

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

FINANCIAL STATEMENTS AUDIT REPORT

CITY OF AUBURN MUNICIPAL UTILITIES

DEKALB COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
09/21/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia M. Miller	01-01-12 to 12-31-19
Mayor	Norman E. Yoder	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Norman E. Yoder	01-01-17 to 12-31-18
President Pro Tempore of the Common Council	Matthew Kruse Mike Watson	01-01-17 to 12-31-17 01-01-18 to 12-31-18
Superintendent of Water Utility	Randy Harvey	01-01-17 to 12-31-18
Superintendent of Wastewater Utility	David Lochner	01-01-17 to 12-31-18
Superintendent of Electric Utility	Stuart Tuttle Christopher Schweitzer	01-01-17 to 08-25-17 08-26-17 to 12-31-18
Superintendent of Essential Services Utility	Christopher Schweitzer	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF AUBURN MUNICIPAL UTILITIES, DEKALB COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the City of Auburn Municipal Utilities (Utilities), departments of the City of Auburn (City), as of and for the year ended December 31, 2017, and the related notes to the 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 from 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 Utilities' 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position for each major fund for the Utilities, as of December 31, 2017, 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 1.A., the financial statement of the Utilities, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of each major fund 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 as of December 31, 2017, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 basic financial statements is not affected by this missing information.


Paul D. Joyce, CPA
State Examiner

September 12, 2018

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.

CITY OF AUBURN MUNICIPAL UTILITIES
STATEMENT OF NET POSITION
December 31, 2017

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>AES Utility</u>
Current assets:				
Cash and cash equivalents	\$ 53,017	\$ 297,875	\$ 7,594,462	\$ 4,517,125
Accounts receivable	88,655	242,526	2,292,398	19,914
Inventories	132,694	-	580,221	410,567
Prepaid items	6,206	14,487	18,451	2,311
	<u>280,572</u>	<u>554,888</u>	<u>10,485,532</u>	<u>4,949,917</u>
Total current assets				
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation	421,607	3,383,965	204,921	16,608
Bond and interest	-	616,223	-	-
Construction	-	-	353,766	-
Debt service reserve	199,670	1,363,067	-	-
Cash reserve	-	20,684	81,309	-
Improvement	-	1,449,811	-	-
Customer deposits	64,537	78,697	275,916	-
	<u>685,814</u>	<u>6,912,447</u>	<u>915,912</u>	<u>16,608</u>
Total restricted assets				
Deferred outflow of resources	-	-	337,745	-
Capital assets:				
Land, improvements to land and construction in progress	787,135	1,283,610	2,587,208	72,050
Other capital assets (net of accumulated depreciation)	16,212,961	45,272,645	23,217,667	5,839,771
	<u>17,000,096</u>	<u>46,556,255</u>	<u>25,804,875</u>	<u>5,911,821</u>
Total capital assets				
Total noncurrent assets				
	<u>17,685,910</u>	<u>53,468,702</u>	<u>27,058,532</u>	<u>5,928,429</u>
Total assets				
	<u>17,966,482</u>	<u>54,023,590</u>	<u>37,544,064</u>	<u>10,878,346</u>
Liabilities				
Current liabilities:				
Accounts payable	24,170	65,129	2,933,268	169,060
Taxes payable	9,705	-	57,477	8,572
Wages payable	40,030	54,974	88,081	25,251
Compensated absences	16,725	34,697	60,722	9,816
Current liabilities payable from restricted assets:				
Customer deposits	64,537	78,697	275,916	-
Accrued interest payable	-	164,070	-	51,578
Revenue bonds payable	295,292	-	-	160,000
Lease payable	-	-	124,889	-
State Revolving Fund loan payable	-	900,000	-	-
	<u>450,459</u>	<u>1,297,567</u>	<u>3,540,353</u>	<u>424,277</u>
Total current liabilities				
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized premium)	-	-	-	2,760,000
State Revolving Fund loan payable	-	12,385,000	-	-
	<u>-</u>	<u>12,385,000</u>	<u>-</u>	<u>2,760,000</u>
Total noncurrent liabilities				
	<u>-</u>	<u>12,385,000</u>	<u>-</u>	<u>2,760,000</u>
Total liabilities				
	<u>450,459</u>	<u>13,682,567</u>	<u>3,540,353</u>	<u>3,184,277</u>
Net Position				
Net investment in capital assets	16,704,804	33,271,255	25,804,875	2,991,821
Restricted for debt service	199,670	1,815,220	-	-
Restricted for other purposes	421,607	4,854,460	639,996	16,608
Unrestricted	189,942	400,088	7,558,840	4,685,640
	<u>17,516,023</u>	<u>40,341,023</u>	<u>34,003,711</u>	<u>7,694,069</u>
Total net position				

