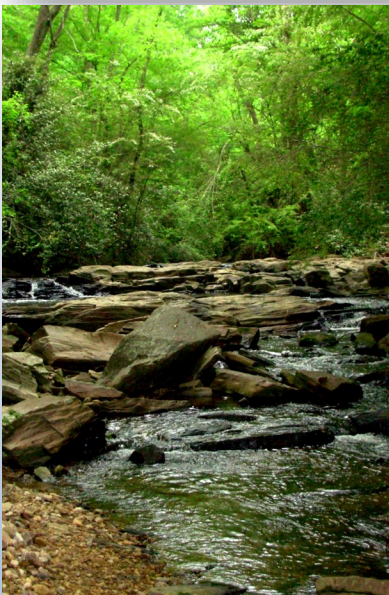


THE WATER WORKS BOARD OF THE CITY OF AUBURN



ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2018

The Water Works Board of the City of Auburn

Annual Financial Report
For the Fiscal Year Ended September 30, 2018

Board of Directors

Jeff Clary, Ed.D., Chairman

Term expires January 2022

Butch Brock, Vice Chairman

Term expires August 2021

Jennifer Chambliss, Esq., Secretary

Term expires April 2024

Bernard Hill, Ph.D., Member

Term expires January 2020

Brad Wilson, Member

Term expires June 2020

Management

James C. Buston, III, 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

Amy M. Saylor, Utility Accountant

Rachel E. Seibenhener, Finance Information Officer



THE WATER WORKS BOARD OF THE CITY OF AUBURN
TABLE OF CONTENTS
SEPTEMBER 30, 2018

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (required supplementary information)	5
Basic Financial Statements	
Statement of Net Position	21
Statement of Revenues, Expenses, and Changes in Net Position	23
Statement of Cash Flows	24
Notes to Financial Statements	29
Required Supplementary Information	
Schedule of Changes in Net Pension Liability	53
Schedule of Employer Contributions	54
Schedule of Changes in Total OPEB Liability	55
Notes to Required Supplementary Information	55
Other Operating Information	
Schedule of Operating Expenses	59
Five Year Schedule of Various Operating Data	63



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, 2018, 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, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, the Board adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information, and postemployment benefits other than pensions (OPEB) information (pages 53 through 55) 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 and the five year schedule of various operating data are presented for purposes of additional analysis and are 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, LLP

Auburn, Alabama
March 12, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Water Works Board of the City of Auburn
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2018

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, 2018. The financial statements contained in this report document the financial performance of the Board. The Board retains ownership and policymaking authority for the water system and contracts the day-to-day management of the water system to the City of Auburn, Alabama.

The Board was created on December 13, 1947. It operates as a separate public corporation under the laws of the State of Alabama. 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 FY2018 Comprehensive Annual Financial Report and the Board's 2017 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 \$52.8 million (net position). Of this amount, the Board showed unrestricted assets of \$6.7 million, restricted assets of \$3.8 million, and \$42.3 million in net investment in capital assets.
- The Board's restricted assets decreased by \$3.1 million (45.3%) and current liabilities decreased by \$972,446 (26.3%) from September 30, 2017 to September 30, 2018.
- The Board experienced a 4.5% increase in net position from \$50.5 million at September 30, 2017 to \$52.8 million at September 30, 2018.
- Water sales increased by \$251,520 (2.5%) from sales in fiscal 2018.

Condensed Financial Information

The following condensed financial information provides an overview of the Board's financial status for the fiscal years ended September 30, 2018 and 2017.

Assets, Liabilities, Deferred Items, and Net position

A summarized comparison of the Board's assets, liabilities, and deferred items at year-end for fiscal years 2018 and 2017 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**

	<u>2018</u> \$	<u>2017</u> \$
Assets		
Current assets	<u>10,056,790</u>	<u>8,532,947</u>
Noncurrent assets		
Restricted assets	3,793,279	6,938,396
Capital assets (net)	<u>76,213,429</u>	<u>74,132,948</u>
Total noncurrent assets	<u>80,006,708</u>	<u>81,071,344</u>
Total assets	<u>90,063,498</u>	<u>89,604,291</u>
Deferred outflows of resources	<u>777,611</u>	<u>966,558</u>
Total assets and deferred outflows of resources	<u><u>90,841,109</u></u>	<u><u>90,570,849</u></u>

Assets and Deferred Outflows of Resources

Total assets, as shown in Table 1, increased in fiscal 2018 by \$459,207 (0.5%); changes involved the following:

- Current assets increased by \$1.5 million (17.9%). Components of this increase include the following:
 - Cash increased by \$1.3 million (20.5%). The increase is a result of revenues exceeding expenses by \$1.5 million.
 - Trade accounts receivable increased by \$226,810 (15.1%) due to increase in accounts receivable for utility services billed.
 - Prepaid expenses increased \$10,792 (19.8%) mainly due to the increase in fiscal 2018 of insurance premiums in the amount of \$24,739 (21.5%).

