due from other	-	(76,884)
Prepays	(23,992)	1,015,873
Customer deposits receivable	(20,149)	-
Increase (decrease) in:		
Accounts payable	115,324	(19,811)
Taxes payable	36,320	-
Accrued payroll and withholdings payable	39,413	31,732
Net pension liability	1,027,936	796,372
Compensated absences payable	13,546	(1,846)
Customer deposits	148,268	-
Interfund services used	-	90,232
Net cash provided from operations	<u>\$9,066,377</u>	<u>\$24,920,846</u>
Noncash investing, capital and financing activities:		
Construction of capital assets on account	\$970,846	\$2,625,328
Capital assets transferred from construction in progress	6,932,269	17,491,098
Contributions of lines by developers	63,030	572,573
Contributions - PERF	683,876	529,821

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 business-type activities. These financial statements are 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 Position; Statement of Revenues, Expenses, and Changes in Net Position; 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 Utilities are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, including the application of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained In Pre-November 30, 1989 FASB and AICPA Pronouncements, as the guidance related to Regulated Operations. The guidance allows for the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

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, Deferred Outflows, Liabilities and Net Position

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.

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

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

2. Inventories and Prepaid Items

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

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 Position 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Water Utility:			
Infrastructure	\$ 750	Composite	2%
Buildings	750	Composite	2%
Improvements other than buildings	750	Composite	2%
Machinery and equipment	750	Composite	2%
Transportation equipment	750	Composite	2%
Wastewater Utility:			
Infrastructure	5,000	Straight-line	5 to 100 years
Buildings	5,000	Straight-line	5 to 100 years
Improvements other than buildings	5,000	Straight-line	5 to 100 years
Machinery and equipment	5,000	Straight-line	5 to 25 years

The two percent composite rate for the Water Utility is required pursuant to an Indiana Utility Regulatory Commission rate order. This depreciation rate is applied to the total cost of all of the Water assets. When property is retired, accumulated depreciation is charged for the original cost of the assets in addition to the cost to remove, sell, or dispose of the asset net of the salvage value. No gain or loss is recognized on the retirement. 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.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water and Wastewater Utilities during the current year was \$6,320,946 and \$7,669,095, respectively. Of the amount, \$1,597,866 and \$3,499,749 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. Regulatory Assets

In accordance with GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance" (GASB 62), No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" (GASB 63), and No. 65 "Items Previously Reported as Assets and Liabilities" (GASB 65), these financial statements reflect the rate making actions of the Indiana Utility Regulatory Commission for Water and the Evansville City Council for Wastewater that result in the recognition of revenues and expenses in different time periods than entities that are not rate regulated. Regulatory assets are expenditures incurred by the Utility that will be recovered in rates in future periods. Deferred inflows of resources are revenues collected in rates for expenses not yet incurred.

6. Compensated Absences

- a. Sick Leave - Full-time Non-Union Utility employees are awarded eight 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 nine 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. Non-union employees can carry over 50 percent 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.
- d. Personal Leave - Utility employees earn personal leave at the rate of three 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.

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

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. 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 regulatory assets and amortized over the term of the related debt.

8. Restricted Net Position

The financial statements for the Water and Wastewater Utilities report \$34,902 and \$19,751,464 respectively, of restricted net position which is restricted by bond resolution or other ordinances.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Utilities have deferred outflows and deferred inflows related to their Pension Plans (see Note III H for additional information on the Utilities' Pension Plans). The Utilities recognized a deferred outflow for Utilities contributions made to Pension Plans made after the measurement date. In addition, the utilities have deferred outflows and deferred inflows related to differences between the Plans expected and actual experience, differences between projected and actual investment earnings on Pension Plan investments, change in Pension Plan assumptions, and changes in the proportion and differences between employer contributions and proportionate share of contributions.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with IC 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.

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, 2015, the Water and Wastewater Utilities had deposit balances in the amount of \$22,590,902 and \$61,343,696, respectively.