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

CITY OF AUBURN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
As of and for the Year Ended December 31, 2017

	Water Utility	Wastewater Utility	Electric Utility	AES Utility
Operating Revenues:				
Metered revenue:				
Residential	\$ 1,038,408	\$ 2,116,115	\$ 5,699,366	\$ -
Commercial	358,213	793,452	2,937,105	-
Industrial	562,874	1,514,655	30,041,130	-
Public street and highway lighting	-	-	240,081	-
Fire protection revenue	131,890	-	-	-
Penalties	12,058	69,275	84,938	67,153
Unmetered revenues	-	117,207	-	-
Network service fees	-	-	-	-
Phone service fees	-	-	-	680,982
Data/Internet service fees	-	-	-	2,431,722
TV service fees	-	-	-	832,812
Other	74,679	491,200	2,587,004	263,892
	<u>2,178,122</u>	<u>5,101,904</u>	<u>41,589,624</u>	<u>4,276,561</u>
Operating expenses:				
Salaries and wages	707,837	1,030,083	1,574,742	432,827
Employee benefits	302,232	355,044	572,509	144,280
Materials and supplies	96,500	345,606	394,021	386,948
Maintenance	256,201	195,436	101,472	-
Purchased power	297,668	337,186	31,522,522	-
Chemicals	10,406	197,495	-	-
Contractual services	137,261	153,705	340,031	1,453,166
Transmission and distribution	-	-	618,626	-
Network service expense	-	-	-	-
Transportation expense	20,274	15,056	-	6,002
Insurance	28,845	68,549	88,723	4,503
Depreciation	464,073	1,600,741	1,430,409	196,801
Utility receipts tax	28,647	-	542,129	58,100
Payment in lieu of taxes	139,000	283,000	170,000	-
Bad debt expense	375	928	(383)	1,017
Miscellaneous expense	50,457	57,310	363,042	138,633
	<u>2,539,776</u>	<u>4,640,139</u>	<u>37,717,843</u>	<u>2,822,277</u>
Operating income (loss)	<u>(361,654)</u>	<u>461,765</u>	<u>3,871,781</u>	<u>1,454,284</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	406	13,428	3,106	1,572
Miscellaneous revenue	13,451	-	105,319	55,845
Interest expense	(7,726)	(333,450)	(2,965)	(114,913)
Amortization of deferred charges	-	-	(15,692)	-
	<u>6,131</u>	<u>(320,022)</u>	<u>89,768</u>	<u>(57,496)</u>
Income (loss) before contributions	(355,523)	141,743	3,961,549	1,396,788
Contributions	<u>289,057</u>	<u>283,427</u>	<u>-</u>	<u>13,900</u>
Change in net position	(66,466)	425,170	3,961,549	1,410,688
Total net position - beginning	<u>17,582,489</u>	<u>39,915,853</u>	<u>30,042,162</u>	<u>6,283,381</u>
Total net position - ending	<u>\$ 17,516,023</u>	<u>\$ 40,341,023</u>	<u>\$ 34,003,711</u>	<u>\$ 7,694,069</u>

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

CITY OF AUBURN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
As of and for the Year Ended December 31, 2017