- Noncurrent assets decreased by \$1.1 million (1.3%). Components of this decrease include the following:
 - Restricted assets decreased by \$3.1 million (45.3%), primarily attributable to the decrease in the access fee account of \$2.6 million (68.7%). Access fees in the amount of \$3.6 million were used to help fund the dam outlet structure and spillway project at Lake Ogletree.
 - Capital assets, net of depreciation, increased by \$2.1 million (2.8%) from the prior year, as shown in Table 2. The main components of this change is the net effect of the increase in utility system, decrease in construction in progress, and increase in accumulated depreciation attributed to the capitalization of the dam outlet structure and spillway project at the Board’s main water source, Lake Ogletree.

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

Capital Assets	2018	2017
	\$	\$
Land and land clearing	1,349,510	1,338,503
Construction in progress	545,288	17,054,850
Utility system, plant and buildings	103,700,261	83,469,606
Mobile equipment	1,642,762	1,535,236
Office equipment	749,035	686,415
Tools	419,742	412,425
Capital assets before depreciation	108,406,598	104,497,035
Accumulated depreciation	(32,193,169)	(30,364,087)
Net capital assets	76,213,429	74,132,948

Assets with a cost of \$20.8 million were capitalized during fiscal 2018. These included the following:

- A number of new and replacement water lines such as the addition of 2,760 feet of 6 and 8 inch main at Summerlin Plat No. 1, the addition of 2,760 feet of 4, and 8 inch main at East Richland, the addition of 1,340 feet of 8 and 12 inch main at The Preserve Phase 5, and the addition of 2,288 feet of 4 and 8 inch main in Tuscany Hills Phase 5,
- Replacement of the roof at Bailey Alexander Water Resource Management building,
- The construction and completion of the Lake Ogletree Dam Outlet Structure and Spillway, and
- Replacement of four vehicles and heavy equipment in accordance with the Board's vehicle and equipment replacement plan.

Construction in progress costs at September 30, 2018, were \$545,288. The most significant component of construction in progress at fiscal year-end was the drilling of a test well in anticipation of a future water supply well in south Auburn. More details about this project can be found in the *Water Supply Well #4 Production Facilities and Transmission Main* section of this MD&A.

Liabilities and Deferred Inflows of Resources

The Board's total liabilities at the 2018 year-end were \$37.3 million, \$2.5 million (6.3%) less than in 2017. Current liabilities decreased by \$972,446 (26.3%) from fiscal 2017. This decrease is due partly to the reduction in the year-end payable for wholesale water purchases during fiscal 2018. In addition, long-term liabilities decreased by \$1.5 million (4.3%), due to principal repayments on long-term debt offset by a prior period adjustment to reflect an increase of approximately \$103,000 in the liability for other post-employment benefits.

At 2018 fiscal year-end, the Board had \$34.5 million in bond debt outstanding, of which \$910,000 will mature during fiscal year 2019. This long-term debt outstanding consists of two revenue bonds

issued in 2010 and 2015. At September 30, 2018, the outstanding principal balance of bonds issued in 2010 and 2015 was \$15.9 million and \$16.6 million, respectively. The latest maturity date for the Board's bonds is 2040.

During fiscal year 2018, the Board adopted GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. In accordance with the statement, a prior period adjustment in the amount of \$102,921 was recorded to reflect the Board's OPEB liability at the beginning of fiscal year 2018.

All debt issued by the Board is secured by revenues based on current water rates. In November 2015, 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.

