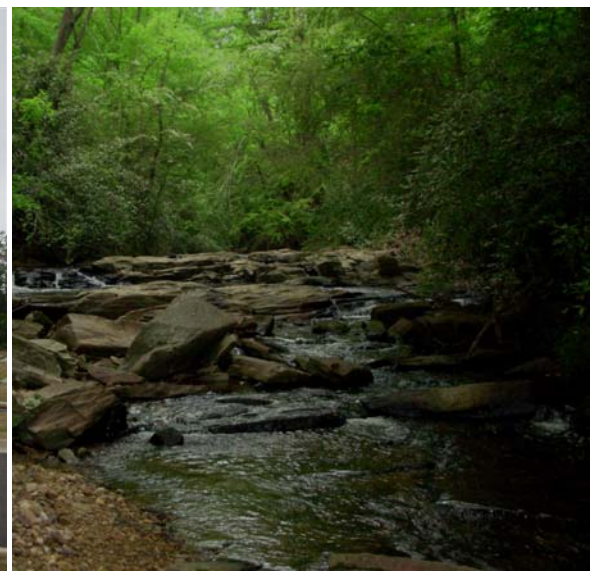


The Water Works Board of the City of Auburn



ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2014

The Water Works Board of the City of Auburn

Annual Financial Report
For the Fiscal Year Ended September 30, 2014

Board of Directors

Jeff Clary, Ed.D., Chairman

Term expires January 2016

Butch Brock, Vice Chairman

Term expires August 2015

Jennifer Chambliss, Esq., Secretary

Term expires April 2018

David Mines, Member

Term expires January 2020

Brad Wilson, Member

Term expires June 2020

Management

Charles M. Duggan, Jr., City Manager

Eric A. Carson, PE, Water Resource Management Director

Penny L. Smith, CPA, CGFM, Finance Director/Treasurer

Kathy C. James, Utility Billing Financial Manager

Prepared by

Finance Department

Penny L. Smith, CPA, CGFM, Finance Director/Treasurer

Allison D. Edge, CPA, Assistant Finance Director/Treasurer

Kathy C. James, Utility Billing Financial Manager

Thomas J. Prouhet, Finance Information Officer



THE WATER WORKS BOARD OF THE CITY OF AUBURN

TABLE OF CONTENTS

SEPTEMBER 30, 2014

	<u>Page</u>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (required supplementary information)	3
Basic Financial Statements	
Statement of Net Position	16
Statement of Revenues, Expenses, and Changes in Net Position.....	18
Statement of Cash Flows.....	19
Notes to Financial Statements	21
Supplementary Information	
Schedule of Operating Expenses.....	36
Five Year Schedule of Various Operating Data.....	40
Appendices	
Appendix I.....	42
Appendix II.....	43
Appendix III.....	44





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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Water Works Board of the City of Auburn
Auburn, Alabama

We have audited the accompanying financial statements of the business-type activities of the Water Works Board of the City of Auburn, a component unit of the City of Auburn, Alabama, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 entity's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Water Works Board of the City of Auburn as of September 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Works Board of the City of Auburn, Alabama's basic financial statements. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The five year schedule of various operating data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Machen, McChesney & Chastain, LLP

Auburn, Alabama
March 11, 2015

The Water Works Board of the City of Auburn
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2014

This section of the Water Works Board of the City of Auburn's (the Board) annual financial report presents management's discussion and analysis (MD&A) of the Board's financial performance during the fiscal year that ended on September 30, 2014. The financial statements contained in this report document the financial performance of the Board. The Board retains ownership and policy making authority for the water system and has contracted the day to day management of the water system to the City of Auburn, Alabama.

The Board is a separate public corporation, incorporated under the laws of the State of Alabama on December 13, 1947. However, since the Board members are appointed by the City Council of the City of Auburn and the Board's financial structure meets certain other criteria, the Board is classified as a component unit of the City of Auburn; and the Board's financial information is included in the City's Comprehensive Annual Financial Report. Financially, the Board operates as an enterprise, using the full accrual basis of accounting (business-type accounting).

Management encourages the reader of this letter to consider the information presented here in conjunction with the financial statements and related narrative notes presented in this report. Additional information is available from the City of Auburn's FY 2014 Comprehensive Annual Financial Report and the Board's 2013 Consumer Confidence Report, both of which are published on the City of Auburn web site (www.auburnalabama.org).

Financial Highlights

- The assets of the Board exceeded its liabilities at the close of the fiscal year by \$46.7 million (net position). Of this amount, the Board showed unrestricted assets of \$3.3 million, restricted assets of \$2.9 million, and \$40.5 million in net investment in capital assets.
- The Board experienced a 4.0% increase in net position from \$44.9 million at September 30, 2013 to \$46.7 million at September 30, 2014.

Condensed Financial Information

The following condensed financial information provides an overview of the Board's financial status for the fiscal years ended September 30, 2014 and 2013.

Assets, Liabilities and Net position

A summarized comparison of the Board's assets and liabilities at year-end for fiscal years 2014 and 2013 is presented in Tables 1 and 3. For a more detailed comparison of the Board's financial position at fiscal year-end as compared to the prior year-end, please see Appendix I.

Table 1 **Excerpt from Statement of Net Position**
September 30

	2014	2013
	\$	\$
Assets		
Current assets	5,796,602	8,270,646
Restricted assets	2,925,828	2,984,973
Capital assets (net)	59,115,528	55,305,679
Total assets	<u>67,837,958</u>	<u>66,561,298</u>
Deferred outflows of resources	1,302,434	1,468,703
Total assets and deferred outflows of resources	<u><u>69,140,392</u></u>	<u><u>68,030,001</u></u>

Assets and Deferred Outflows of Resources

Total assets increased in fiscal 2014 by \$1.3 million (1.9%); changes involved the following:

- Current assets decreased by \$2.5 million (29.9%), primarily attributable to a decrease in cash, including certificates of deposit, of \$1.9 million (31.9%) and a decrease in accounts receivable from the City of Auburn of \$521,768 (82.2%). During fiscal 2014, the Board paid cash for several capital projects, such as the Auburn Tech Park West Surge Tank projects and major building modifications and upgrades at the James Estes Water Treatment Plant that included Phase 4 Supervisory Control and Data Acquisition (SCADA) System, Influent and Waste Valve Actuator Replacement, and Filter Turbidimeter Upgrade.
- Capital assets, net of depreciation, increased by \$3.8 million (6.9%) from the prior year, as shown in Table 2. The change is due mainly to the increase in construction in progress of \$4.9 million (574.4%). The majority of this increase was the \$4.7 million balance for the Lake Ogletree Raw Water Pump Station. It was completed and converted to a permanent fixed asset in early fiscal year 2015.

Table 2 **Changes in Capital Assets**
At September 30

Capital Assets	2014	2013
	\$	\$
Land and land clearing	1,391,165	1,391,165
Construction in progress	5,747,763	852,346
Utility system and plant	70,088,223	69,611,011
Buildings and improvements	5,690,903	5,675,962
Mobile equipment	981,406	890,077
Office equipment	533,826	538,366
Tools	386,287	326,025
Capital assets before depreciation	84,819,573	79,284,952
Accumulated depreciation	<u>(25,704,045)</u>	<u>(23,979,273)</u>
Net capital assets	<u><u>59,115,528</u></u>	<u><u>55,305,679</u></u>

Assets with a cost of \$838,000 were capitalized during fiscal 2014. These included the following:

- construction of the Auburn Technology Park West surge tank, and
- several replacement vehicles in accordance with the Board’s equipment replacement plan.

Construction in progress costs at September 30, 2014, were \$5.7 million. The most significant components of construction in progress at fiscal year-end were construction of the Lake Ogletree Raw Water Pump Station and renovation of the James Estes Water Treatment Plant building.

