

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

FINANCIAL STATEMENTS EXAMINATION REPORT  
OF

WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
VANDERBURGH COUNTY, INDIANA

January 1, 2014 to December 31, 2014



**FILED**  
03/23/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Utilities	Allen Mounts	01-01-14 to 12-31-16
Chief Financial Officer of Utilities	Jenny Collins	01-01-14 to 12-31-16
President of the Department of Waterworks Board	Jeffrey M. Hatfield, Sr. W. Harold Calloway Robert Dillow	01-01-14 to 12-31-14 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	John Friend Dr. H. Dan Adams Missy Mosby	01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16
Controller	Russell G. Lloyd, Jr., CPA	01-01-14 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities (Utilities), departments of the City of Evansville (City), as of and for the year ended December 31, 2014. The financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on the financial statements based on our examination.

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

As discussed in Note I, the financial statements of the Water and Wastewater Utilities, City of Evansville, are intended to present the financial position, and the changes in 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 Utilities. They do not purport to, and do not, present fairly the financial position of the City of Evansville as of December 31, 2014, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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, 2014, and the respective changes in financial position and cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America, requires to be presented to supplement the financial statements. Such missing information, although not a part of the 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*  
Paul D. Joyce, CPA  
State Examiner

February 1, 2016

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## 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, 2014**

<b>ASSETS</b>	<u><b>Water</b></u>	<u><b>Wastewater</b></u>
Current Assets:		
Operating cash and cash equivalents	\$1,938,415	\$5,428,212
Restricted Assets:		
Bond and interest cash and cash equivalents	3,533,997	7,313,435
Debt service reserve cash and cash equivalents	1,523,394	2,637,357
Improvement fund cash and cash equivalents	454,726	-
Wastewater treatment plant cash and cash equivalents	-	5,951,944
Construction fund cash and cash equivalents	14,085,412	17,522,105
Cash with fiscal agent cash and cash equivalents	-	504,417
Consumer meter deposits cash and cash equivalents	1,167,345	-
Accounts receivable (net of allowance)	1,434,336	3,636,387
Accounts receivable - other	120,531	-
Interfund receivables for services provided and used	415,003	-
Materials and supplies inventory	721,417	238,717
Prepays	45,000	2,472,998
	<u>25,439,576</u>	<u>45,705,572</u>
Total Current Assets		
Non-Current Assets:		
Restricted Assets:		
Debt service reserve investments	2,703,765	11,985,000
Construction fund investments	4,318,710	17,400,000
Interest and customer deposits receivable	22,270	38,383
	<u>7,044,745</u>	<u>29,423,383</u>
Total Restricted Assets		
Capital Assets:		
Depreciable capital assets	171,069,290	356,839,072
Less accumulated depreciation	(61,376,206)	(157,844,883)
	<u>109,693,084</u>	<u>198,994,189</u>
Sub-totals		
Land and improvements to land	432,435	3,779,669
Construction work in progress	21,544,010	62,780,289
	<u>131,669,529</u>	<u>265,554,147</u>
Net Capital Assets		
Total Noncurrent Assets	<u>138,714,274</u>	<u>294,977,530</u>
Total Assets	<u>\$164,153,850</u>	<u>\$340,683,102</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Regulatory Assets	\$1,848,180	\$2,202,691
Deferred Amount on Refunding	1,132,262	1,215,681
	<u>\$2,980,442</u>	<u>\$3,418,372</u>
Total Deferred Outflows of Resources		
Total Assets and Deferred Outflows of Resources	<u>\$167,134,292</u>	<u>\$344,101,474</u>