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

	2018	2017
	\$	\$
Liabilities		
Current liabilities payable		
from current assets	1,681,426	2,306,078
Current liabilities payable		
from restricted assets	1,040,276	1,388,070
Long-term liabilities	33,961,006	35,491,828
Customer deposits	<u>645,514</u>	<u>640,767</u>
Total liabilities	37,328,222	39,826,743
Deferred inflows of resources	<u>701,685</u>	<u>229,074</u>
Total liabilities and deferred		
inflows of resources	<u><u>38,029,907</u></u>	<u><u>40,055,817</u></u>
Net position		
Net investment in capital assets	42,338,085	39,448,196
Restricted for		
Debt service (expendable)	2,606,798	2,592,553
Capital projects (expendable)	1,182,323	3,090,950
Unrestricted	<u>6,683,996</u>	<u>5,383,333</u>
Total net position	<u><u>52,811,202</u></u>	<u><u>50,515,032</u></u>

Net Position

The Board's net position at September 30, 2018 totaled \$52.8 million, an increase of \$2.3 million (4.5%). The components of net position changed as follows:

- Net investment in capital assets increased by \$2.9 million (7.3%) as the outstanding balance of bonds payable decreased by \$865,000 (2.3%), and capital assets, net of accumulated depreciation increased by \$2.1 million (2.8%)
- Restricted net position for capital projects decreased by \$1.9 million (61.7%), as the result of the depletion of bond funds and the use of access fees to fund the Lake Ogletree Dam Outlet and Spillway project.
- Unrestricted net position increased by \$1.3 million (24.2%) due to operating income of \$1.5 million.

Results of Operations

The Board experienced an operating net income of \$1.5 million in fiscal 2018, an increase of \$476,021 (47.2%) from the prior year's income. This increase in operating net income was attributable to the increase in operating revenues of \$283,667 (2.6%) coupled with a decrease in operating expenses of \$192,354 (1.9%) compared to fiscal year 2017. 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.

	2018	2017
	\$	\$
Operating revenues		
Water sales to consumers	9,308,060	8,866,116
Water sales to Auburn University	1,095,114	1,285,538
Other operating revenues	<u>828,783</u>	<u>796,636</u>
Total operating revenues	<u>11,231,957</u>	<u>10,948,290</u>
Operating expenses		
Depreciation	2,177,000	2,074,958
Other operating expenses	<u>7,569,454</u>	<u>7,863,850</u>
Total operating expenses	<u>9,746,454</u>	<u>9,938,808</u>
Operating income	1,485,503	1,009,482
Nonoperating revenues (expenses)	(765,284)	(1,375,945)
Capital contributions	<u>1,678,872</u>	<u>1,891,500</u>
Increase in net position	<u>2,399,091</u>	<u>1,525,037</u>

Operating Revenues

Total operating revenues for fiscal 2018, which include water sales, tap and meter set fees, and collection fees, increased \$283,667 (2.6%). This change is mainly attributable to a slight increase in water sales of \$251,520 (2.5%) and increases in penalties, service charges, and tapping fees. The largest component of operating revenue is water sales, representing 92.6% of the Board's total operating revenue. In fiscal 2018, water revenue from consumers, other than Auburn University, increased by 5.0%; water revenue from Auburn University decreased 14.8%. During an audit of the university's large meters, it was noted that a meter was not measuring usage correctly. The meter was corrected and sales to date for fiscal 2019 are tracking normally. The major reason for the increase in water sales revenue was the 5.0% rate increase effective the beginning of fiscal 2018. The Board sold 2.2 billion gallons of water during fiscal 2018, a decrease of 137.7 million gallons (5.9%) from 2017. Water usage in fiscal 2018 was slightly lower because the City experienced wetter than average conditions in both 2017 and 2018.

Graph 1, Table 5, and the narrative following Table 5 illustrate the Board's various sources of operating revenues.