Table 3 **Excerpt from Statement of Net Position**
September 30

	<u>2014</u>	<u>2013</u>
	<u>\$</u>	<u>\$</u>
Liabilities		
Current liabilities payable from current assets	1,571,673	1,651,170
Current liabilities payable from restricted assets	911,930	762,606
Long-term liabilities	19,331,249	20,100,629
Customer deposits	645,242	642,676
Total liabilities	<u>22,460,094</u>	<u>23,157,081</u>
Net position		
Invested in capital assets, net of debt	40,495,562	36,122,788
Restricted for		
Debt service (expendable)	1,679,626	1,705,419
Capital projects (expendable)	1,246,202	1,279,554
Unrestricted	3,258,908	5,765,159
Total net position	<u>46,680,298</u>	<u>44,872,920</u>

Liabilities

The Board’s total liabilities at the 2014 year-end were \$22.4 million, \$696,987 (3.0%) less than in 2013. A large component of this change was a decrease in long term liabilities of \$769,380 (3.8%) due to principal payments and amortization of deferred amounts on long-term bonds payable. Current liabilities payable from current assets decreased by \$79,497 (4.8%), mainly due to a decrease in accounts payable to vendors and to the City for salary reimbursements. Current liabilities payable from restricted assets increased by \$149,324 (19.6%), due to an increase in bonds payable and retainage payable.

The Water Supply Agreement with the Utilities Board of the City of Opelika (Opelika Utilities) gives the Board the right to purchase up to 3.6 million gallons of water per day at a contract rate. Additionally, under this ‘take or pay’ agreement, the Board has an obligation to purchase not less than 138 million gallons of water per year. The Board renewed the Agreement in October 2012 for a twenty-year period.

At 2014 fiscal year-end, the Board had \$19.9 million in bond debt outstanding, of which \$710,000 will mature during fiscal year 2015. The Board’s long-term debt consists primarily of a revenue bond. The latest maturity date for the Board’s bond is 2032.

All debt issued by the Board is secured by revenues based on current water rates. In May 2010, Moody's Investors Service affirmed the Board's rating at Aa2. The Moody's rating report cited the Board's solid financial position, modest debt burden, and growing customer base.

Net Position

The increase in net position at September 30, 2014 was \$1.8 million (4.0%), resulting in a balance of \$46.7 million. This change is primarily due to the following: operating income of \$1.3 million and capital contributions of \$1.2 million (see Table 4).

Results of Operations

The Board experienced an operating profit in both fiscal years 2014 and 2013, of \$1.3 million and \$1.0 million, respectively. The increase in operating income of \$217,680 (21.1%) over fiscal year 2013 was due primarily to an increase in water sales revenues of 5.9% and a decrease in operating expenses of 1.7% compared to fiscal year 2013. Details of this change are included in the Operating Revenues and Operating Expenses sections of this MD&A.

Table 4 illustrates the Board's operating revenues and expenses and change in net position.

Table 4

Condensed Operating Statement Fiscal Year Ending September 30

	2014	2013
	\$	\$
Operating revenues		
Water sales to consumers	7,563,643	7,354,546
Water sales to Auburn University	1,214,332	1,178,154
Other operating revenues	795,972	964,186
Total operating revenues	<u>9,573,947</u>	<u>9,496,886</u>
Operating expenses		
Depreciation and amortization	2,073,076	2,009,427
Other operating expenses	6,249,547	6,453,815
Total operating expenses	<u>8,322,623</u>	<u>8,463,242</u>
Operating income (loss)	<u>1,251,324</u>	<u>1,033,644</u>
Nonoperating revenues (expenses)	(681,966)	(656,033)
Capital contributions	1,238,020	901,084
Special item	-	738,633
Increase (decrease) in net position	<u><u>1,807,378</u></u>	<u><u>2,017,328</u></u>

Operating Revenues

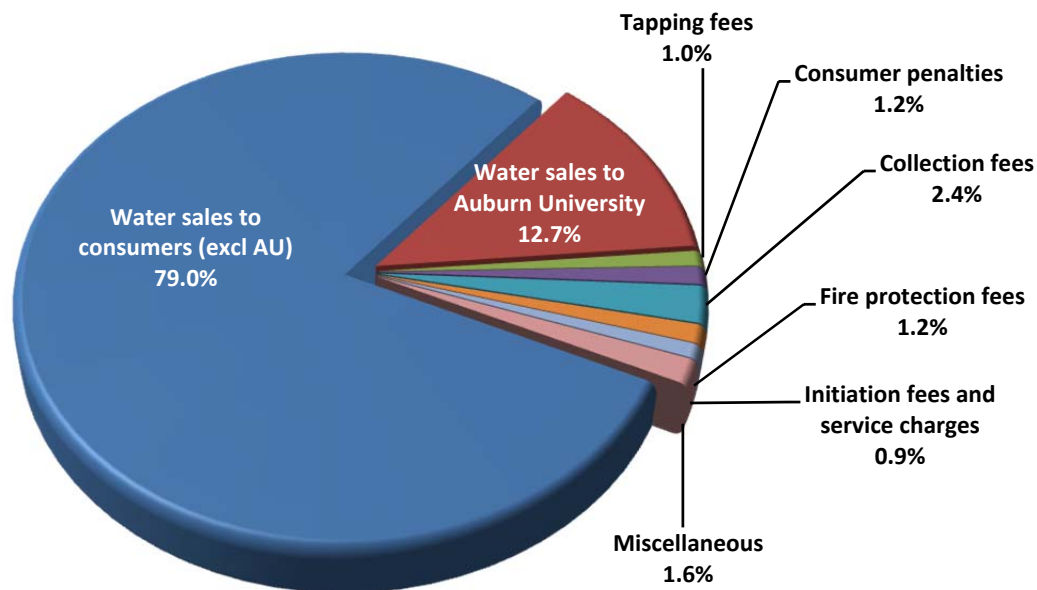
Total operating revenues for fiscal 2014, which include water sales, tap and meter set fees, and collection fees, increased \$77,061 (0.8%). This slight change is attributed mainly to an increase in water sales offset by a significant decrease in miscellaneous revenues. The largest component of operating revenue is water sales (91.7%). In fiscal 2014, water revenue from consumers, other than

Auburn University, increased 2.8%; water revenue from Auburn University increased 3.1%. The Board sold 2.2 billion gallons of water in 2014, a decrease of 51 million gallons (2.3%) from 2013.

Effective October 1, 2013, the Board implemented a minimum charge of \$4.20 per irrigation meter per monthly billing cycle. This minimum charge helps fund the cost of reading and billing for the irrigation meters and includes 1,000 gallons of water usage at no additional charge. In September 2013, the Board amended a rate resolution adopted in July 2011 that recommended a rate increase for fiscal years 2013 and 2014. The amendment postponed the water service rate increase scheduled for October 1, 2013; therefore, the minimum monthly bill of 3,000 gallons for residential water customers remained constant at \$12.61 during fiscal 2014.

Graph 1 and Table 5 illustrate the Board’s various sources of operating revenues.

Graph 1 **2014 Operating Revenues**



- Rainfall statistics at Lake Ogletree indicated that rainfall decreased by 9.6% from 2013 to 2014. Normal annual rainfall at the lake is approximately 51 inches. Measured rainfall for fiscal 2014 at the lake was 52 inches; whereas, measured rainfall for fiscal 2013 was 57 inches, significantly above the average level.
- Revenues from regular meters and irrigation meters increased by 2.1% and 12.7%, respectively. The increase in revenues from irrigation meters is directly related to the implementation of the minimum bill for irrigation meters in October 2013, described in the Results of Operations section of this MD&A.
- Miscellaneous revenues decreased by \$244,654 (61.4%). Two main items included in miscellaneous revenues are Residential Rental Property Maintenance Program (Program) fees and salary transfers from the City. Program fees increased \$16,400 (81.4%) from 2013

to 2014. The Board approved a change in the Program effective fiscal year 2014, which included an increase in the annual fee from \$5 to \$10 per unit and a minimum requirement of 10 units to participate in the Program. Salary reimbursements from the City decreased \$111,737 (100.0%). In fiscal 2014, the Board began accounting for reimbursements from the City of Auburn for salaries as an offset in the departmental salary expense accounts rather than in revenues.