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

**WATER AND WASTEWATER UTILITIES  
CITY OF EVANSVILLE  
STATEMENT OF NET POSITION  
December 31, 2014  
(Continued)**

<b>LIABILITIES</b>	<u>Water</u>	<u>Wastewater</u>
Current Liabilities:		
Accounts payable	\$557,644	\$801,936
Accrued sales and gross income taxes	97,589	-
Accrued payroll and withholdings payable	302,322	211,311
Interfund payables for services provided and used	-	354,642
Intergovernmental payable	-	2,790
Compensated absences	472,447	484,077
Payable from restricted assets:		
Customer deposits	1,174,955	-
Contracts payable	241,426	3,131,642
Retainage payable	489,376	584,883
Accrued interest	1,907,478	2,764,122
Bonds payable	1,630,000	3,890,000
State revolving fund loans	-	3,263,000
Total Current Liabilities	<u>6,873,237</u>	<u>15,488,403</u>
Noncurrent Liabilities:		
Revenue bonds payable, net of unamortized premium and discounts	98,768,834	108,421,715
State revolving loans payable	-	99,416,768
Bond anticipation note payable	-	600,000
Payments in lieu of taxes payable to City of Evansville	<u>702,956</u>	<u>-</u>
Total Noncurrent Liabilities	<u>99,471,790</u>	<u>208,438,483</u>
Total Liabilities	<u>\$106,345,027</u>	<u>\$223,926,886</u>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	\$52,655,259	\$88,303,141
Restricted	5,592,262	21,949,889
Unrestricted	<u>2,541,744</u>	<u>9,921,558</u>
Total Net Position	<u>\$60,789,265</u>	<u>\$120,174,588</u>

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

**WATER AND WASTEWATER UTILITIES**  
**CITY OF EVANSVILLE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**December 31, 2014**

	<u>Water</u>	<u>Wastewater</u>
Operating Revenues:		
Residential	\$10,801,372	\$22,073,092
Industrial	3,002,751	4,854,760
Commercial	4,306,590	12,541,875
Public authority	708,992	1,286,273
Fire protection	2,937,599	-
Forfeited discounts	137,044	685,019
Refuse services	-	5,075,733
Tap-on fees	-	652,700
Pretreatment charges	-	290,000
Industrial surcharges and fines	-	184,763
Interfund charges for joint expenses	4,255,699	-
Other	337,945	109,597
	<u>26,487,992</u>	<u>47,753,812</u>
 Operating Expenses:		
Source of supply	905,511	-
Treatment	4,223,013	-
Transmission and distribution	5,173,953	-
Customer accounts	3,593,649	-
Collection system	-	5,880,922
Treatment and disposal	-	8,649,247
Customer service	-	4,481,076
Administrative and general	5,477,276	6,497,229
	<u>19,373,402</u>	<u>25,508,474</u>
Sub-totals	19,373,402	25,508,474
Depreciation	3,250,844	10,934,628
	<u>22,624,246</u>	<u>36,443,102</u>
Total Operating Expenses	<u>22,624,246</u>	<u>36,443,102</u>
 Net Operating Income	<u>3,863,746</u>	<u>11,310,710</u>
 Nonoperating Revenues:		
Interest income	26,340	38,054
BAB Subsidy income	-	326,620
Other	373,210	34,596
	<u>399,550</u>	<u>399,270</u>
Totals	<u>399,550</u>	<u>399,270</u>
 Nonoperating Expenses:		
Interest expense	2,594,203	3,570,994
Interest expense - amortization	198,749	1,018,345
	<u>2,792,952</u>	<u>4,589,339</u>
Totals	<u>2,792,952</u>	<u>4,589,339</u>
 Net Income Before Contributions and Transfers	<u>1,470,344</u>	<u>7,120,641</u>
 Capital Contributions and (Transfers):		
Payment in lieu of taxes	(1,135,896)	(2,003,300)
Contributed Capital	595,795	1,483,257
	<u>(540,101)</u>	<u>(520,043)</u>
Totals	<u>(540,101)</u>	<u>(520,043)</u>
 Change In Net Position	930,243	6,600,598
Total Net Position - Beginning	<u>59,859,022</u>	<u>113,573,990</u>
Total Net Position - Ending	<u>\$60,789,265</u>	<u>\$120,174,588</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, 2014**