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

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, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 432,435	\$ -	\$ -	\$ 432,435
Construction in progress	21,544,010	9,276,179	6,932,270	23,887,919
Total capital assets, not being depreciated	<u>21,976,445</u>	<u>9,276,179</u>	<u>6,932,270</u>	<u>24,320,354</u>
Capital assets, being depreciated:				
Infrastructure	105,348,339	3,148,724	1,154,269	107,342,794
Buildings	35,936,458	3,528,814	-	39,465,272
Improvements other than buildings	172,672	1,693,803	-	1,866,475
Machinery and equipment	29,611,821	225,599	98,984	29,738,436
Totals	<u>171,069,290</u>	<u>8,596,940</u>	<u>1,253,253</u>	<u>178,412,977</u>
Less accumulated depreciation for:				
Infrastructure	40,398,731	2,015,992	60,651	42,354,072
Buildings	15,739,971	737,229	-	16,477,200
Improvements other than buildings	17,178	6,467	-	23,645
Machinery and equipment	5,220,326	571,511	16,377	5,775,460
Totals	<u>61,376,206</u>	<u>3,331,199</u>	<u>77,028</u>	<u>64,630,377</u>
Total capital assets, being depreciated, net	<u>109,693,084</u>	<u>5,265,741</u>	<u>1,176,225</u>	<u>113,782,600</u>
Total capital assets, net	<u>\$ 131,669,529</u>	<u>\$ 14,541,920</u>	<u>\$ 8,108,495</u>	<u>\$ 138,102,954</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 3,779,669	\$ -	\$ -	\$ 3,779,669
Construction in progress	62,780,289	45,265,051	17,491,098	90,554,242
Total capital assets, not being depreciated	<u>66,559,958</u>	<u>45,265,051</u>	<u>17,491,098</u>	<u>94,333,911</u>
Infrastructure	184,839,774	15,626,878	6,477	200,460,175
Buildings	158,053,785	2,450,469	110,537	160,393,717
Improvements other than buildings	1,836,724	2,692,454	-	4,529,178
Machinery and equipment	12,108,789	1,266,869	299,121	13,076,537
Totals	<u>356,839,072</u>	<u>22,036,670</u>	<u>416,135</u>	<u>378,459,607</u>
Less accumulated depreciation for:				
Infrastructure	61,625,529	5,188,871	16,216	66,798,184
Buildings	89,342,589	4,714,177	81,685	93,975,081
Improvements other than buildings	1,041,226	82,520	516	1,123,230
Machinery and equipment	5,835,539	956,081	253,896	6,537,224
Totals	<u>157,844,883</u>	<u>10,941,649</u>	<u>352,313</u>	<u>168,434,219</u>
Total capital assets, being depreciated, net	<u>198,994,189</u>	<u>11,095,021</u>	<u>63,822</u>	<u>210,025,388</u>
Total capital assets, net	<u>\$ 265,554,147</u>	<u>\$ 56,360,072</u>	<u>\$ 17,554,920</u>	<u>\$ 304,359,299</u>

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

Depreciation expense was charged to functions/programs of the Utility for 2015 as follows:

	2015
Water	\$ 3,331,192
Wastewater	10,929,055
Total depreciation expense	\$ 14,260,247

C. Construction Commitments

At December 31, 2015 construction work in progress was composed of the following:

Project	2015	
	Expended to December 31,	Committed
Water lines and plant improvements	\$ 23,887,919	\$ 12,388,020
Sewer modifications, extensions and treatment plant	90,554,242	35,110,539
Totals	\$ 114,442,161	\$ 47,498,559

D. Interfund Receivables and Payables

As of December 31, 2015 the Wastewater Utility Operating Fund owed the Water Utility Operating Fund \$444,874. The Construction Bond Fund for Wastewater owes the Water Utility Operating Fund \$141,130 at the end of December 31, 2015 which is reported as Contracts Payable. An Additional \$7,669 is due from the Water Construction Bond (Contracts Payable) to the Water Utility Operating Fund. The Wastewater Operating Fund had a Due from other of \$76,884 due to an overpayment related to retainage. 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 2015. The City is not accruing interest on the unpaid Payments in Lieu of Tax.

E. Short-Term Liabilities

The Wastewater Utility during March of 2014 approved the issuance of a Bond Anticipation Note (BAN) in the not to exceed amount of \$5,000,000 for various sewage works improvements, due on or before March 25, 2016. The BAN was sold to The Evansville Local Public Improvement Bond Bank (EBB) pursuant to a Bond Anticipation Note Purchase Agreement between the City and the EBB.