Graph 1

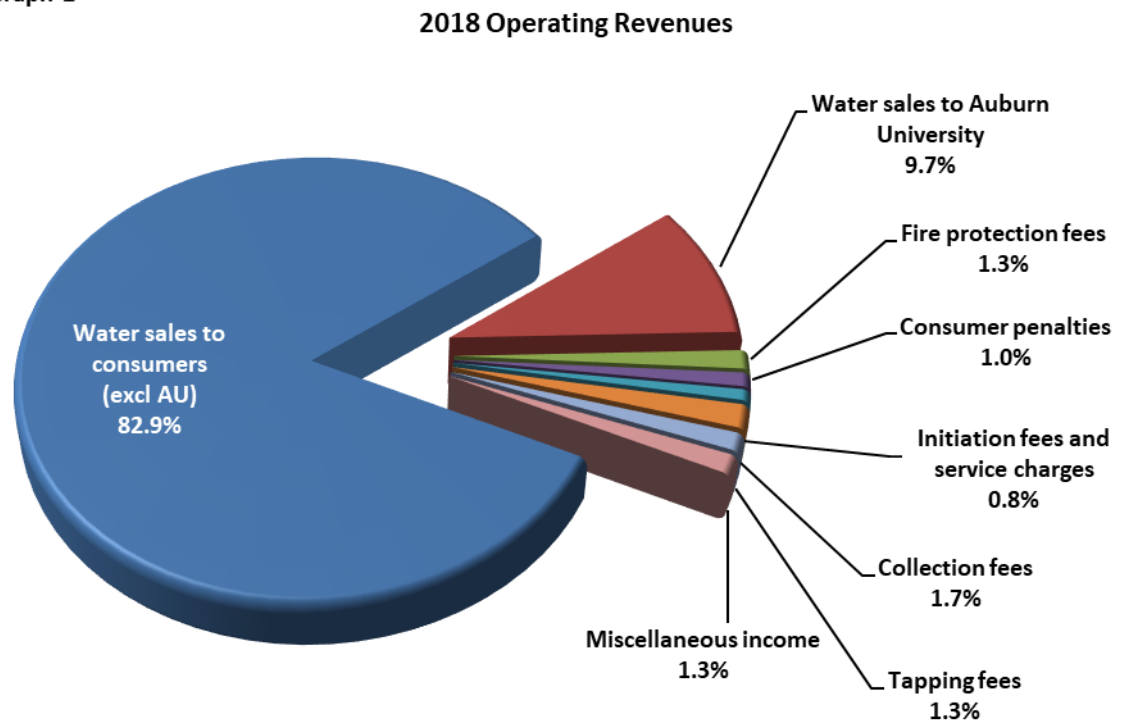


Table 5 **Operating Revenue Sources**
Fiscal Year Ended September 30

	2018	2017
	\$	\$
Water sales to consumers, excluding AU	9,308,060	8,866,116
Water sales to Auburn University	1,095,114	1,285,538
Fire protection fees	151,324	151,423
Consumer penalties	111,213	101,171
Initiation fees and service charges	87,193	83,069
Collection fees	188,150	182,820
Tapping fees	140,362	129,170
Miscellaneous income	<u>150,541</u>	<u>148,983</u>
Total operating revenues	<u>11,231,957</u>	<u>10,948,290</u>

- Rainfall statistics at Lake Ogletree indicated that rainfall decreased by 9.0% from 2017 to 2018. Normal annual rainfall at the lake is approximately 52 inches. Measured rainfall for fiscal 2018 at the lake was 52.9 inches; whereas, measured rainfall for fiscal 2017 was 58.2 inches. Although the average rainfall for fiscal 2018 was practically normal, rainfall statistics revealed over 8.9 inches more than normal during the growing season months, June through September.
- The Board implemented a rate increase for monthly water usage charges for fiscal year 2018. The minimum monthly bill of 3,000 gallons for residential water customers increased from \$13.89 to \$14.58 (5.0%), effective October 1, 2017.
- Revenues from regular meters increased by 4.0% while revenues from irrigation meters decreased by 14.3%. The decrease in revenues from irrigation meters was the result of wetter weather conditions during the summer months of fiscal 2018.

Other operating revenue sources also influenced the trend in total operating revenues. In fiscal year 2018, consumer penalties increased by \$10,042 (9.9%) and tapping fees increased by \$11,192 (8.7%). Tapping fees are overstated in fiscal 2018 due to an immaterial error in the amount of \$21,000 that will be corrected in fiscal 2019.

Operating Expenses

During fiscal 2018, the Board's operating expenses decreased \$192,354 (1.9%) from the prior year. Graph 2 and Table 6 illustrate the categories of the Board's operating expenses. Notable changes and other smaller items are explained following Table 6.