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Cash received from customers and users	\$26,105,759	\$47,412,474
Cash paid to suppliers, employees and others	<u>(19,329,919)</u>	<u>(27,768,786)</u>
Net cash from operating activities	<u>6,775,840</u>	<u>\$19,643,688</u>
Cash flows from noncapital financing activities:		
Payment in lieu of taxes	<u>(1,135,896)</u>	<u>(2,003,300)</u>
Cash flows from capital and related financing activities:		
Proceeds from bond anticipation note	-	600,000
Proceeds from revenue bonds	23,093,863	25,471,683
Proceeds from state revolving fund loans	-	13,270,000
Proceeds from state revolving fund draw loans	-	1,355,569
Contributed capital	104,112	12,060
Acquisition and construction of capital assets	(14,597,153)	(33,516,524)
Redemption of BAN	(1,207,379)	-
Redemption of revenue bonds and state revolving fund loans	(23,544,525)	-
Other receivable	-	30,375
BAB subsidy payment	-	485,453
Principal paid on revenue bonds	(2,375,000)	(3,825,000)
Principal paid on state revolving fund loans	-	(2,938,000)
Interest paid on revenue bonds	(4,217,295)	(3,568,213)
Interest paid on state revolving loans	-	(2,870,763)
Bond issuance costs paid	(235,046)	(516,728)
Rate case costs paid	185,393	(185,393)
Contracts payable	(403,067)	2,731,626
Retainage payable	474,524	80,352
Nonoperating revenues	<u>373,210</u>	<u>34,596</u>
Net cash from capital and related financing activities	<u>(22,348,363)</u>	<u>(3,348,907)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	7,898,187	14,640,000
Purchase of investments	(45,662)	(35,365,000)
Interest income	<u>89,235</u>	<u>38,457</u>
Net cash from investing activities	<u>7,941,760</u>	<u>(20,686,543)</u>
Net (decrease)/increase in cash and cash equivalents	(8,766,659)	(6,395,062)
Cash and cash equivalents January 1, 2014	<u>31,469,948</u>	<u>45,752,532</u>
Cash and cash equivalents December 31, 2014	<u>22,703,289</u>	<u>\$39,357,470</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, 2014  
(Continued)**

	<u>Water</u>	<u>Wastewater</u>
Reconciliation of net operating revenues to cash provided from operations:		
Net operating income	\$3,863,746	\$11,310,710
Adjustments to reconcile net operating revenue to net cash provided from operating activities:		
Depreciation expense	3,250,844	10,934,628
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable - customer	(346,395)	(341,338)
Accounts receivable - other	(35,838)	-
Materials and supplies Inventory	(48,352)	(1,859)
Interfund services provided	(85,601)	-
Prepays	(45,000)	(2,472,998)
Customer deposits receivable	(3,212)	-
Increase (decrease) in:		
Accounts payable	136,525	(112,708)
Taxes payable	6,245	-
Accrued payroll and withholdings payable	50,123	177,309
Compensated absences payable	(44,718)	51,830
Customer deposits	77,473	-
Interfund services used	-	98,114
Service charge due petitioners	-	-
Net cash provided from operations	<u>\$6,775,840</u>	<u>\$19,643,688</u>
Noncash investing, capital and financing activities:		
Construction of capital assets on account	\$241,426	\$3,131,642
Capital assets transferred from construction in progress	1,664,053	9,391,852
Contributions of lines by developers	491,683	1,471,197

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 receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

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

D. Assets, 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.

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

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

*Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.*

*Open-end mutual funds are reported at fair value.*

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

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

2. 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

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

The 2 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.

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 \$4,217,295 and \$6,438,976, respectively. Of the amount, \$1,808,472 and \$3,052,571 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 Agency 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 8 sick days per year. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave is paid to employees through cash payments upon retirement to a maximum of 30 days, provided the employee has five years of continuous service.

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

- b. Vacation Leave - Utility employees earn vacation leave at rates from 10 days to 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.

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

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

Vacation and sick leave are accrued when incurred.

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 \$5,592,262 and \$21,949,889, respectively, of restricted net position which is restricted by bond resolution or other ordinances.

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, 2014, the Water and Wastewater Utilities had deposit balances in the amount of \$29,725,764 and \$68,742,470, respectively.