Short-term debt activity for the year ended December 31, 2015, was as follows:

2015	Beginning Balance	Issued/ Draws	Redeemed/ Repayments	Ending Balance
Wastewater Utility:				
Bond anticipation note	\$ 600,000	\$ 2,300,000	\$ -	\$ 2,900,000

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

F. 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:

Purpose	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Amount
2008 Waterworks revenue bonds	4.125% to 4.875%	\$ 30,670,000	\$ 166,089	\$ 30,503,911
2013A Waterworks revenue bonds	3.00% to 5.00%	29,005,000	(485,597)	29,490,597
2013C Waterworks revenue bonds	2.00% to 5.50%	15,475,000	34,811	15,440,189
2014B Waterworks revenue refunding bonds	4.00% to 5.00%	18,205,000	(2,377,597)	20,582,597
2010 Wastewater revenue bonds - Series B-1	3.75% to 6.50%	25,745,000	(37,314)	25,782,314
2013A Wastewater revenue refunding bonds	1.50%	25,850,000		25,850,000
2013B Wastewater revenue bonds	3.00% to 6.50%	29,255,000	(1,968,610)	31,223,610
2014C Wastewater revenue bonds	2.00% to 3.50%	25,255,000	(202,007)	25,457,007
Total		<u>\$ 199,460,000</u>	<u>\$ (4,870,225)</u>	<u>\$ 204,330,225</u>

The 2010 Series B-1 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 Wastewater. 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.

2. Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2016	\$ -	\$ 2,157,169	\$ 5,275,000	\$ 2,751,086
2017	2,775,000	4,250,425	5,170,000	3,942,333
2018	2,920,000	4,118,675	5,260,000	3,833,008
2019	3,050,000	3,978,600	5,795,000	3,706,864
2020	3,275,000	3,828,631	5,935,000	3,553,644
2021 - 2025	19,410,000	16,608,597	27,825,000	15,156,865
2026 - 2030	26,205,000	11,318,088	26,210,000	9,889,727
2031 - 2035	34,270,000	4,526,866	22,380,000	3,409,143
2036	1,450,000	33,531	2,255,000	112,750
	-	-	-	-
Totals	<u>\$ 93,355,000</u>	<u>\$ 50,820,582</u>	<u>\$ 106,105,000</u>	<u>\$ 46,355,420</u>

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

3. 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 Wastewater Utility as construction costs are accrued to the maximum allowed. The 2014D loan established a maximum draw of \$35,415,000. As of December 31, 2015, the loan principal amount drawn for 2014D loan was \$27,212,235. Annual debt service requirements for the 2014D loan will not be determined until planned construction projects are completed.

The State placed the proceeds of the 2008B, 2011D, 2014A and 2014B into a trust account in the Wastewater Utility's name. Cash drawdowns are made from this account after approval is given by the State. The cash balance not yet drawn down, reported as part of the Construction Fund Cash and Cash Equivalents is \$1,215,163 and \$714,949 for the 2014A and 2014B loans, respectively.

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 2004, 2007, 2008B, 2009, 2010A, 2011C, 2011D, 2012E, 2014A and 2014B loans established a maximum draw of \$7,130,000, \$37,518,000, \$18,452,000, \$27,730,498, \$7,120,000, \$3,800,000, \$1,215,000, \$5,975,000, \$7,510,000 and \$5,760,000, respectively. At the completion of construction, the outstanding principal balance was amortized over a twenty year period. Annual debt service requirements to maturity for the loans, including interest of \$36,627,089 are as follows:

	2016	\$	8,862,767
	2017		8,861,508
	2018		8,860,015
	2019		8,859,146
	2020		8,862,774
	2021 - 2025		49,260,663
	2026 - 2030		56,722,250
	2031 - 2035		21,093,465
			<u>8,862,767</u>
Totals		\$	<u>171,382,587</u>
			<u>8,861,508</u>
			<u>8,860,015</u>
			<u>8,859,146</u>
			<u>8,862,774</u>
			<u>49,260,663</u>
			<u>56,722,250</u>
			<u>21,093,465</u>
			<u>8,862,767</u>
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			<u>8,859,146</u>
			<u>8,862,774</u>
			<u>49,260,663</u>
			<u>56,722,250</u>
			<u>21,093,465</u>
			<u>8,862,767</u>
			<u>8,861,508</u>
			<u>8,860,015</u>
			<u>8,859,146</u>
			<u>8,862,774</u>
			<u>49,260,663</u>
			<u>56,722,250</u>
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			<u>8,860,015</u>
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			<u>21,093,465</</u>