	Water Utility	Wastewater Utility	Electric Utility	AES Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,173,782	\$ 5,099,958	\$ 39,907,539	\$ 4,277,165
Payments to suppliers and contractors	(1,229,141)	(1,722,101)	(34,040,974)	(2,117,150)
Payments to employees	(703,188)	(1,076,371)	(1,559,655)	(430,843)
Payments for taxes	(168,064)	(283,000)	(719,519)	(59,248)
Other receipts	13,451	-	105,319	55,845
Net cash provided by operating activities	<u>86,840</u>	<u>2,018,486</u>	<u>3,692,710</u>	<u>1,725,769</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(395,478)	(471,382)	(708,060)	(175,983)
Capital contributions	289,057	283,427	-	13,900
Principal paid on capital debt	(273,880)	(930,000)	-	(155,000)
Interest paid on capital debt	(18,637)	(346,656)	-	(125,916)
Net cash used by capital and related financing activities	<u>(398,938)</u>	<u>(1,464,611)</u>	<u>(708,060)</u>	<u>(443,000)</u>
Cash flows from investing activities:				
Interest received	406	13,428	3,106	1,572
Net increase (decrease) in cash and cash equivalents	(311,692)	567,303	2,987,756	1,284,342
Cash and cash equivalents, January 1	1,050,522	6,643,019	5,522,618	3,249,390
Cash and cash equivalents, December 31	<u>\$ 738,830</u>	<u>\$ 7,210,322</u>	<u>\$ 8,510,374</u>	<u>\$ 4,533,732</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (361,654)	\$ 461,765	\$ 3,871,781	\$ 1,454,284
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	464,073	1,600,741	1,430,409	196,801
Miscellaneous nonoperating revenues	13,451	-	105,319	55,845
(Increase) decrease in assets:				
Accounts receivable	(4,341)	(1,946)	(1,682,085)	604
Inventories	(11,054)	-	(123,893)	(34,524)
Prepaid items	(511)	(377)	659	(6,395)
Increase (decrease) in liabilities:				
Accounts payable	(19,621)	(484)	59,412	58,318
Taxes payable	(417)	-	(7,390)	(1,148)
Wages payable	24,548	240	4,494	(458)
Compensated absence payable	(19,899)	(46,528)	10,593	2,441
Customer deposits	2,265	5,075	23,411	-
Total adjustments	<u>448,494</u>	<u>1,556,721</u>	<u>(179,071)</u>	<u>271,485</u>
Net cash provided by operating activities	<u>\$ 86,840</u>	<u>\$ 2,018,486</u>	<u>\$ 3,692,710</u>	<u>\$ 1,725,769</u>

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

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the City of Auburn Municipal Utilities (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, 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 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.

Enterprise funds distinguish operating receipts and disbursements from non-operating 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 non-operating 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 Position or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

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

CITY OF AUBURN MUNICIPAL UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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

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 they are maintained in separate funds and/or bank accounts and their use is limited by applicable bond covenants.

The financial statements report Water Utility restricted net position of \$621,277, Wastewater Utility restricted net position of \$6,669,680, Electric Utility restricted net position of \$639,996, and AES Utility restricted net position of \$16,608, of which all are 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 and improvements	\$ 5,000	Composite	2% to 3%
Improvements other than buildings	5,000	Composite	2% to 3%
Machinery and equipment	5,000	Composite	2% to 3%
Transportation Equipment	5,000	Composite	2% to 3%

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.

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 during the year was \$7,726, \$333,450, \$2,965, and \$114,913, by the Water Utility, Wastewater Utility, Electric Utility, and AES Utility, respectively. Of these amounts, nothing was included as part of the cost of capital assets under construction.

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Compensated Absences

- a. Sick Leave - Utility employees earn sick leave at the rate of 1 hour for each week 40 hours are worked for hourly employees. Unused sick leave may be accumulated to a maximum of 1440 hours. Salaried employees do not earn Sick Leave. Any hours not used are lost. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based on the number of years of service. Vacation leave may not be accumulated beyond the employee’s anniversary date. Accumulated vacation leave is paid to employees through cash payments upon termination.
- c. Personal Leave - Utility employees earn vacation leave at the rate of 1 hour for each week 40 hours are worked for hourly employees. Any hours exceeding 16 hours at the end of the year convert to sick time. Salary employees earn 6 days leave January 1. Any days remaining after December 31 are lost. Accumulated Personal leave is not paid to employees upon termination.

Vacation, Personal, and sick 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 Position. Bond premiums and discounts 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.

7. Deferred Inflows/Outflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods. Deferred outflows of resources represent a consumption of net position that applies to future periods.

II. Detailed Notes on All Funds

A. Deposits and Investments 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, 2017, the deposit balance was \$738,830, \$7,210,322, and \$8,510,374, and \$4,533,732 for the Water Utility, Wastewater Utility, Electric Utility, and AES Utility, respectively.