Graph 2

2018 Operating Expenses by Function

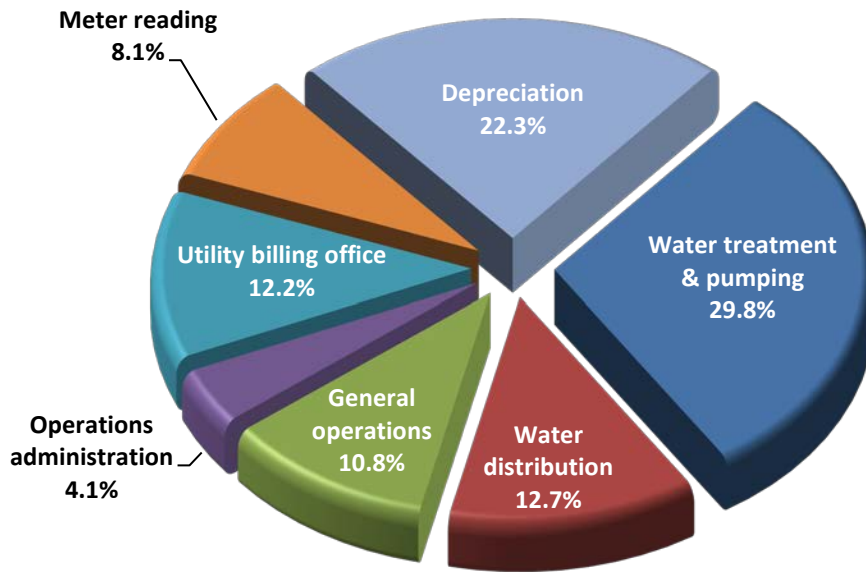


Table 6 Operating Expenses by Function
Fiscal Year Ended September 30

	2018	2017
	\$	\$
Water treatment & pumping	2,900,480	3,680,811
Water distribution	1,241,245	1,248,912
General operations	1,053,267	680,954
Operations administration	400,073	386,967
Utility billing office	1,186,617	1,124,113
Meter reading	787,772	742,093
Depreciation	<u>2,177,000</u>	<u>2,074,958</u>
Total operating expenses	<u>9,746,454</u>	<u>9,938,808</u>

- In the water treatment and pumping division, total expenses decreased \$780,331 (21.2%). The decrease was predominantly due to a decrease in wholesale water purchases from Opelika Utilities (OU) in fiscal 2018. The Board purchased 515.9 million gallons of water from OU in fiscal 2018 and 1.1 billion gallons in fiscal 2017, a decrease of 569.4 million gallons (52.5%). Water purchases from OU were \$974,135 in fiscal 2018, a decrease of \$956,245 (49.5%), due to management’s conscientious decision to decrease purchases as a precaution to maintain the Board’s water quality.
- In the general operations division, total expenses increased \$372,313 (54.7%). The primary reason is the increase of \$263,014 (100.0%) in Contribution to the City for the Board’s portion of the shared cost of the new fueling station located adjacent to the Water Resource Management Complex.

- In the utility billing division, total expenses increased \$62,504 (5.6%). The increase was mainly due to an increase of \$52,434 (18.7%) in bank fees. Bank fees increase as customer payments via credit cards increase.

Non-operating revenues and expenses consist of items not directly related to the operation of the Board's water system. These include investment income, expenses related to borrowed funds, and replacement of assets not fully depreciated.

Table 7 lists the components of the Board's non-operating revenues and expenses for fiscal years 2018 and 2017.

	2018	2017
	\$	\$
Interest income	120,896	68,984
Gain on disposal of assets	6,775	9,921
Bond trustee fees and amortization	(171,144)	(171,065)
Interest expense	<u>(721,811)</u>	<u>(1,283,785)</u>
Non-operating revenues (expenses)	<u>(765,284)</u>	<u>(1,375,945)</u>
City of Auburn	21,507	-
Capital contributions from developers	600,165	738,900
Access fees	<u>1,057,200</u>	<u>1,152,600</u>
Capital contributions	<u>1,678,872</u>	<u>1,891,500</u>
Total non-operating revenues (expenses) and capital contributions	<u>913,588</u>	<u>515,555</u>

In fiscal 2018, interest income increased by \$51,912 (75.3%) from the prior year. The positive change is directly related to increases in interest rates on cash and investment balances. Furthermore, transfers were made from cash accounts to investments as necessary to earn more interest on the Board's assets.

Interest expense on borrowed funds decreased by \$561,974 (43.8%) in fiscal 2018, primarily due 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 paid by developers and are typically used to fund designated capital improvement projects. Access fees provided revenues of \$1.1 million and \$1.2 million in fiscal 2018 and 2017, 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 \$600,165 in fiscal 2018, a decrease of \$138,735 (18.8%) 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, 2018, presented in Table 8.