Table 5 **Operating Revenue Sources**
Fiscal Year Ended September 30

	2014	2013
	\$	\$
Water sales to consumers, excluding AU	7,563,643	7,354,546
Water sales to Auburn University	1,214,332	1,178,154
Tapping fees	95,245	95,648
Consumer penalties	111,331	82,645
Collection fees	233,083	180,116
Fire protection fees	114,177	118,390
Initiation fees and service charges	88,417	89,014
Miscellaneous	153,719	398,373
Total operating revenues	<u>9,573,947</u>	<u>9,496,886</u>

Water sold to customers other than Auburn University is the single largest component of total operating revenues. Changes in other operating revenue sources influenced the trend in total operating revenues. Consumer penalties increased by \$28,686 (34.7%) and collection fees increased in fiscal 2014 by \$52,967 (29.4%). Penalties are charged on delinquent accounts and collection fees are charged to cover the cost of returned checks and automated clearinghouse items. In fiscal 2013, as a courtesy, the Board did not charge penalties for two billing cycles during the implementation of the new billing software.

Operating Expenses

During fiscal 2014, the Board's operating expenses decreased \$140,619 (1.7%) from the prior year. Graph 2 and Table 6 (on the next page) illustrate the categories of the Board's operating expenses. Notable changes and other smaller items are explained below.

Graph 2

2014 Operating Expenses by Function

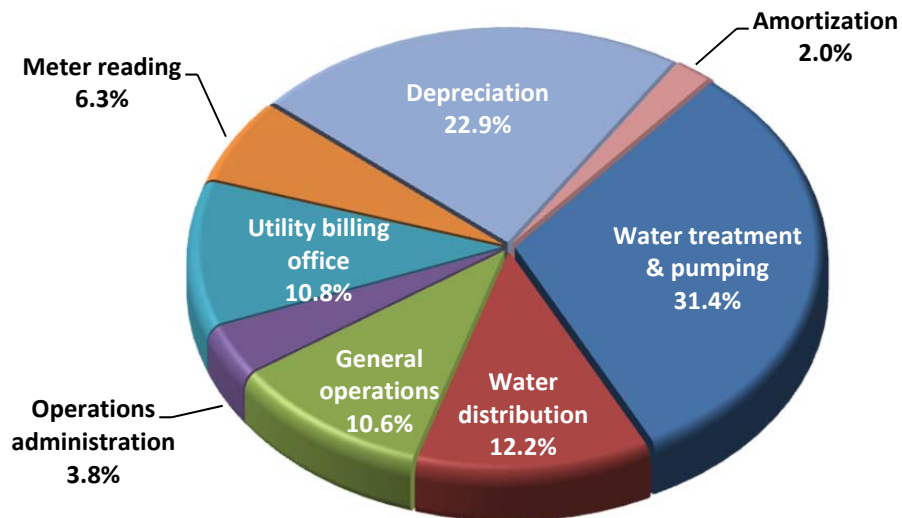


Table 6

**Operating Expenses by Function
Fiscal Year Ended September 30**

	<u>2014</u>	<u>2013</u>
	\$	\$
Water treatment & pumping	2,620,346	2,928,236
Water distribution	1,017,529	973,960
General operations	878,465	1,249,338
Operations administration	314,221	155,566
Utility billing office	896,441	706,904
Meter reading	522,545	439,811
Depreciation	1,906,808	1,730,191
Amortization	166,268	279,236
Total operating expenses	<u>8,322,623</u>	<u>8,463,242</u>

- In the water treatment and pumping division, total expenses decreased \$307,891 (10.5%). This decrease in expenses was predominantly for commodities. Wholesale water purchases decreased by 24.0%; chemical supplies cost increased by 9.2%. For seven months of fiscal year 2013, the Water Treatment Plant was unable to produce at full capacity due to the construction of Clearwell No. 4. During this time the plant produced three million gallons per day instead of the normal eight million gallons per day. Only two of the four finish pumps were in operation during construction, resulting in the need to buy more water from Opelika Utilities to meet Auburn’s water demand. The plant returned to capacity production in fiscal year 2014.
- In fiscal 2014, the Board began accounting for reimbursements for City of Auburn and Water Board salaries through the departmental salary accounts instead of through general

operations. This change affected the following divisions: general operations, operations administration, and utility billing.

- In the general operations division, total expenses decreased by \$370,873 (29.7%). This change is primarily created by the offsetting of a decrease in the salary contribution to the City of Auburn of 100.0% and an increase in bad debt expense of 43.6% .
- In the operations administrative division, total expenses increased by \$158,655 (102.0%). Salaries and employee benefits increased by 121.1% in fiscal 2014 over 2013.
- In the utility billing division, total expenses increased by \$189,537 (26.8%). Salaries and employee benefits increased by 27.6%.
- In the meter reading division, total expenses increased by \$82,734 (18.8%). The increase was due mainly to an increase in vehicle parts of \$1,547 (88.9%) and meter parts of \$73,273 (34.6%), along with a decrease in minor tools expense of \$2,037 (84.5%)
- Amortization expense decreased by \$112,968 (40.5%). The decrease is mainly a result of the water rights with the City of Opelika Water Board being fully amortized during fiscal year 2013.

Non-operating revenues and expenses consist of items that are not directly related to the operation of the Board’s water system. These, primarily, include investment income and expenses related to borrowed funds.

Table 7 lists the components of the Board’s non-operating revenues and expenses for fiscal years 2014 and 2013.

	2014	2013
	\$	\$
Interest income	60,393	66,057
Gain (loss) on disposal of assets	(4,378)	60,072
Net decrease in fair value of investments	(26,395)	(26,697)
Bond trustee fees	(2,332)	(2,120)
Interest expense	(709,254)	(753,345)
Non-operating revenues (expenses)	(681,966)	(656,033)
Capital contributions from developers	469,720	398,269
Access fees	768,300	502,815
Capital contributions	1,238,020	901,084
Total non-operating revenues (expenses) and capital contributions	556,054	245,051

In fiscal 2014, interest income decreased by \$5,664 (8.6%) from the prior year. This decrease is a result of the continued decline in interest rates and a decline in invested funds as the Board used excess cash for projects in fiscal 2014. The interest rate environment is expected to continue to

remain relatively stable with investment rates remaining at or slightly below current levels. This rate environment makes it increasingly difficult to earn interest on idle funds that the Board wishes to invest.

Interest expense on borrowed funds decreased by \$44,091 (5.9%) in fiscal 2014, due mainly to the increase in capitalized interest recorded. Capitalized interest is the interest related to a capital project and is added to the cost of the asset. An increase in capitalized interest results in a decrease in interest expense proportionally.

Capital Contributions

Capital contributions are derived from two distinct sources, access fees and capital contributions from developers.

Access fees are restricted for use in expanding the Board’s water system capacity and are charged to new developments. Access fees provided revenues of \$768,300 and \$502,815 in fiscal 2014 and 2013, respectively. Since access fees are related to growth within the water system, revenues from this source will vary from year to year depending on the number and type of construction projects during any given year.

Capital contributions from developers are received from developers who are required to install water lines within their projects. Typically, these lines are donated to the Board for ongoing maintenance. These donated capital assets are recorded at their estimated fair value as of the date of donation. The Board received donated water infrastructure valued at \$469,720 in fiscal 2014. Capital and cash contributions from developers’ donations of water lines and related infrastructure increased by \$71,451 (18.0%) from the prior year.