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

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

<u>Water Utility</u>	Balance 01-01-17	Increases	Decreases	Balance 12-31-17
Capital assets, not being depreciated:				
Land	\$ 735,068	\$ -	\$ -	\$ 735,068
Construction in progress	40,012	12,055	-	52,067
Total capital assets, not being depreciated	<u>775,080</u>	<u>12,055</u>	<u>-</u>	<u>787,135</u>
Capital assets, being depreciated:				
Buildings	3,643,414	-	-	3,643,414
Improvements other than buildings	17,943,748	327,083	-	18,270,831
Machinery and equipment	1,344,458	20,232	-	1,364,690
Transportation Equipment	272,051	36,107	14,506	293,652
Totals	<u>23,203,671</u>	<u>383,422</u>	<u>14,506</u>	<u>23,572,587</u>
Less accumulated depreciation	<u>6,910,059</u>	<u>464,073</u>	<u>14,506</u>	<u>7,359,626</u>
Total capital assets, being depreciated, net	<u>16,293,612</u>	<u>(80,651)</u>	<u>-</u>	<u>16,212,961</u>
Total Water Utility capital assets, net	<u>\$ 17,068,692</u>	<u>\$ (68,596)</u>	<u>\$ -</u>	<u>\$ 17,000,096</u>
<u>Wastewater Utility</u>	Balance 01-01-17	Increases	Decreases	Balance 12-31-17
Capital assets, not being depreciated:				
Land	\$ 377,757	\$ -	\$ -	\$ 377,757
Construction in progress	905,121	732	-	905,853
Total capital assets, not being depreciated	<u>1,282,878</u>	<u>732</u>	<u>-</u>	<u>1,283,610</u>
Capital assets, being depreciated:				
Buildings	26,796,224	-	-	26,796,224
Improvements other than buildings	26,276,207	283,427	-	26,559,634
Machinery and equipment	10,577,014	7,923	-	10,584,937
Transportation Equipment	380,209	179,300	-	559,509
Totals	<u>64,029,654</u>	<u>470,650</u>	<u>-</u>	<u>64,500,304</u>
Less accumulated depreciation	<u>17,626,918</u>	<u>1,600,741</u>	<u>-</u>	<u>19,227,659</u>
Total capital assets, being depreciated, net	<u>46,402,736</u>	<u>(1,130,091)</u>	<u>-</u>	<u>45,272,645</u>
Total Wastewater Utility capital assets, net	<u>\$ 47,685,614</u>	<u>\$(1,129,359)</u>	<u>\$ -</u>	<u>\$ 46,556,255</u>

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Electric Utility</u>	Balance 01-01-17	Increases	Decreases	Balance 12-31-17
Capital assets, not being depreciated:				
Land	\$ 701,589	\$ -	\$ -	\$ 701,589
Construction in progress	1,836,755	48,864	-	1,885,619
Total capital assets, not being depreciated	<u>2,538,344</u>	<u>48,864</u>	<u>-</u>	<u>2,587,208</u>
Capital assets, being depreciated:				
Buildings	3,541,680	407,561	-	3,949,241
Improvements other than buildings	37,605,144	49,966	-	37,655,110
Machinery and equipment	4,688,772	250,758	3,569	4,935,961
Transportation Equipment	1,844,720	72,835	128,562	1,788,993
Totals	<u>47,680,316</u>	<u>781,120</u>	<u>132,131</u>	<u>48,329,305</u>
Less accumulated depreciation for:	<u>23,813,360</u>	<u>1,430,409</u>	<u>132,131</u>	<u>25,111,638</u>
Total capital assets, being depreciated, net	<u>23,866,956</u>	<u>(649,289)</u>	<u>-</u>	<u>23,217,667</u>
Total Electric Utility capital assets, net	<u>\$ 26,405,300</u>	<u>\$ (600,425)</u>	<u>\$ -</u>	<u>\$ 25,804,875</u>
<u>AES Utility</u>	Balance 01-01-17	Increases	Decreases	Balance 12-31-17
Capital assets, not being depreciated:				
Land	\$ 72,050	\$ -	\$ -	\$ 72,050
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>72,050</u>	<u>-</u>	<u>-</u>	<u>72,050</u>
Capital assets, being depreciated:				
Buildings	651,702	-	-	651,702
Improvements other than buildings	-	-	-	-
Machinery and equipment	5,811,461	130,118	780	5,940,799
Transportation Equipment	96,880	45,864	-	142,744
Totals	<u>6,560,043</u>	<u>175,982</u>	<u>780</u>	<u>6,735,245</u>
Less accumulated depreciation for:	<u>699,453</u>	<u>196,801</u>	<u>780</u>	<u>895,474</u>
Total capital assets, being depreciated, net	<u>5,860,590</u>	<u>(20,819)</u>	<u>-</u>	<u>5,839,771</u>
Total AES Utility capital assets, net	<u>\$ 5,932,640</u>	<u>\$ (20,819)</u>	<u>\$ -</u>	<u>\$ 5,911,821</u>

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Water	\$ 464,073
Wastewater	1,600,741
Electric	1,430,409
AES	<u>196,801</u>
 Total depreciation expense	 <u><u>\$ 3,692,024</u></u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31</u>
 Water Utility:	
SCADA	\$ 32,601
Orchard Lane Main	2,854
AMI Project	<u>16,612</u>
 Total for Water Utility	 <u><u>\$ 52,067</u></u>
 Wastewater Utility:	
Wastewater LTCP	\$ 60,605
Sewer Separation	3,493
Southeast Sewer Separation	<u>841,755</u>
 Total for Wastewater Utility	 <u><u>\$ 905,853</u></u>
 Electric Utility:	
Bridgewater North Section I	\$ 136,693
AE 2nd Floor Office Remodel	22,726
Zone C LCP	<u>1,726,200</u>
 Total for Electric Utility	 <u><u>\$ 1,885,619</u></u>