Table 8 **Lines Contributed by Developers**

	<u>\$</u>
<i>Residential Subdivision</i>	
Auburn Links Phase 1	61,200
Cottage Homes at East University	18,000
Corbett Subdivision Phase 2	21,600
Longleaf Crossing Phase 4	30,600
The Preserve Phase 5	60,300
Summerlin Plat Number 1	145,800
The Talons at Auburn	19,305
Tuscany Hills Phase 5 A & B	102,960
East Richland	124,200
<i>Commercial Development</i>	
Samford Commercial Plat Number 2	<u>16,200</u>
	<u><u>600,165</u></u>

Other Financial Information

Rate Changes

A rate increase was implemented on October 1, 2017 as approved by the Board in September 2016. The minimum monthly bill of 3,000 gallons for residential water customers increased from \$13.89 to \$14.58 (5%).

During fiscal year 2018, a rate consultant was hired to complete a revenue sufficiency study for the Board’s capital improvement plan funding. Based on the recommendation from the consultant and staff, the Board approved an 8% rate increase for fiscal 2019. The minimum monthly bill of 3,000 gallons for residential water customers increased from \$14.58 to \$15.75 (8%), effective January 1, 2019. No rate increase is planned for fiscal 2020.

Projects in Progress

Projects that were underway in fiscal 2018 and scheduled for completion in fiscal 2019 include:

- Bailey-Alexander complex renovations,
- Water distribution system master plan,
- Lake Ogletree spillway supplemental drain sump pump system – Phase II,

- Well No. 3 pump shaft, bowl, and impeller replacement,
- Mill Creek subdivision pressure reducing valve improvements,
- Farmville Road meter electric control valve,
- Distribution water quality station,
- Gold Hill water pumping station building climate conditioning.

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

- Water Supply Well No. 4,
- Water Supply Well No. 4 transmission main,
- Opelika Road water extension – Phase I, II & III,
- James Estes Water Treatment Plant expansion and improvements,
- Teague Court elevated water tank rehabilitation,
- Fixed network meter reading system,
- West Farmville elevated water tank rehabilitation,
- Water Facilities Master Plan update,
- Moores Mill meter and transmission main.

Lake Ogletree Dam Outlet Structure and Spillway

As noted earlier, the Lake Ogletree Dam Outlet Structure and Spillway was a significant project undertaken by the Board. Engineering studies performed had deemed it necessary to replace the over 75 year old spillway at Lake Ogletree, the City’s main water source. The engineering design of the new spillway commenced in late 2014. The primary design elements consisted of 4-stage labyrinth weir designed to pass 75 percent of the 24-hour probable maximum precipitation event. The new spillway design increased the full pool elevation by 0.5 feet, thus providing approximately an additional 50 million gallons in storage to the lake.

In August 2015, the Board awarded the construction contract for the project. During construction an unexpected subsurface void was encountered during excavation activities. This unknown subsurface condition led to additional geological investigations during construction, resulting in several change orders to address the discoveries. Though the unforeseen subsurface conditions caused a delay to the project, the contractor resumed original contract construction activities in late summer 2016 and the spillway was completed in November 2017. The total cost of the project was \$19.4 million.

Water Supply Well #4 Production Facilities and Transmission Main

In mid-2017, a prospective well was drilled in south Auburn near Sandhill Road by a land owner. The owner approached the Board to gauge interest in developing the well into a water supply source. A new larger well was drilled by the Board and an evaluation was performed by the Board’s engineering consultant which indicated that the well appeared to be a viable source. Testing performed on the well in late spring and early summer 2018 indicated that the well had an exceptional pumping capacity.

Since that time, the Board has initiated final design of the wellhead facilities and the water transmission pipeline. The project is expected to bid in the spring/summer of 2019 with construction lasting into the summer of 2020.

Water Sources

The Board utilizes three sources to provide safe drinking water to the citizens of Auburn: Lake Ogletree, a groundwater well (AWWB Well #3), and purchases from Opelika Utilities. Additionally, Lake Ogletree is sometimes supplemented with water from the Martin Marietta Quarry.