The amount of such donated capital assets is highly variable, depending on the number and size of new developments completed each fiscal year. Capital contributions from developers consisted of the projects completed during the year ended September 30, 2014 (see Table 8).

**Table 8
Lines Contributed by Developers**

<u>Residential Subdivision</u>	<u>\$</u>
319 Bragg Avenue	4,000
Cotswolds 2A	41,600
Donahue Ridge 2A	24,800
The Dakota	93,480
Grove Hill 14th	38,160
Highlands Phase 2	29,600
Laurel Grove	61,120
Shelton Cove Phase 2	23,680
Yarbrough Farms Section M	61,080
Yarbrough Farms Phase 3	48,800
 <u>Commercial Development</u>	
Wire Road Commercial	43,400
	<u>469,720</u>

Other Financial Information

Rate Changes

In 2013, the Board engaged a utility rate consultant to review and update a rate study that was originally conducted in late fiscal 2011. This study evaluated the Board's ability to meet the current and projected operating and capital expenditure demands with existing revenues. In May 2014, the rate study consultant, in conjunction with staff, provided a recommendation of necessary water rate levels to meet revenue requirements for the next five consecutive fiscal years ending September 30, 2019. No rate adjustments were recommended by the rate consultant for fiscal years 2014 and 2015. The minimum monthly bill of 3,000 gallons for residential water customers remained constant at \$12.60 for fiscal years 2014 and 2015.

Projects in Progress

The Board has authorized projects that are underway in fiscal 2015. These projects include

- spillway improvements at Lake Ogletree, and
- installation of fiber optic from Dean Road to Estes Water Treatment Plant.

Projects included in the Board's long-term capital improvement plan are

- on-site sodium hypochlorite generation at the Estes Water Treatment Plant, and
- modification of carbon contact basin piping at the Estes Water Treatment Plant.

Utility Billing

In fiscal year 2013, the Board implemented new financial software to process monthly utility bills and payments. The software included efficiencies in customer account and usage tracking, and analysis. Furthermore, the software has allowed for additional automated payment options, such as the ability to pay by phone with a credit card using the interactive voice recognition (IVR) system, and 24-hour online access for real time account information. For fiscal year 2014, the average number of payments accepted via the IVR system and through online web extensions was approximately 723 and 5,386 per month, respectively. The Utility Billing Office (UBO) continued to accept credit card payments via phone, on-line, and in person in 2014. For fiscal year 2014, the average number of customers who paid with a credit card was approximately 7,323 per month, a 17.7% increase from 2013. Phone and walk in credit card payments increased by 21.9%, and internet payments increased by 16.2%.

Economic Factors

As the economy within the State of Alabama and the nation as a whole continues to improve marginally, Auburn has remained a relatively stable and growing economy, although the rate of growth has slowed. The City's unemployment rates typically compare favorably with the State and national rates. The most recent data available from the Alabama Department of Labor show that for September 2014, Auburn's unemployment rate was 4.9%. The State's unemployment rate in September 2014 was 6.2%; the national rate was 5.7% (US Bureau of Labor Statistics).

The City's aggressive, yet selective, industrial and commercial recruitment strategies, the presence of Auburn University, and the exceptional City school system, all combine to position Auburn as a strong municipal economy. The Board benefits from the stable economy of Auburn, allowing it to expand and meet the water needs of the community.

Conclusion

This financial report is designed to provide Board customers, Auburn citizens, investors and creditors with a general overview of the Board's finances, and to demonstrate the Board's accountability for the public assets under its management. Please contact the City of Auburn Finance Department, 144 Tichenor Avenue, Suite 5, Auburn, Alabama 36830 (telephone 334-501-7220), with any questions or to request additional financial information about the Board. For information about the Board's water supply, water treatment and distribution system and watershed management activities, please contact the City of Auburn Water Resource Management Department, 1501 West Samford Avenue, Auburn, Alabama 36832 (telephone 334-501-3060). Please contact the Finance Department's Utility Billing Office (UBO) with questions regarding billing and collections. The UBO is also located at 1501 West Samford and may be contacted at 334-501-3050. Questions and information requests may also be submitted via the City's website: www.auburnalabama.org.

Respectfully submitted,



Charles M. Duggan, Jr.
City Manager



Penny L. Smith, CPA,
CGFM
Finance Director



Eric A. Carson, P.E.
Water Resource
Management Director



Basic Financial Statements

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF NET POSITION

SEPTEMBER 30, 2014

ASSETS	
Current assets	
Cash	\$ 4,137,748
Accounts receivable, net	1,092,474
Accounts receivable, City of Auburn	113,270
Inventory	407,356
Other receivables	1,236
Other current assets	44,518
Total current assets	<u>5,796,602</u>
Restricted assets	
Cash and cash equivalents	1,375,491
Investments	<u>1,550,337</u>
Total restricted assets	<u>2,925,828</u>
Capital assets, nondepreciable	
Land and land clearing	1,391,165
Construction in progress	<u>5,747,763</u>
Total capital assets, nondepreciable	<u>7,138,928</u>
Capital assets, depreciable	
Utility system and plant	70,088,223
Buildings and improvements	5,690,903
Office equipment	533,826
Mobile equipment	981,406
Tools	<u>386,287</u>
	77,680,645
Less accumulated depreciation	<u>(25,704,045)</u>
Capital assets, depreciable, net	<u>51,976,600</u>
Total assets	<u>67,837,958</u>
Deferred outflows of resources	
Deferred amounts on refunding	<u>1,302,434</u>
Total assets and deferred outflows of resources	<u>\$ 69,140,392</u>

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF NET POSITION (CONTINUED)

SEPTEMBER 30, 2014

LIABILITIES	
Current liabilities payable from current assets	
Accounts payable	\$ 1,164,618
Accounts payable, City of Auburn	373,433
Accrued expenses	25,446
Payroll taxes payable	<u>8,176</u>
Total current liabilities payable from current assets	<u>1,571,673</u>
Current liabilities payable from restricted assets	
Current portion of bonds payable	710,000
Accounts payable, including retainages	131,902
Interest payable	<u>70,028</u>
Total current liabilities payable from restricted assets	<u>911,930</u>
Long-term liabilities	
Bonds payable, net of current portion	19,212,401
Accumulated annual leave	89,617
Postemployment benefits payable	<u>29,231</u>
Total long-term liabilities	<u>19,331,249</u>
Other liabilities	
Customer water deposits	<u>645,242</u>
Total liabilities	<u>22,460,094</u>
NET POSITION	
Net investment in capital assets	40,495,562
Restricted for:	
Debt service	1,679,626
Capital projects	1,246,202
Unrestricted	<u>3,258,908</u>
Total net position	<u>\$ 46,680,298</u>

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2014

Operating revenues	
Metered sales to consumers	\$ 8,777,975
Fire protection fees	114,177
Consumer penalties	111,331
Initiation fees and service charges	88,417
Collection fees	233,083
Tapping fees	95,245
Miscellaneous income	<u>153,719</u>
Total operating revenues	<u>9,573,947</u>
Operating expenses	
Depreciation expense	1,906,808
Amortization expense - deferred amount on refunding	166,268
Other operating expenses	<u>6,249,547</u>
Total operating expenses	<u>8,322,623</u>
Operating income	<u>1,251,324</u>
Nonoperating revenues (expenses)	
Interest income	60,393
Loss on disposal of assets	(4,378)
Net decrease in the fair value of investments	(26,395)
Bond trustee fee	(2,332)
Interest expense	<u>(709,254)</u>
Total nonoperating revenues (expenses)	<u>(681,966)</u>
Income before contributions	<u>569,358</u>
Capital contributions	
From developers	469,720
From access fees	<u>768,300</u>
Total capital contributions	<u>1,238,020</u>
Increase in net position	<u>1,807,378</u>
Net position, beginning of year	<u>44,872,920</u>
Net position, end of year	<u>\$46,680,298</u>