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

B. Capital Asset

Capital asset activity for the year ended December 31, 2014, was as follows:

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 432,435	\$ -	\$ -	\$ 432,435
Construction in progress	<u>7,567,531</u>	<u>15,640,532</u>	<u>1,664,053</u>	<u>21,544,010</u>
Total capital assets, not being depreciated	<u>7,999,966</u>	<u>15,640,532</u>	<u>1,664,053</u>	<u>21,976,445</u>
Capital assets, being depreciated:				
Infrastructure	103,264,730	4,641,646	2,558,037	105,348,339
Buildings	35,909,776	26,682	-	35,936,458
Improvements other than buildings	172,672	-	-	172,672
Machinery and equipment	<u>29,017,898</u>	<u>932,929</u>	<u>339,006</u>	<u>29,611,821</u>
Totals	<u>168,365,076</u>	<u>5,601,257</u>	<u>2,897,043</u>	<u>171,069,290</u>
Less accumulated depreciation for:				
Infrastructure	38,524,778	4,431,990	2,558,037	40,398,731
Buildings	15,008,579	731,392	-	15,739,971
Improvements other than buildings	13,754	3,424	-	17,178
Machinery and equipment	<u>4,720,704</u>	<u>838,628</u>	<u>339,006</u>	<u>5,220,326</u>
Totals	<u>58,267,815</u>	<u>6,005,434</u>	<u>2,897,043</u>	<u>61,376,206</u>
Total capital assets, being depreciated, net	<u>110,097,261</u>	<u>(404,177)</u>	<u>-</u>	<u>109,693,084</u>
Total capital assets, net	<u>\$ 118,097,227</u>	<u>\$ 15,236,355</u>	<u>\$ 1,664,053</u>	<u>\$ 131,669,529</u>
<b>Wastewater Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,849,669	\$ -	\$ 70,000	\$ 3,779,669
Construction in progress	<u>38,175,748</u>	<u>34,020,479</u>	<u>9,415,938</u>	<u>62,780,289</u>
Total capital assets, not being depreciated	<u>42,025,417</u>	<u>34,020,479</u>	<u>9,485,938</u>	<u>66,559,958</u>
Infrastructure	176,192,578	8,664,066	16,870	184,839,774
Buildings	155,337,484	2,771,936	55,635	158,053,785
Improvements other than buildings	1,816,714	20,010	-	1,836,724
Machinery and equipment	<u>10,139,732</u>	<u>1,994,473</u>	<u>25,416</u>	<u>12,108,789</u>
Totals	<u>343,486,508</u>	<u>13,450,485</u>	<u>97,921</u>	<u>356,839,072</u>
Less accumulated depreciation for:				
Infrastructure	56,542,419	5,087,697	4,587	61,625,529
Buildings	84,280,238	5,062,743	392	89,342,589
Improvements other than buildings	975,892	65,334	-	1,041,226
Machinery and equipment	<u>5,078,649</u>	<u>756,890</u>	<u>-</u>	<u>5,835,539</u>
Totals	<u>146,877,198</u>	<u>10,972,664</u>	<u>4,979</u>	<u>157,844,883</u>
Total capital assets, being depreciated, net	<u>196,609,310</u>	<u>2,477,821</u>	<u>92,942</u>	<u>198,994,189</u>
Total capital assets, net	<u>\$ 238,634,727</u>	<u>\$ 36,498,300</u>	<u>\$ 9,578,880</u>	<u>\$ 265,554,147</u>

WATER AND WASTEWATER UTILITIES  
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Depreciation expense was charged to functions/programs of the Utility for 2014 as follows:

	2014
Water	\$ 3,250,844
Wastewater	10,934,628
Total depreciation expense	\$ 14,185,472

C. Construction Commitments

At December 31, 2014, construction work in progress was composed of the following:

	2014	
<u>Project</u>	<u>Expended to December 31,</u>	<u>Committed</u>
Water lines and plant improvements	\$ 21,544,010	\$ 18,379,154
Sewer modifications, extensions, and treatment plant	62,780,289	69,976,693
Totals	\$ 84,324,299	\$ 88,355,847

D. Interfund Receivables and Payables

As of December 31, 2014, the Wastewater Utility Operating Fund owed the Water Utility Operating Fund \$354,642. The Construction Bond Funds also owed \$60,361.74 at the end of December 31, 2014. 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 Water Utility's Board during December of 2011 approved the issuance of a Bond Anticipation Note (BAN) not to exceed the amount of \$4,000,000 for various waterworks improvements, due on or before December 1, 2012. 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. In November 2012, the Water Utility Board decided to extend the BAN due to a delay in issuing Water Utility Long-Term Bonds for the purpose of constructing various waterworks improvements and retiring the BAN. The renewed BAN was sold to the EBB with substantive terms similar to that of the prior BAN, and became due on or before November 15, 2013.