D. 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:

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Purpose	Interest Rates	Balance at December 31	Add: Unamortized Premium	Amount
Water Utility:				
2010 Waterwork refunding revenue bonds	3.80%	\$ 284,380	\$ 10,912	\$ 295,292
AES Utility:				
2011 AES refunding revenue bonds	2.00% to 4.75%	\$ 2,920,000	\$ -	\$ 2,920,000

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Electric Utility	
	Principal	Interest	Principal	Interest
2018	\$ 284,380	\$ 8,130	\$ 160,000	\$ 121,306
2019	-	-	165,000	116,062
2020	-	-	170,000	110,238
2021	-	-	180,000	103,758
2022	-	-	185,000	96,638
2023-2027	-	-	1,045,000	357,858
2028-2032	-	-	1,015,000	98,865
Totals	<u>\$ 284,380</u>	<u>\$ 8,130</u>	<u>\$ 2,920,000</u>	<u>\$ 1,004,725</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, 2017, \$6,600,000 and \$15,470,000 had been drawn down against the 1995 and 2009 agreement. The following debt service requirements to maturity reflect the anticipated loan payments after the loans have been drawn down 100 percent:

	Wastewater Utility	
	Principal	Interest
2018	\$ 900,000	\$ 322,583
2019	920,000	300,229
2020	950,000	277,381
2021	970,000	253,792
2022	1,010,000	229,587
2023-2027	5,510,000	756,561
2028-2032	<u>3,025,000</u>	<u>113,002</u>
Total	<u>\$ 13,285,000</u>	<u>\$ 2,253,135</u>

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable (net of unamortized premium)	\$ 558,260	\$ -	\$ 273,880	\$ 284,380	\$ 284,380
Wastewater Utility:					
State Revolving Fund loan payable	\$ 14,215,000	\$ -	\$ 930,000	\$ 13,285,000	\$ 900,000
AES Utility:					
Revenue bonds payable (net of unamortized premium)	\$ 3,075,000	\$ -	\$ 155,000	\$ 2,920,000	\$ 160,000
Total Long-term liabilities	\$ 17,848,260	\$ -	\$ 1,358,880	\$ 16,489,380	\$ 1,344,380

E. Restricted Assets

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

	2017 Water Utility	2017 Wastewater Utility	2017 Electric Utility	2017 AES Utility
Depreciation	\$ 421,607	\$ 3,383,965	\$ 204,921	\$ 16,608
Bond and interest	-	616,223	-	-
Construction	-	-	353,766	-
Debt service reserve	199,670	1,363,067	-	-
Cash reserve	-	20,684	81,309	-
Improvement	-	1,449,811	-	-
Customer deposits	64,537	78,697	275,916	-
Total restricted assets	\$ 685,814	\$ 6,912,447	\$ 915,912	\$ 16,608

F. Revenues Pledged

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 are expected to require less than 14 percent of operating revenues.

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 are expected to require less than 24 percent of operating revenues.

AES Utility Revenues Pledged

The Utilities have pledged future electric revenues, net of specified operating expenses, to repay revenue bonds issued in 2011. Proceeds from the bonds provided financing for electric improvements. The bonds are payable solely from electric net revenues and are payable through 2031. Annual principal and interest payments are expected to require less than 13 percent of operating revenues.

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

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 employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 11, 2000. The Utility has 5,072 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on March 1, 2014. The Utility has 5,297 customers.

3. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on December 17, 2014. The Utility has approximately 7,557 customers.

CITY OF AUBURN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. AES Utility

The current rate structure was approved by the Utility on March 4, 2008. The Utility has 4,664 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. On July 1, 2013 PERF changed from an agent multiple-employer to a cost-sharing multiple-employer retirement plan. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the 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 member's contributions, set by state statute at three 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. The report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 876-2707

Funding Policy and Annual Pension Cost

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.

D. Subsequent Events

On June 5, 2018, the City Council adopted Ordinance 2018-10 establishing a 43.75% rate increase for the City of Auburn Water Utility, effected immediately upon passage. Also, in 2018 the City is working to issue \$3,330,000 in Water Revenue Bonds.

OTHER REPORTS

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