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2014

Operating activities	
Cash received from customers	\$ 9,445,039
Other cash received	156,285
Cash paid to City of Auburn for payments in lieu of tax	(252,678)
Cash paid to suppliers for goods and services	(3,753,031)
Cash paid to employees for services	<u>(1,818,718)</u>
Net cash provided by operating activities (A)	<u>3,776,897</u>
Capital and related financing activities	
Cash received for access fees	767,814
Cash received from sale of capital assets	16,014
Cash paid for acquisition and construction of capital assets	(5,042,365)
Cash paid for principal repayment on debt maturities	(675,000)
Cash paid for interest and fiscal fees on debt maturities	<u>(876,419)</u>
Net cash used by capital and related financing activities	<u>(5,809,956)</u>
Investing activities	
Interest received on investments	60,393
Cash received on sale of certificate of deposit	<u>2,373,518</u>
Net cash provided by investing activities	<u>2,433,911</u>
Net decrease in cash and cash equivalents	400,852
Cash and cash equivalents, beginning of year	<u>5,112,387</u>
Cash and cash equivalents, end of year	<u>\$ 5,513,239</u>
Composition of cash and cash equivalents at September 30, 2014:	
Cash - unrestricted	\$ 4,137,748
Cash and cash equivalents - restricted	<u>1,375,491</u>
Total cash and cash equivalents	<u>\$ 5,513,239</u>

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2014

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED BY OPERATING ACTIVITIES (A)

Operating income (loss)	\$ 1,251,324
Add:	
Depreciation expense	1,906,808
Amortization expense - deferred amount on refunding	166,268
Decrease in accounts receivable, net	24,412
Decrease in other receivables	541
Decrease in accounts receivable, City of Auburn	522,564
Increase in postemployment benefits payable	1,388
Increase in accrued expenses	1,329
Increase in payroll taxes payable	403
Increase in customer water deposits	2,566
Increase in accounts payable	71,587
Deduct:	
Increase in inventory	(6,373)
Increase in other current assets	(6,530)
Decrease in accounts payable, City of Auburn	(152,815)
Decrease in accumulated annual leave	<u>(6,575)</u>
Net cash provided by operations	<u>\$ 3,776,897</u>
Noncash transactions:	
Estimated cost of water lines installed by and contributed to the Water Works Board by developers	\$ 469,720
Net increase (decrease) in the fair value of investments	<u>(26,395)</u>
	<u>\$ 443,325</u>

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Works Board of the City of Auburn is an independent, municipal, nonprofit corporation legally separate from the city government of the City of Auburn. The Board is charged with the responsibility of ownership and operation of a water works plant and distribution system for the benefit of the citizens of the municipality. The Board operates under municipal authority extended to it by the municipal government of the City of Auburn and is considered a component unit of the City of Auburn for financial reporting purposes.

The Water Works Board has a management agreement with the City of Auburn whereby the City administers day-to-day financial, accounting, collection, purchasing and engineering management services under the policy direction of The Water Works Board.

Measurement focus and basis of accounting - The accounts of the Board are organized and operated as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Board is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Proprietary 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 a proprietary fund's ongoing operations. The principal operating revenues for the Water Works Board are charges to customers for water service. Operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. 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, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and cash equivalents - Cash and cash equivalents include demand deposits as well as all highly liquid investments with a maturity of three months or less when purchased.

Investments - Investments in money market investments are valued at cost, which equals fair value. Investments in U.S. Treasury Bonds are reported at fair value. Statutes authorize the Board to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; U.S. dollar denominated deposit accounts and certificates of deposit; pre-funded public obligations as defined by state law; and interests in any common trust fund or other collective investment bank, trust company or savings and loan association.

Capital assets - Capital assets are defined by the Board as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at actual cost (or estimated historical cost if actual cost is not available) if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Utility system and plant	25-50
Buildings and improvements	10-50
Office equipment	5-10
Mobile equipment	3-10
Tools	3-5

Accounts receivable - Accounts receivable are reported net of an allowance for doubtful accounts. The amount of the allowance is equal to accounts receivable in excess of 90 days past due. See Note 5.

Inventory - Inventory is stated at the lower of cost or market value. Market is determined on the basis of replacement cost. Inventories consist of expendable supplies held for future consumption or capitalization.

Restricted assets and liabilities - Funds set aside under bond indentures for the payment of bond debt service or construction costs are classified as restricted assets since their use is limited by the applicable bond indenture. Expenditures to be paid with these assets are classified as current liabilities payable from restricted assets.

Bond issue costs - Bond issue costs are expensed as incurred.

Accumulated annual leave and sick leave - The Board allows employees to accumulate vacation and sick leave up to certain limits for use in subsequent periods. Upon termination of employment, an employee receives payment of accumulated vacation hours at current wage rates. Upon retirement with at least ten years of service, an employee can receive payment of one-half of accumulated sick leave hours if hired before April 5, 1994. All employees may elect to apply unused accumulated sick leave hours toward their retirement. See Note 8.

Risk management - For risks of loss related to: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and general liability torts, the Board has purchased

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

commercial insurance from independent third parties. There have been no significant reductions in insurance coverage from coverage in the prior year, and no settlements have exceeded insurance coverage in the past three fiscal years.

The Water Works Board employees are covered under the City's health insurance plan. Premiums are charged to the Board and are calculated using trends in actual claims experience, along with overall program costs, including third party administration and reinsurance. Employees may also be charged for additional benefits through supplemental insurance programs. Medical claims exceeding \$85,000 per covered individual, per year, are covered through a private insurance carrier after satisfaction of a \$25,000 aggregating specific deductible.

To insure against risk of loss relating to workmen's compensation claims, the Board has purchased workmen's compensation insurance from independent third parties.

Pension expense - The Water Works Board funds pension expense as required by the Employees' Retirement System of Alabama, operated by the State of Alabama. The plan is funded by contributions from both the Board and Board employees. See Note 9.

Net position - The financial statements utilize a net position presentation. Net Position is categorized as net investment in capital assets, restricted and unrestricted.

- Net investment in capital assets - represents capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net position – represents liquid assets which have third party (statutory, bond covenant or granting agency) limitations on their use. The Board has restricted assets for retirement of bonds or payment of construction costs as described in Note 4. The Board would typically use restricted net position first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.
- Unrestricted net position - represents unrestricted liquid assets. While management may have categorized and segmented portions for various purposes, the Board has the unrestricted authority to revisit or alter these managerial decisions.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting - Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Board's financial statements to the extent they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business type activities. The Board has elected not to follow subsequent private sector guidance.

NOTE 2. DEPOSITS AND INVESTMENTS

As of September 30, 2014, all deposits of the Water Works Board are held by a certified qualified public depository under the SAFE program and, as such, are deemed fully insured.

NOTE 3. ACCESS FEES

Access fees are assessed to developers and maintained in a capital fund account to be spent for capital capacity improvement projects. The amounts collected are reported as nonoperating revenue contributed by developers. The unspent amount at September 30, 2014, was \$1,246,202.

NOTE 4. RESTRICTED CASH AND INVESTMENTS

At September 30, 2014, the Water Works Board's restricted cash and investments were comprised of the following:

Cash (access fee account)	\$ 1,246,202
Bank of New York Mellon U.S. Treasury Securities Money Market Fund	<u>129,289</u>
Total restricted cash and cash equivalents	1,375,491
U.S. Treasury Bonds	<u>1,550,337</u>
Total restricted cash and investments	<u>\$ 2,925,828</u>

The Bank of New York Mellon U.S. Treasury Securities Money Market Fund listed above is an open-end mutual fund comprised of 100% U.S. Treasury securities. The fair value of the units in the fund equals the carrying value. The cost of the U.S. Treasury Bonds listed above is \$1,551,636.