The Waterworks Revenue Bonds, Series 2013A and the Waterworks Revenue Bonds and Series 2013C Bonds refinanced portions of the renewed BAN. There was a portion of the BAN not eligible to be refinanced from each respective bond issue in the approximate amount of \$1,200,000. Again, the Water Utility Board decided to extend the BAN and to repay through Utility Revenues. The renewed BAN was sold to the EBB with substantive terms similar to that of the prior BANs on November 27, 2013, in the not to exceed amount of \$1,300,000, due on or before November 26, 2014.

WATER AND WASTEWATER UTILITIES  
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The Wastewater Utility during March of 2014 approved the issuance of a 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 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, 2014, was as follows:

2014	Beginning Balance	Issued/ Draws	Redeemed/ Repayments	Ending Balance
Water Utility:				
Bond anticipation note	\$ 1,207,379	\$ -	\$ (1,207,379)	\$ -
Wastewater Utility:				
Bond anticipation note	-	600,000	-	600,000
<b>Total Short-term liabilities</b>	<b><u>\$ 1,207,379</u></b>	<b><u>\$ 600,000</u></b>	<b><u>\$ (1,207,379)</u></b>	<b><u>\$ 600,000</u></b>

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%	\$ 32,580,000	\$ 177,543	\$ 32,402,457
2013A Waterworks revenue bonds	3.00% to 5.00%	29,060,000	(511,155)	29,571,155
2013C Waterworks revenue bonds	1.60% to 5.50%	15,500,000	36,552	15,463,448
2014B Waterworks revenue refunding bonds	3.00% to 5.00%	20,320,000	(2,641,774)	22,961,774
2010 Wastewater revenue bonds - Series B-1	3.20% to 6.50%	26,605,000	(39,709)	26,644,709
2013A Wastewater revenue refunding bonds	1.50%	28,880,000	-	28,880,000
2013B Wastewater revenue bonds	3.00% to 6.50%	29,255,000	(2,064,640)	31,319,640
2014C Wastewater revenue bonds	2.00% to 3.50%	<u>25,255,000</u>	<u>(212,366)</u>	<u>25,467,366</u>
<b>Totals</b>		<b><u>\$ 207,455,000</u></b>	<b><u>\$(5,255,549)</u></b>	<b><u>\$ 212,710,549</u></b>

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 Sewer. The tax credits are equal to 35 percent of the total coupon interest payable. The tax credits received by the Utility will be recorded as revenue in the year the credit it is earned.

WATER AND WASTEWATER UTILITIES  
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2. Refunding Bonds

On April 16, 2013, the Water Utility Board approved the issuance of the aggregate principal amount not to exceed \$29,150,000 in Waterworks Revenue Refunding Bonds, Series 2014B. On July 2, 2014, the bonds were issued in the principal amount of \$20,320,000 to currently refund \$2,770,000 of the outstanding Waterworks Refunding Bonds of 2005, and to advance refund \$19,920,000 of the outstanding Waterworks Revenue Bonds of 2004. Bond proceeds together with funds on hand were used to purchase U.S. government securities and placed in an irrevocable escrow account to refund the outstanding bonds. The reacquisition price exceeded the net carrying value of the prior bonds by \$1,188,876. This amount is being expensed over the remaining life of the new bond as a deferred outflow.