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

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

<u>2014</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 97,460,000	\$ -	\$ 4,105,000	\$ 93,355,000	\$ -
Payment in lieu of tax	702,956	-	-	702,956	-
Compensated absences	<u>472,447</u>	<u>13,546</u>	<u>-</u>	<u>485,993</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 98,635,403</u>	<u>\$ 13,546</u>	<u>\$ 4,105,000</u>	<u>\$ 94,543,949</u>	<u>\$ -</u>
Wastewater Utility:					
Revenue bonds payable	\$ 109,995,000	\$ -	\$ 3,890,000	\$ 106,105,000	\$ 5,275,000
State revolving loan	102,679,768	27,135,965	3,263,000	126,552,733	5,221,000
Compensated absences	<u>484,077</u>	<u>-</u>	<u>1,846</u>	<u>482,231</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 213,158,845</u>	<u>\$ 27,135,965</u>	<u>\$ 7,154,846</u>	<u>\$ 233,139,964</u>	<u>\$ 10,496,000</u>

G. Restricted Assets

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

	<u>Water</u>	<u>Wastewater</u>
Revenue bond covenant accounts	\$ 16,828,378	\$ 57,568,162
Customer deposits cash	1,296,637	-
Customer deposits receivable	28,818	-
Other restricted cash	347,011	1,671,464
Interest receivable	<u>13,620</u>	<u>91,758</u>
Total restricted assets	<u>\$ 18,514,464</u>	<u>\$ 59,331,384</u>

H. Restatements and Reclassifications

For the fiscal year ended December 31, 2015, certain changes have been made to the financial statements to more appropriately reflect financial activity.

The prior period adjustment for Utility activities reflects the implementation of GASB 68 and GASB 71 to recognize the liabilities associated with employee retirement. The Utility PERF is an aggregate of both the Water and Wastewater Utilities whereby each Utility receives their proportionate share based upon their pension expense to the total pension expense. For 2015, the allocations were approximately 56.35% and 43.65% for Water and Wastewater, respectively.

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

The GASB 68 and GASB 71 implementation for the Utility plans were completed in 2015. In 2015, the City completed the implementation of the PERF.

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Net Position December 31, 2014	\$ 60,789,265	\$ 120,174,588	\$ 180,963,853
Cumulative Effect of Implementing GASB 68 & 71	<u>(3,091,600)</u>	<u>(2,418,390)</u>	<u>(5,509,990)</u>
Net Position, December 31, 2014 (Restated)	<u>\$ 57,697,665</u>	<u>\$ 117,756,198</u>	<u>\$ 175,453,863</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; 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 \$250,000 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 \$250,000 per incident depending on the type of loss. Also all claims in excess of \$2,500,000 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.

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

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 rate structure in effect in 2015 was approved by the Indiana Utility Regulatory Commission (IURC) on February 13, 2013, pursuant to IURC Order in Cause No. 44137.

Phase I of the increase is a 15.83% increase over the present rates effective March 18, 2013, Phase II of the increase is an 8.54% increase over the Phase I rates effective January 1, 2014, and Phase III of the increase is an 7.85% increase over the Phase II rates to be effective January 1, 2015. The Utility has approximately 62,013 customers. During March 2016 the Water Utility filed a rate petition with the IURC which as the date of this report is still pending with an IURC as described in Note III G.

2. Wastewater Utility

The Wastewater Utility had a Cost of Service Study (COSS) conducted during 2012 and 2013. On September 23, 2013 the Common Council approved a three-phase increase, subsequently amended on October 28, 2013 with Phase I effective January 1, 2014, and Phases II and III effective each January 1st thereafter. The Utility has approximately 52,961 customers.

The Wastewater Utility entered into a revised contract with BFI Waste Services of Indiana LP for refuse collection and recycling services on September 11, 2012. The agreement became effective January 1, 2013 and covers a term of ten years. Pursuant to this contract the Common Council approved a revised refuse monthly fee effective January 1, 2013.

C. Dividend Income

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

D. Guaranteed Performance Contract with Johnson Controls, Inc.

The Utilities' Board on November 15, 2011 entered into a Guaranteed Performance Contract (GPC) with Johnson Controls, Inc. (JCI) for the installation of an automated meter reading system (AMR) and advanced metering infrastructure system (AMI). The GPC also included process improvements of the water/wastewater treatment system, the creation of renewable energy derived from methane produced by the fats, oil and greases (FOG) program at the wastewater treatment plants, and various other efficiency improvement measures. Through the installation of the automated meters and other efficiency measures Johnson Controls anticipates the Utilities would produce increased revenues and reduced costs that would in turn pay for the respective bonds issued to fund the costs of the contract.