Restricted investments are held by a trustee and are restricted by the terms of a bond indenture to retirement of the bonds.

Interest Rate Risk – The investment policy of the Board does not limit investment in maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

Water	\$ 1,239,939
Miscellaneous trade	<u>2,198</u>
Total accounts receivable	1,242,137
Less allowance for doubtful accounts	<u>(149,663)</u>
Accounts receivable (net)	<u><u>\$ 1,092,474</u></u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, was as follows:

	<u>Balance</u> <u>10/01/13</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Deductions</u>	<u>Balance</u> <u>09/30/14</u>
Capital assets, nondepreciable:				
Land and land clearing	\$ 1,391,165	\$ -	\$ -	\$ 1,391,165
Construction in progress	<u>852,346</u>	<u>5,078,672</u>	<u>(183,255)</u>	<u>5,747,763</u>
Total capital assets, nondepreciable	<u>2,243,511</u>	<u>5,078,672</u>	<u>(183,255)</u>	<u>7,138,928</u>
Capital assets, depreciable:				
Utility system and plant	69,611,011	592,714	(115,502)	70,088,223
Buildings and improvements	5,675,962	14,941	-	5,690,903
Office equipment	538,366	8,503	(13,043)	533,826
Mobile equipment	890,077	165,212	(73,883)	981,406
Tools	<u>326,025</u>	<u>60,262</u>	<u>-</u>	<u>386,287</u>
Total capital assets, depreciable	<u>77,041,441</u>	<u>841,632</u>	<u>(202,428)</u>	<u>77,680,645</u>
Less accumulated depreciation for:				
Utility system and plant	(20,864,982)	(1,539,958)	105,100	(22,299,840)
Buildings and improvements	(1,785,081)	(227,688)	-	(2,012,769)
Office equipment	(343,906)	(71,746)	13,042	(402,610)
Mobile equipment	(692,569)	(56,920)	63,893	(685,596)
Tools	<u>(292,735)</u>	<u>(10,495)</u>	<u>-</u>	<u>(303,230)</u>
Total accumulated depreciation	<u>(23,979,273)</u>	<u>(1,906,807)</u>	<u>182,035</u>	<u>(25,704,045)</u>
Total capital assets, depreciable	<u>53,062,168</u>	<u>(1,065,175)</u>	<u>(20,393)</u>	<u>51,976,600</u>
Capital assets, net	<u><u>\$ 55,305,679</u></u>	<u><u>\$ 4,013,497</u></u>	<u><u>\$ (203,648)</u></u>	<u><u>\$ 59,115,528</u></u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 7. COMMITMENTS

The Water Works Board has commitments for construction projects in connection with system improvements. The cost to complete the projects as of September 30, 2014, is approximately \$1,306,122.

The Board entered into an agreement with the City of Opelika Water Board effective on June 1, 1983, for the right to purchase water from Opelika. The agreement provides that the Auburn Board shall pay its proportionate share of the debt service on Opelika's Series 1983 bonds, plus its share of the bond issue costs, and an initial capital contribution. In return for its payment of these amounts, Auburn's Board received the right to purchase not greater than 3.6 million gallons of water per day. Under the agreement Auburn would pay Opelika for the water it purchased based on its share of the production and transmission costs in relation to total production. The agreement is for a term of 30 years beginning June 1, 1983, with a 20-year renewal clause at no additional cost to Auburn. The original agreement was set to expire in March of 2013; however, the Board approved the 20 year renewal in October of 2012.

The Water Works Board also entered into an agreement in May 2011 to purchase water from Sandy Springs Farm II, LLC. The agreement includes a minimum annual purchase of 210,240,000 gallons per year at an initial rate of \$.50 per 1,000 gallons (\$105,120 per year), payable in monthly installments. This rate is subject to increase based on the Consumer Price Index and increased to \$.53 per 1,000 gallons (\$111,252) for the year ended September 30, 2014. The term of the agreement is twenty years, with six five-year extension options.

NOTE 8. LONG-TERM DEBT

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2014, was as follows:

	Balance 09/30/13	Additions	Reductions	Balance 09/30/14	Due Within One Year
Bonds payable:					
Bonds payable-2010 issue	\$ 19,640,000	\$ -	\$ (675,000)	\$ 18,965,000	\$ 710,000
Add: bond issue premium	<u>1,011,594</u>	<u>-</u>	<u>(54,193)</u>	<u>957,401</u>	<u>-</u>
Total	<u>20,651,594</u>	<u>-</u>	<u>(729,193)</u>	<u>19,922,401</u>	<u>710,000</u>
Accumulated leave	96,192	8,449	(15,024)	89,617	-
Other postemployment benefits liability	<u>27,843</u>	<u>1,388</u>	<u>-</u>	<u>29,231</u>	<u>-</u>
Total	<u>124,035</u>	<u>9,837</u>	<u>(15,024)</u>	<u>118,848</u>	<u>-</u>
Total long-term liabilities	<u>\$ 20,775,629</u>	<u>\$ 9,837</u>	<u>\$ (744,217)</u>	<u>\$ 20,041,249</u>	<u>\$ 710,000</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 8. LONG-TERM DEBT – CONTINUED

Bonds payable at September 30, 2014, are comprised of an original bond issue of \$21,595,000 dated June 1, 2010. The 2010 bond proceeds were used to call the 2001 and 2002 series bonds dated July 1, 2001 and August 1, 2002, respectively, and to fund various capital projects. The 2010 bonds were issued at an average interest rate of 4.36%. The stated maturity dates of the 2010 bonds are September 1 beginning in 2011 and continuing through 2032.

Bonds payable of the Water Works Board of the City of Auburn at September 30, 2014, are comprised of the following individual issues:

	<u>Interest Rate</u>	<u>Interest Dates</u>	<u>Source of Payment</u>	<u>Principal Issued</u>	<u>Principal Outstanding September 30, 2014</u>	<u>Year of Final Principal Maturity</u>
Business type activities						
Bonds payable:						
Capital improvement bonds, Dated 06/01/10	3.0% to 5.0%	3/1-9/1	Revenues	\$ 21,595,000	\$ 18,965,000	2032

The following schedule shows debt service to maturity for bonds payable of the Water Works Board of the City of Auburn at September 30, 2014:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 710,000	\$ 840,338	\$ 1,550,338
2016	735,000	819,038	1,554,038
2017	770,000	782,288	1,552,288
2018	810,000	743,788	1,553,788
2019	850,000	703,288	1,553,288
2020-2024	4,815,000	2,939,712	7,754,712
2025-2029	5,970,000	1,785,750	7,755,750
2030-2032	4,305,000	348,800	4,653,800
Total	<u>\$ 18,965,000</u>	<u>\$ 8,963,002</u>	<u>\$ 27,928,002</u>

The Water Revenue Bonds issued in 2010 are collateralized by a pledge of net system revenues derived, and to be derived from, the operation of the Board's water system.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 8. LONG-TERM DEBT – CONTINUED

The Board is also required to maintain such rates and charges for the water service and other services supplied from the system, and make collections from the users thereof in such a manner as shall produce revenues sufficient at all times (i) to provide for payment of all operating expenses, (ii) to produce annual net income of not less than 110% of the then applicable maximum annual debt service requirement and, (iii) to make all monthly payments provided herein to be made into each of the special funds. These coverage requirements have been met by the Board for the year ended September 30, 2014.

NOTE 9. PENSION PLAN

The Board contributes to the Employees' Retirement System of Alabama ("System"), an agent multiple-employer public employee retirement system (PERS), which acts as a common investment and administrative agent for all State agencies and departments, as well as for cities and counties which elect to participate in the System. The System issues a publicly available report that includes basic financial statements and required supplementary information for the System. That report may be obtained by writing to The Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150 or by calling (334) 517-7000.