The main water supply comes from Lake Ogletree, located in southeast Auburn. Lake Ogletree has a total capacity of approximately 1.5 billion gallons with a surface area of approximately 300 acres at full pool, and is fed primarily by Chewacla and Nash Creeks. In fiscal 2018, approximately 63% of Auburn's drinking water came from Lake Ogletree.

In 2012, the Board constructed AWWB Well #3 south of Interstate 85. The Board leases the well site from Sandy Springs Farm II, LLC. Per the Alabama Department of Environment Management permit, the Board has the right to pump 473 (1200 gallons per minute for 18 hours per day) million gallons per year from the well. In fiscal 2018, approximately 16% of Auburn's water supply came from the well.

In 2012, the Board renewed its water supply agreement with Opelika Utilities. The agreement 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. In fiscal 2018, water purchases from Opelika Utilities provided approximately 21% of the water supply for the City of Auburn.

In 2003, the Board entered into a Safe Harbor Agreement to provide for the protection of certain endangered species in Chewacla Creek, the primary watershed contributor to Lake Ogletree. The agreement requires the Board to release 2 million gallons of water per day from the lake. In exchange, upon the Board's request, Martin Marietta must pump at least 3.5 million gallons of water per day from the quarry basin to Lake Ogletree.

Utility Billing

In fiscal year 2018, the Utility Billing Office (UBO) continued to see the trend of customers preferring the convenience of paying their bills through the City's website. For fiscal year 2018, the average number of payments accepted via the Interactive Voice Response (IVR) system increased by 1.3%; however, payments made through online web extensions increased 9.0%, over fiscal 2017. For fiscal year 2018, credit card payments comprised 58.5% of the average total payments; the average number of customers who paid with a credit card was about 10,400 per month out of approximately 17,800, a 3.0% increase from 2017. Phone and walk in credit card payments decreased by 6.3% from fiscal 2017. These statistics support the customers' desire for new technology and convenience.

In fiscal 2017, in order to achieve its goal to provide efficient and effective financial services to the citizens of Auburn, the City began the lengthy process of migrating to a more robust financial software package that has the capability to evolve and keep pace with technological advances. As a component unit of the City, the Board is included in the multi-year implementation that will comprise a utility billing and payment module. Management is encouraged that the new software package will provide improved efficiencies in customer account and usage tracking and enhanced management analysis. Staff has begun training on utility billing and payment module that will be implemented in early fiscal 2020.

Economic Factors

As the economy within the State of Alabama and the nation as a whole continues to improve, Auburn has remained stable and has experienced a growing economy. 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 2018 Auburn's unemployment rate was 3.5%. The State's unemployment rate in September 2018 was 3.8%; the national rate was 3.7% (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.



BASIC FINANCIAL STATEMENTS

THE WATER WORKS BOARD OF THE CITY OF AUBURN
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

ASSETS	
Current assets	
Cash	\$ 7,817,942
Accounts receivable, net	1,727,407
Accounts receivable, City of Auburn	140,639
Inventory	305,473
Other current assets	<u>65,329</u>
Total current assets	<u>10,056,790</u>
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	1,182,323
Investments	2,606,798
Interest receivable	<u>4,158</u>
Total restricted assets	<u>3,793,279</u>
Capital assets, nondepreciable	
Land and land clearing	1,349,510
Construction in progress	<u>545,288</u>
Total capital assets, nondepreciable	<u>1,894,798</u>
Capital assets, depreciable	
Utility system and plant	96,555,454
Buildings and improvements	7,144,807
Office equipment	749,035
Mobile equipment	1,642,762
Tools	<u>419,742</u>
	106,511,800
Less accumulated depreciation	<u>(32,193,169)</u>
Capital assets, depreciable, net	<u>74,318,631</u>
Total noncurrent assets	<u>80,006,708</u>
Total assets	<u>90,063,498</u>
Deferred outflows of resources	
Deferred amounts on refunding	637,361
Deferred outflows OPEB related	3,753
Employer pension contributions subsequent to the measurement date	<u>136,497</u>
Total deferred outflows of resources	<u>777,611</u>
Total assets and deferred outflows of resources	<u>\$ 90,841,109</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, 2018