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2015	\$ 1,630,000	\$4,440,471	\$ 3,890,000	\$ 4,020,887
2016	2,475,000	4,363,922	5,275,000	4,051,445
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
2020-2023	14,285,000	14,341,050	25,170,000	13,199,941
2024-2028	23,235,000	13,635,253	23,345,000	12,216,795
2029-2033	30,885,000	7,435,144	25,380,000	5,803,768
2034-2038	16,205,000	904,266	10,710,000	901,625
2039-2043	-	-	-	-
Totals	<u>\$ 97,460,000</u>	<u>\$57,467,806</u>	<u>\$ 109,995,000</u>	<u>\$ 51,676,666</u>

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 2010A, 2012E, and 2014D loans established a maximum draw of \$7,120,000, \$5,975,000, and \$35,415,000, respectively. As of December 31, 2014, the loan principal amount drawn for 2010A, 2012E, and 2014D loans were \$7,120,000, \$5,975,000 and \$76,270, respectively. Annual debt service requirements for the 2014D loan will not be determined until planned construction projects are completed. Principal repayments on the 2010A and 2012E loans to date total \$3,000 and \$2,000, respectively.

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 \$4,287,229 and \$2,128,208 for the 2014A and 2014B loans, respectively.

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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, 2011C, 2011D, 2014A, and 2014B loans established a maximum draw of \$7,130,000, \$37,518,000, \$18,452,000, \$27,730,498, \$3,800,000, \$1,215,000, \$7,510,000, and \$5,760,000, respectively. At the completion of construction, the outstanding principal balance was amortized over a 20 year period. Annual debt service requirements to maturity for the loans, including interest of \$40,056,328 are as follows:

2015	\$ 6,692,238
2016	8,862,767
2017	8,861,508
2018	8,860,015
2019	8,859,146
2020-2023	35,443,925
2024-2028	56,704,482
2029-2033	39,102,856
2034-2038	<u>4,687,889</u>
 Totals	 <u>\$ 178,074,826</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

<u>2014</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Revenue bonds payable	\$ 102,205,000	\$ 20,320,000	\$ 25,065,000	\$ 97,460,000	\$ 1,630,000
Payment in lieu of tax	702,956	-	-	702,956	-
Compensated absences	<u>517,165</u>	<u>-</u>	<u>44,718</u>	<u>472,447</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 103,425,121</u>	<u>\$ 20,320,000</u>	<u>\$ 25,109,718</u>	<u>\$ 98,635,403</u>	<u>\$ 1,630,000</u>
Wastewater Utility:					
Revenue bonds payable	\$ 88,565,000	\$ 25,255,000	\$ 3,825,000	\$ 109,995,000	\$ 3,890,000
State revolving loan	90,992,199	14,625,569	2,938,000	102,679,768	3,263,000
Compensated absences	<u>432,247</u>	<u>51,830</u>	<u>-</u>	<u>484,077</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 179,989,446</u>	<u>\$ 39,932,399</u>	<u>\$ 6,763,000</u>	<u>\$ 213,158,845</u>	<u>\$ 7,153,000</u>

G. Restricted Assets

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

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	Water	Wastewater
Revenue bond covenant accounts	\$ 26,165,278	\$ 62,809,841
Customer deposits cash	1,167,345	-
Customer deposits receivable	8,669	-
Other restricted cash	454,726	504,417
Interest receivable	13,601	38,383
 Total restricted assets	 \$ 27,809,619	 \$ 63,352,641

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.

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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 2014 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 percent increase over the present rates effective March 18, 2013, Phase II of the increase is an 8.54 percent increase over the Phase I rates effective January 1, 2014, and Phase III of the increase is an 7.85 percent increase over the Phase II rates to be effective January 1, 2015. The Utility has approximately 61,616 customers.

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 52,663 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. Federal Emergency Management Agency (FEMA) Reimbursements

In December of 2014, the Water Utility received \$42,701 from FEMA for reimbursement of higher than normal expenses related to the "Polar Vortex" that occurred in January 2014. These colder than normal temperatures resulted in excessive water distribution main breaks in various areas around the City.

E. 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.

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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 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.

F. 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 40 percent 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. The matter is now pending and negotiations are ongoing.

G. 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.

WATER AND WASTEWATER UTILITIES  
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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 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.

H. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Retirement System (INPRS), a defined benefit pension plan. INPRS is a cost sharing multiple-employer retirement plan, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the INPRS Board, most requirements of the system and give the City authority to contribute to the plan. The INPRS retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3 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) 526-1687

Funding Policy

The Board of Trustees of INPRS establishes the contribution requirements of plan members for INPRS. The total contributions made to INPRS by the Utilities during the period were \$1,556,589.

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.

#### 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/>.