As the Water Utility is regulated by the IURC, the Utility along with JCI filed a joint petition to authorize the Water Utility to enter into the contract with JCI, and for the Water Utility portion of the GPC financing. The petition was filed with the IURC in Cause No. 44123 on November 28, 2011. On August 15, 2011 the IURC issued an Order in Cause No. 44123 denying the request to issue bonds for the Water Utility portion of the GPC due to various issues. On December 11, 2012 the Utility and

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JCI revised the GPC for the removal or reduction of certain projects, and again on January 1, 2013 filed a joint petition with the IURC in Cause No. 44295 addressing several of the issues for denying the prior petition. On March 27, 2013 the IURC approved Cause No. 44295 allowing the Water Utility to issue bonds for the GPC financing. The project is ongoing as of the date of this report.

E. Litigation

1. Litigation - Federal Lawsuit

The United States Department of Justice (DOJ), Environmental Protection Agency (EPA) and Indiana Department of Environmental Management (IDEM) have undertaken legal proceedings against the City of Evansville, by and through its Water and Wastewater Utility, concerning an enforcement action of the Clean Water Act due to combined and sanitary sewer overflows and violations of the National Pollutant Discharge Elimination System (NPDES) permit. The City, DOJ, EPA, and IDEM have reached a settlement with respect to a consent decree executed in November of 2010 pursuant to United States District Court in cause number 3:09CV128 WTL-WHG.

The City is not unique in its need to address with the regulatory agencies overflows from its combined sewer system. Approximately forty percent (40%) of the sewer systems in Evansville are combined, sanitary and storm drains which result in overflows into streams, and, ultimately, the Ohio River in severe wet weather events. The City has been very active in its attempts at mitigating the severe penalties and damages which may be assessed, including pursuing legal actions for indemnity and contribution from EMC, the City's prior private management firm, and previous and current insurance carriers. The City has paid a \$490,000 civil penalty to resolve all claims and liability for alleged past violations. The City submitted the IOCP to the EPA on May 31, 2013. The IOCP submitted provides for a \$540 million program implemented over 28 years.

The EPA and IDEM, on June 16, 2014 informed the City that it was not going to approve the IOCP as submitted due to technical reasons. In response the City issued a Notice of Dispute on June 20, 2014 regarding the disapproval as allowed by the consent decree.

On December 16, 2015 the City reached an agreement with the EPA, DOJ and IDEM for Evansville's federally mandated IOCP, known as Renew Evansville. Under the terms of the agreement, Evansville will spend \$729,000,000 over 24 ½ years to significantly upgrade the City's Sewage Works infrastructure, improve operations and dramatically reduce water pollution to comply with the Clean Water Act. The City's Sewage Works utility must reduce the number of combined sewer overflow (CSO) events - wastewater that overflows into the Ohio River and Pigeon Creek during wet weather events - to no more than four per year. These improvements and related bond issues will require increases in sewer rates and charges in order to provide adequate revenues for the resulting debt service requirements and the necessary debt service coverage. The City's Common Council must adopt a rate ordinance to adjust sewage rates.

2. Litigation - EWSU vs Gradex, Inc.

Plaintiff, Gradex, Inc. (Gradex), filed a Complaint on February 24, 2014 against Evansville Water and Sewer Utility (EWSU), in the Vanderburgh Superior Court under Cause No. 82D03-1402-PL-00876. On July 9, 2010, Gradex was awarded the general contract to undertake a certain public works construction project which came to be known as the Cass Avenue Sanitary and Storm Water Improvements Phase I and II Project, located in Evansville, Indiana (the Cass Ave. Project). The Complaint alleges that EWSU breached said contract for,

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among other things, failure to perform, certain alleged representations concerning the Cass Ave. Project's site conditions, alleged failure to pay for certain additional work Gradex alleges was not anticipated or indicated in the contract documents, and a further claim under the theory of constructive acceleration as a result of EWSU's alleged refusal to grant Gradex's request for extension of time to complete the Project. Gradex seeks to recover from EWSU \$1,616,255.25, plus pre-judgment and post-judgment interest at the statutory rate of 8% per annum. The parties previously conducted an informal settlement conference that was unsuccessful. The parties then engaged in subsequent settlement discussions concerning this matter with Gradex's final pre-suit offer in the amount of \$1,605,567.14 and EWSU's final pre-suit offer in the amount of \$478,000.00. EWSU does not anticipate making any increased settlement offers at this time and will defend this matter vigorously. On April 25, 2014, EWSU denied Gradex's claim and asserted counterclaims against Gradex for a declaration from the Court that EWSU properly assessed liquidated damages against Gradex. A bench trial is currently set for May 1, 2017, and the Court ordered that the parties mediate on or before March 31, 2017. The majority of the paper discovery has been complete and depositions of each party's key witnesses will likely be scheduled between June and August of 2016. Once the deposition of the key witnesses is complete, the parties intend to set the matter for mediation in the Fall of 2016, prior to further depositions and/or retention of expert witnesses.