All full-time and regular part-time Board employees are eligible to participate in the System. Benefits vest after ten years of service. Vested employees may choose a lump sum benefit, payments for a specified time period or for life. The benefit amount is based upon employee and employer contributions, and accrued interest, as of the retirement date and is established by State statute. The System also provides death and disability benefits.

Covered employees hired prior to January 1, 2013, are required to contribute 5.0% of their annual covered salary. Covered employees hired after January 1, 2013, are required to contribute 6.0% of their annual covered salary. The Board is required to contribute at an actuarially determined rate; the current rate is 7.04% of annual covered payroll for employees hired prior to January 1, 2013, and 4.74% for employees hired after January 1, 2013. The contribution requirements of covered employees and the Board are established and may be amended by the System's Board of Trustees.

The Board's annual pension cost of \$84,419 was equal to the Board's required and actual contributions. The required contribution was determined as part of the September 30, 2013, actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used in the valuation include: a) a rate of return on the investment of present and future assets of 8.0%, b) projected annual rate of salary increases ranging from 3.75% to 7.25%, based on age, and c) no cost-of-living adjustment. Both a) and b) included an inflation component of 3.0%. The actuarial value of the plan's assets was determined using the 5-year smoothed market value of investments. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 9. PENSION PLAN - CONTINUED

at September 30, 2013, was 19 years. These assumptions were also used in the computation of actuarially determined contribution requirements.

Trend information for the most current valuation year and the two preceding years is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
9/30/11	\$ 75,672	100%	\$ -
9/30/12	\$ 83,754	100%	\$ -
9/30/13	\$ 91,417	100%	\$ -

The plan’s schedule of funding progress, shown below, presents three year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets* (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)¹</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered P/R ((b - a)/c)</u>
9/30/11 ²	\$2,371,888	\$3,166,667	\$ 794,779	74.9%	\$1,561,583	50.9%
9/30/12 ³	\$2,423,406	\$3,049,038	\$ 625,632	79.5%	\$1,483,749	42.2%
9/30/13 ⁴	\$2,426,971	\$3,107,105	\$ 680,134	78.1%	\$1,360,338	50.0%

* The actuarial value of assets was set equal to the market value of assets as of September 30, 2012. Market Value of Assets as of September 30, 2013: \$2,547,470

1 Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

2 Reflects changes in actuarial assumptions.

3 Reflects changes to interest smoothing methodology.

4 Reflects implementation of Board Funding Policy

NOTE 10. CAPITALIZED INTEREST

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Standards also require the capitalization of interest even if no specific borrowing is made to finance a given construction activity. If the Board has unpaid outstanding debt, but chooses to use existing resources to fund new construction rather than to pay off that debt, it is considered to be effectively “recycling” the borrowing and interest must be capitalized. Interest costs capitalized during the year were as follows:

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 10. CAPITALIZED INTEREST - CONTINUED

Total interest costs incurred	\$ 817,082
Less capitalized interest	<u>(107,828)</u>
Interest expense	<u>\$ 709,254</u>

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Water Works Board of the City of Auburn participates in The City of Auburn's General Employees' OPEB Plan, a single-employer, defined benefit plan. All descriptions, policies, costs, methods and assumptions described below apply to the Water Works Board and its employees.

The City of Auburn's General Employees' OPEB Plan is a single-employer, defined benefit OPEB plan. From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended September 30, 2009, the City recognized the cost of postemployment healthcare in the year when employee services are received, reported the accumulated liability from prior years, and provided information useful in assessing potential demands on the City's future cash flows. Because the City adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

Plan description

The City provides medical benefits to employees upon retirement according to the retirement eligibility provisions as follows: 25 years of service at any age; or, age 60 and 10 years of service for employees who began eligible employment prior to January 1, 2013. Employees who first began eligible employment on or after January 1, 2013 must be age 62 with 10 years of service to become eligible for retiree health benefits. The retirees pay 100% of the premium costs and specific deductibles. Employees do not contribute to their postemployment benefits costs until they retire and begin receiving those benefits. The City pays for all costs in excess of premiums and deductibles. Benefits and contribution requirements (both employee and employer) for the General Employees OPEB Plan are established by City ordinance and can only be amended by the City Council. OPEB benefits are administered by City personnel. No separate financial statements are issued.

Funding policy

The City currently pays for postemployment health care benefits on a pay-as-you-go basis. Although the City could establish a trust to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

Annual required contribution

The City's annual required contribution (ARC) is an amount actuarially determined in accordance with GASB Statement No. 45. The ARC is the sum of the normal cost plus the contribution to amortize the actuarial accrued liability (AAL). A level dollar, closed amortization period of 30 years (the maximum amortization period allowed by GASB 45) has been used for the postemployment benefits. The total ARC for the years ended September 30 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Normal cost as of beginning of year	\$ 97,465	\$ 95,184	\$ 108,750
Amortization of the unfunded AAL (UAAL) for 30 years	<u>120,449</u>	<u>117,416</u>	<u>132,934</u>
Total normal cost and amortization payment	217,914	212,600	241,684
Interest to end of year	<u>8,717</u>	<u>8,504</u>	<u>9,667</u>
Annual required contribution (ARC)	<u>\$ 226,631</u>	<u>\$ 221,104</u>	<u>\$ 251,351</u>

Net postemployment benefit obligation

The table below shows the City's net other postemployment benefit (OPEB) obligation at September 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual required contribution (ARC)	\$ 226,631	\$ 221,104	\$ 251,351
Interest on net OPEB obligation (NOO) to end of year	16,668	11,000	7,492
NOO amortization adjustment to the ARC	<u>(24,097)</u>	<u>(15,905)</u>	<u>(10,832)</u>
Annual OPEB cost	219,202	216,199	248,011
Actual annual employer contribution - pay-go cost	<u>(80,494)</u>	<u>(74,531)</u>	<u>(160,290)</u>
Change in net OPEB obligation	138,708	141,668	87,722
Beginning net OPEB obligation	<u>416,688</u>	<u>275,020</u>	<u>187,298</u>
Ending net OPEB obligation	<u>\$ 555,396</u>	<u>\$ 416,688</u>	<u>\$ 275,020</u>
Percentage of annual OPEB cost contributed	36.7%	34.5%	64.6%
Ending net OPEB obligation by employer			
City of Auburn	\$ 526,165	\$ 388,845	\$ 254,742
Water Works Board of City of Auburn	<u>29,231</u>	<u>27,843</u>	<u>20,278</u>
Total	<u>\$ 555,396</u>	<u>\$ 416,688</u>	<u>\$ 275,020</u>

Funded status and funding progress

In the fiscal year ended September 30, 2014, the City contributed \$80,494 to its postemployment benefits plan. This represents 35.5% of the ARC. The plan has no assets and

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

therefore has a funded ratio of zero. As of September 30, 2013, the most recent actuarial valuation, the actuarial accrued liability was \$2,166,123, which is defined as that portion, as determined by a particular actuarial cost method, of the actuarial present value of postemployment plan benefits and expenses which is not provided for by the future normal cost. Since the plan is not funded, the entire actuarial accrued liability was unfunded. The schedule of funding progress is included in the following table.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered P/R ((b - a)/c)
9/30/2011	\$ -	\$ 2,390,640	\$ 2,390,640	0%	\$ 23,668,496	10.1%
9/30/2012	\$ -	\$ 2,111,571	\$ 2,111,571	0%	\$ 22,357,728	9.4%
9/30/2013	\$ -	\$ 2,166,123	\$ 2,166,123	0%	\$ 23,028,460	9.4%

Actuarial methods and assumptions

The “value of benefits” has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer portion has been estimated as the average claims plus administrative expenses, less the employee portion paid, over the preceding year for the retired group and has been used as the basis for projecting the medical trend assumption into the future. After age 65, Medicare becomes primary, but retirees are allowed to remain on this plan with the same contribution amount. The unfunded actuarial accrued liability is being amortized over 30 years.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 30, 2014, actuarial valuation, the liabilities were computed using the projected unit credit cost method with linear proration to decrement and level dollar amortization over 30 years based on an open group. The actuarial assumptions utilized a 4% discount rate and a 3% inflation rate. The expected rate of increase in medical cost is based on the plan’s actual experience initially, with subsequent years based on a combination of employer history, national trend surveys, and professional judgement. The valuation assumes a

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

7.5% healthcare cost trend increase for fiscal year 2015, graded down to an ultimate annual rate of 5% for 2020 and later.