F. Asset Acquisition - Old State Utility Corporation

The City acting through the Utilities' Board entered into an Asset Purchase Agreement (Original APA) between the City and Old State Utility Corporation's by its Receiver (OSU) on February 18, 2014. OSU is an investor-owned utility providing sewage services to customers located in the "Shady Hills" subdivision of Vanderburgh County, Indiana, and pursuant to an agreement sends its sewage for treatment to the Wastewater Utility. Together the Parties (City and OSU) wherein OSU agrees to sell and transfer substantially all of its assets in exchange for \$1, plus forgiveness of all amounts owed to the Utilities. Pursuant to the Original APA the closing of the transaction was to occur on or before August 31, 2014.

As OSU is under the jurisdiction of the IURC and the asset transfer would need their approval, and subject to the Original APA both parties agreed to file a joint petition with the IURC in support of the asset transfer, transfer of sewer customers and any necessary financing and surcharges related to rehabilitating the sewer collection system.

The Parties entered into a First Amended APA on April 1, 2014, revising certain provisions of the Original APA, and subsequently entered into a Second Amended APA on September 1, 2014 extending the closing to November 30, 2014.

The petition was filed by OSU with the IURC in Cause No. 44485 on April 24, 2014. On May 7, 2014 the City filed a petition to intervene in the asset transfer proceeding. The IURC issued an Order in Cause No. 44485 on July 23, 2015 approving the sale and transfer of assets.

On March 30, 2015 the Common Council approved an ordinance which imposed rates and charges on the former OSU customers to fund certain improvements to the purchased assets. As these customers are located outside the City's corporate boundaries the IURC has jurisdiction on the approval of these rates and charges. On April 13, 2015 the City filed a petition with the IURC in Cause No. 44615 seeking approval of the OSU surcharge. The IURC approved Cause No. 44615 for

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the OSU surcharge on September 23, 2015. The monthly debt service surcharge of \$38.95 will be imposed upon the customers taking service at properties formally served by the OSU sewer system. The surcharge will remain in effect until EWSU has been fully reimbursed for the debt service costs of the repairs or until July 1, 2035, whichever comes first.

G. Subsequent Events

1. Water Utility - Rate Increase

The proposed two-phase across-the-board rate increase is being considered by the IURC as of the date of this report, after settlement negotiations between the Water Utility and the Office of Utility Consumer Counselor (OUCC), pursuant to Cause No. 44760. As stipulated in the proposed order in this Cause, Phase I of the increase is an assumed 26.07% increase over the present rates effective upon an approved order by the Commission, Phase II of the increase is an assumed 16.13% increase over the Phase I rates assumed effective January 1, 2018,

2. Wastewater Utility - Rate Increase

The Wastewater Utility had a Cost of Service Study (COSS) conducted during 2016. The results of the COSS have not been finalized; however, it proposes a four-phase increase with Phase I assumed effective January 1, 2017, and Phases II, III and IV effective each January 1st thereafter. The EWSU Board is anticipated to consider this COSS proposal in the Fall of 2016 subsequently making a recommendation to the Common Council to approve an Ordinance implementing revised rates and charges.

3. Wastewater Utility - Sewage Works Revenue Bonds - Series 2016A

On December 9, 2013, the Common Council approved the issuance of the aggregate principal amount not to exceed \$25,855,000 in Sewage Works Revenue Bonds, Series 2016A. On July 28, 2016 the bonds were issued in the principal amount of \$25,855,000 for the purpose of constructing various sewage works improvements, which include IOCP and Wastewater Master Plan projects and to pay-off a portion of the Taxable Sewage Works Bond Anticipation Notes of 2014 (Extended) (the 2014 BANs).

4. Wastewater Utility - Taxable Sewage Works Bond Anticipation Notes of 2014 (Extended)

In March 2016, the Common Council decided to extend the 2014 BAN for the purpose of constructing various sewage works improvements. The extended 2014 BAN was sold to the EBB with substantive terms similar to that of the prior BAN, and became due on or before March 26, 2018.

5. Water Utility - Taxable Waterworks District Bond Anticipation Note of 2016

The Water Utility's Board during March of 2016 approved the issuance of a BAN in the not to exceed amount of \$2,000,000 for various waterworks improvements, due on or before March 24, 2017. The BAN was sold to EBB pursuant to a Bond Anticipation Note Purchase Agreement between the City and the EBB.

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H. Pension Plan

Cost-Sharing Multiple Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description: The Utilities contribute to the Public Employees' Retirement Fund (PERF), which is administered by the Indiana Public Retirement System (INPRS). The Utility PERF is an aggregate of both the Water and Wastewater Utilities whereby each Utility receives their proportionate share based upon their pension expense to the total pension expense. For 2015, the allocations were approximately 56.35% and 43.65% for Water and Wastewater, respectively. As part of the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB No. 25* (GASB No. 67), PERF changed from an agent to a cost sharing, multiple-employer defined benefit plan effective July 1, 2013, based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan).

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.2, IC 5-10.3 and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

The PERF ASA Only Plan was established by the Indiana Legislature in 2011, and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12 and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. The PERF ASA Only Plan members are full-time employees of the State (as defined in IC 5-10.3-7-1(d)), who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before March 1, 2013; were members of the PERF Hybrid Plan or (2) on or after March 1, 2013, do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the PERF ASA Only Plan and must offer eligible employees the PERF ASA Only Plan option. Quasigovernment agencies and State educational institutions may choose to offer the PERF ASA Only Plan as an option to their employees. Since inception, 395 members have selected the PERF ASA Only Plan, or approximately 9 percent of eligible new hires of the State.

Members are required to participate in the ASA. The ASA consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their ASA. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

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Investments in the members' ASA are individually directed and controlled by plan participants who direct the investment of their account balances among eight (8) investment options, with varying degrees of risk and return potential. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. Members may make changes to their investment directions daily and investments are reported at fair value.

Financial report: INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Retirement Benefits: **Defined Benefit Pension:** The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's ASA. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their ASA. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

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The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2015 or June 30, 2014; however, eligible members received a one-time check (a.k.a. 13th check) in September 2014 and September 2013. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service. The September 2014 one-time check was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014. The September 2013 one-time check was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

Funding Policy: Members are obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers.

During fiscal year 2015, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State. For political subdivisions, an average contribution rate of 11.03 percent was required from employers during the period of July 1 through December 31, 2014, and an average contribution rate of 11.9 percent was required for the period of January 1 through June 30, 2015. For the PERF ASA Only Plan, all participating employers were also required to contribute 11.2 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 4.6 percent for fiscal year 2015, and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan.

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The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three (3) percent of covered payroll to their ASA, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan (effective July 1, 2014, the PERF ASA Only Plan may also participate) may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their ASA.

PERF covered employees are required to contribute 3% of their compensation to the Fund and the Utilities are required to contribute amounts, which are actuarially determined, sufficient to fund the retirement benefits. The Utilities contribute the 3% employee's portion. In addition, some employees elect to make additional voluntary contributions to their PERF ASA Only Plans.

The following represents the Utilities' annual required contributions:

<u>Year Ended</u> <u>December 31</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2015	\$ 1,213,697	100%

Significant Actuarial Assumptions: The total pension liability is determined by INPRS actuaries in accordance with GASB No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g. salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g. mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

- Asset valuation date - June 30, 2015
- Liability valuation date - June 30, 2014 - Member census data as of June 30, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2015. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2014 to the June 30, 2015 measurement date.
- Experience study date - Period of 5 years ended June 30, 2010
- Actuarial cost method - Entry age normal (level percent of payroll)
- Investment rate of return - 6.75%
- COLA - 1.0%
- Future salary increases, including inflation - 2.5% - 4.25%
- Inflation - 2.25%
- Mortality - RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report

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An assumption study was performed in April 2015 resulting in an update to the following assumptions:

- Inflation decreased from 3.00% to 2.25%
- The future salary increase rate decreased from a table ranging from 3.25% to 4.50% to a table ranging from 2.50% to 4.25%
- Mortality changed from the 2013 IRS Static Mortality projected five (5) years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report
- Retirement, Termination and Disability rates were adjusted to reflect recent experience
- The ASA Annuitization was updated from 50% of members assumed to annuitize the ASA balance to 60% of members prior to January 1, 2017

The long-term return expectation for the defined benefit retirement plan has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

	<u>Target Asset Allocation</u>	<u>2015 Geometric Basis Long-Term Expected Real Rate of Return</u>
Public Equity	22.5%	5.3%
Private Equity	10.0%	5.6%
Fixed Income – Inflation-Linked	22.0%	2.1%
Fixed Income – Inflation-Linked	10.0%	0.7%
Commodities	8.0%	2.0%
Real Estate	7.5%	3.0%
Absolute Return	10.0%	3.9%
Risk Parity	10.0%	5.0%

Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent). Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

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	<u>1% Decrease</u> (5.75%)	<u>Current Rate</u> (6.75%)	<u>1% Increase</u> (7.75%)
2015	\$ 13,650,503	\$ 9,254,041	\$ 5,604,174

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in a stand-alone financial report of INPRS that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Investment Valuation and Benefit Payment Policies: The pooled and non-pooled investments are reported at fair value by INPRS. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are reported at cost, which approximates fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described below.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs required to develop a fair value. Commingled funds are valued using the net asset value (NAV) of the entity. Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business.

Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' ASAs. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2015, the Water and Wastewater Utilities reported a liability of \$5,214,300 and \$4,039,711, respectively, for their proportionate share of the net pension liability. The Utilities' proportionate share of the net pension liability was based on the Utilities' wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2015 measurement date was 0.0022721.

For the year ended December 31, 2015, the Utilities recognized pension expense of \$1,721,668, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions. At December 31, 2015, the Utilities reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 397,227	\$ 19,138
Net difference between projected and actual earnings on pension plan investments	1,560,347	870,308
Changes in assumptions	782,278	-
Changes in proportion and differences between Utility contributions and proportionate share of contributions	<u>638,362</u>	<u>8,388</u>
Total that will be recognized in pension expense (income) based on table below	3,378,214	897,784
Pension contributions subsequent to measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ 3,378,214</u>	<u>\$ 897,784</u>

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2015 measurement date are recognized as a reduction of net pension liability in the year ending December 31, 2016. Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5 year period. A change in an employer's proportionate share: represents the change as of the current year measurement date versus the prior year measurement date, and is amortized over the average expected remaining service lives of the plan. The difference between an employer's contributions and the employer's proportionate share of the collective contributions is amortized over the average expected remaining service lives of the plan. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$845,614
2017	845,614
2018	399,114
2019	390,088
2020	<u>-</u>
Total	<u>\$ 2,480,430</u>

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REQUIRED SUPPLEMENTARY INFORMATION

The subsequent schedules were provided by management of the Utilities. The schedules are presented as intended by the Utilities.

Water and Wastewater Utilities
City of Evansville
Required Supplementary Information
Schedule of Employer's Share of Net Pension Liability
December 31, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Utilities' Portion of the Net Pension Liability	0.22721%	0.20815%	0.19685%	**	**	**	**	**	**	**
Utilities' Proportionate Share of the Net Pension Liability	9,254,041	5,470,047	6,742,268	**	**	**	**	**	**	**
Utilities' Covered-Employee Payroll	10,882,763	10,162,470	9,451,288	**	**	**	**	**	**	**
Utilities' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	85.0%	53.8%	71.3%	**	**	**	**	**	**	**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.3%	84.3%	78.8%	**	**	**	**	**	**	**

** Information is not available

Note: The Utilities implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years. The amounts presented for each year were determined as of the Plan's June 30 year-end that occurred within the Utilities' fiscal year.

Water and Wastewater Utilities
City of Evansville
Required Supplementary Information
Schedule of Employer Contribution
December 31, 2015

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	1,218,869	1,213,697	5,172	10,882,763	11.15%
2014	1,138,197	1,067,687	70,510	10,162,470	10.51%
2013	**	**	**	**	**
2012	**	**	**	**	**
2011	**	**	**	**	**
2010	**	**	**	**	**
2009	**	**	**	**	**
2008	**	**	**	**	**
2007	**	**	**	**	**
2006	**	**	**	**	**

** Information is not available

Notes to Schedule:

An assumption study was performed in April 2015 resulting in an update to the following assumptions:

- Inflation decreased from 3.00% to 2.25%
- The future salary increase rate decreased from a table ranging from 3.25% to 4.50% to a table ranging from 2.50% to 4.25%
- Mortality changed from the 2013 IRS Static Mortality projected five (5) years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report
- Retirement, Termination and Disability rates were adjusted to reflect recent experience
- The ASA Annuitization was updated from 50% of members assumed to annuitize the ASA balance to 60% of members prior to January 1, 2017

Note: The Utilities implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

Note: Covered payroll for the purposes of this schedule was determined as of the Plan's June 30 year end that occurred within the Utilities' fiscal year.

OTHER REPORTS

In addition to this report, other reports may have been issued for the Test. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.