NOTE 12. SUBSEQUENT EVENTS

Subsequent to September 30, 2014, the Board approved professional services type contracts totaling approximately \$1,503,000 and equipment purchases totaling approximately \$115,000.

Management has evaluated subsequent events through March 11, 2015, the date these financial statements were available to be issued.



Supplementary Information

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2014

Water treatment and pumping expense	
Personal services	
Salaries and wages	\$ 383,504
Employee benefits	81,307
Total personal services	<u>464,811</u>
Contractual services	
Utilities	505,442
Pumping and purification	52,279
Buildings and grounds	399
Sewer services	71,250
Travel and training	8,244
Uniform maintenance	1,249
Miscellaneous contractual services	<u>39,488</u>
Total contractual services	<u>678,351</u>
Commodities	
Water purchased	1,103,183
Chemical supplies	297,621
Minor tools and equipment	68,178
Fuel	4,877
Safety clothing	307
Miscellaneous commodities	2,655
Communications equipment	<u>363</u>
Total commodities	<u>1,477,184</u>
Total water treatment and pumping expense	<u>2,620,346</u>
Distribution expense	
Personal services	
Salaries and wages	612,338
Less capitalized costs	(1,164)
Employee benefits	<u>135,726</u>
Total personal services	<u>746,900</u>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2014

Contractual services	
Utilities	12,331
Travel and training	737
Rental of heavy machinery	1,750
Uniform maintenance	4,165
Miscellaneous contractual services	<u>25,390</u>
Total contractual services	<u>44,373</u>
Commodities	
Mains and services supplies	105,586
Fuel	39,667
Vehicle parts	14,616
Fire hydrants	7,367
Communications equipment	189
Heavy machinery parts	11,131
Minor tools and equipment	28,698
Miscellaneous commodities	<u>19,002</u>
Total commodities	<u>226,256</u>
Total distribution expense	<u>1,017,529</u>
Meter reading expense	
Personal services	
Salaries and wages	168,128
Employee benefits	<u>37,011</u>
Total personal services	<u>205,139</u>
Contractual services	
Uniform maintenance	1,867
Utilities	4,440
Miscellaneous contractual services	<u>829</u>
Total contractual services	<u>7,136</u>
Commodities	
Fuel	15,715
Meter parts	285,195
Miscellaneous commodities	<u>9,360</u>
Total commodities	<u>310,270</u>
Total meter reading expense	<u>522,545</u>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2014

Utility billing office expense	
Personal services	
Salaries and wages	416,725
Employee benefits	114,796
Total personal services	<u>531,521</u>
Contractual services	
Bank fees	159,825
Data processing professional services	178,722
Office equipment rental	3,964
Travel and training	5,840
Utilities	1,219
Miscellaneous contractual services	235
Total contractual services	<u>349,805</u>
Commodities	
Printed supplies	761
Office and computer supplies	14,055
Miscellaneous commodities	299
Total commodities	<u>15,115</u>
Total utility billing office expense	<u>896,441</u>
Operations administration expense	
Personal services	
Salaries and wages	240,515
Employee benefits	57,249
Total personal services	<u>297,764</u>
Contractual services	
Memberships and subscriptions	7,989
Travel and training	5,479
Utilities	2,607
Total contractual services	<u>16,075</u>
Commodities	
Office and computer supplies	343
Miscellaneous commodities	39
Total commodities	<u>382</u>
Total operations administration expense	<u>314,221</u>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2014

General operations expense	
Personal services	
Other payroll expense	<u>6,295</u>
Total personal services	<u>6,295</u>
Contractual services	
Building and ground contracts	52,511
Data processing professional services	555
Fiscal professional services	28,550
Legal professional services	9,293
Insurance	99,390
Postemployment benefits	1,388
Unclassified professional services	172,782
Utilities	64,695
Miscellaneous contractual services	<u>31,167</u>
Total contractual services	<u>460,331</u>
Commodities	
Fuel	2,089
Postage	5,352
Printed supplies	3,983
Miscellaneous commodities	<u>22,797</u>
Total commodities	<u>34,221</u>
Intergovernmental	
Tax equivalent to City	<u>269,208</u>
Total intergovernmental	<u>269,208</u>
Bad debt expense	<u>108,410</u>
Total general operations expense	<u>878,465</u>
Total other operating expenses	<u>\$ 6,249,547</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
FIVE YEAR SCHEDULE OF VARIOUS OPERATING DATA
FOR THE YEARS ENDED SEPTEMBER 30, 2014, 2013, 2012, 2011, 2010

(Unaudited)

	2014	2013	2012	2011	2010
Operating revenues:					
Water sales	\$ 8,777,975	\$ 8,532,700	\$ 8,324,545	\$ 8,519,360	\$ 7,606,027
Fire protection fees	114,177	118,390	116,584	116,137	110,177
Consumer penalties	111,331	82,645	106,135	111,445	104,798
Initiation fees and service charges	88,417	89,014	87,656	89,296	88,348
Collection fees	233,083	180,116	225,757	229,638	213,616
Other operating revenue	248,964	494,021	571,780	344,585	348,240
Total operating revenues	<u>9,573,947</u>	<u>9,496,886</u>	<u>9,432,457</u>	<u>9,410,461</u>	<u>8,471,206</u>
Operating expenses:					
Water treatment and pumping expense	2,620,346	2,928,236	2,338,808	2,853,980	1,990,226
Distribution expense	1,017,529	973,960	881,899	940,441	860,563
Meter reading and utility billing office expense	1,418,986	1,146,715	1,207,050	1,154,929	1,148,221
Operations administration and general operations	1,192,686	1,404,904	1,515,663	1,538,083	1,805,643
Total operating expenses	<u>6,249,547</u>	<u>6,453,815</u>	<u>5,943,420</u>	<u>6,487,433</u>	<u>5,804,653</u>
Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions	<u>\$ 3,324,400</u>	<u>\$ 3,043,071</u>	<u>\$ 3,489,037</u>	<u>\$ 2,923,028</u>	<u>\$ 2,666,553</u>
Number of services at September 30 ⁽¹⁾	<u>22,008</u>	<u>21,724</u>	<u>21,421</u>	<u>21,077</u>	<u>20,843</u>
Operating revenues per service	<u>\$ 435</u>	<u>\$ 437</u>	<u>\$ 440</u>	<u>\$ 446</u>	<u>\$ 406</u>
Operating expenses per service	<u>284</u>	<u>297</u>	<u>277</u>	<u>308</u>	<u>278</u>
Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions per service	<u>\$ 151</u>	<u>\$ 140</u>	<u>\$ 163</u>	<u>\$ 139</u>	<u>\$ 128</u>
Million gallons water produced and purchased	<u>2,504.80</u>	<u>2,421.74</u>	<u>2,483.35</u>	<u>2,614.81</u>	<u>2,434.74</u>
Million gallons water sold	<u>2,203.68</u>	<u>2,254.98</u>	<u>2,302.28</u>	<u>2,437.74</u>	<u>2,235.72</u>

Notes: (1) The number of services includes active, new and vacant accounts.