LIABILITIES	
Current liabilities payable from current assets	
Accounts payable	\$ 945,763
Accounts payable, City of Auburn	715,974
Accrued expenses	15,779
Payroll taxes payable	<u>3,910</u>
Total current liabilities payable from current assets	<u>1,681,426</u>
Current liabilities payable from restricted assets	
Current portion of bonds payable	910,000
Retainage payable	7,325
Interest payable	<u>122,951</u>
Total current liabilities payable from restricted assets	<u>1,040,276</u>
Long-term liabilities	
Bonds payable, net of current portion	33,602,705
Accumulated annual leave	60,629
Postemployment benefits payable	148,104
Net pension liability	<u>149,568</u>
Total long-term liabilities	<u>33,961,006</u>
Other liabilities	
Customer water deposits	<u>645,514</u>
Total other liabilities	<u>645,514</u>
Total liabilities	<u>37,328,222</u>
Deferred inflows of resources	
Deferred inflow OPEB related	3,943
Net difference between projected and actual earnings on pension plan investments	<u>697,742</u>
Total liabilities and deferred inflows of resources	<u>38,029,907</u>
NET POSITION	
Net investment in capital assets	42,338,085
Restricted for:	
Debt service	2,606,798
Capital projects	1,182,323
Unrestricted	<u>6,683,996</u>
Total net position	<u>\$52,811,202</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, 2018

Operating revenues	
Metered sales to consumers	\$10,403,174
Fire protection fees	151,324
Consumer penalties	111,213
Initiation fees and service charges	87,193
Collection fees	188,150
Tapping fees	140,362
Miscellaneous income	<u>150,541</u>
Total operating revenues	<u>11,231,957</u>
Operating expenses	
Depreciation expense	2,177,000
Other operating expenses	<u>7,569,454</u>
Total operating expenses	<u>9,746,454</u>
Operating income	<u>1,485,503</u>
Nonoperating revenues (expenses)	
Interest income	120,896
Gain on disposal of assets	6,775
Amortization expense - deferred amount on refunding	(166,268)
Bond trustee fees and issue expenses	(4,876)
Interest expense	<u>(721,811)</u>
Total nonoperating revenues (expenses)	<u>(765,284)</u>
Income before contributions	<u>720,219</u>
Capital contributions	
From the City of Auburn	21,507
From developers	600,165
From access fees	<u>1,057,200</u>
Total capital contributions	<u>1,678,872</u>
Increase in net position	<u>2,399,091</u>
Net position, beginning of year	50,515,032
Prior period adjustment	<u>(102,921)</u>
Net position, beginning of year as restated	<u>50,412,111</u>
Net position, end of year	<u><u>\$52,811,202</u></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, 2018

Operating activities	
Cash received from customers	\$10,852,163
Other cash received	150,541
Cash paid to City of Auburn for payments in lieu of tax	(314,387)
Customer deposits collected	4,747
Cash paid to suppliers for goods and services	(5,528,561)
Cash paid to employees for services	<u>(2,827,157)</u>
Net cash provided by operating activities (A)	<u>2,337,346</u>
Capital and related financing activities	
Cash received for access fees	1,057,200
Cash received from sale of capital assets	6,776
Cash paid for acquisition and construction of capital assets	(2,955,002)
Cash paid for principal repayment on debt maturities	(865,000)
Cash paid for interest and fiscal fees on debt maturities	<u>(1,521,614)</u>
Net cash used by capital and related financing activities	<u>(4,277,640)</u>
Investing activities	
Interest received on investments	120,896
Cash paid for purchase of investments	(2,426,446)
Cash received on sale of investments	<u>2,982,116</u>
Net cash provided by investing activities	<u>676,566</u>
Net decrease in cash and cash equivalents	(1,263,728)
Cash and cash equivalents, beginning of year	<u>10,263,993</u>
Cash and cash equivalents, end of year	<u>\$ 9,000,265</u>
Composition of cash and cash equivalents at September 30, 2018:	
Cash - unrestricted	\$ 7,817,942
Cash and cash equivalents - restricted	<u>1,182,323</u>
Total cash and cash equivalents	<u>\$ 9,000,265</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, 2018

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

Operating income (loss)	\$ 1,485,503
Add:	
Depreciation expense	2,177,000
Decrease in inventory	44,306
Decrease in deferred inflows pension related	26,431
Increase in accounts payable, City of Auburn	272,862
Increase in accrued expenses	3,282
Increase in payroll taxes payable	892
Increase in accumulated annual leave	2,238
Increase in postemployment benefits payable	5,363
Increase in customer water deposits	4,747
Increase in deferred inflows OPEB related	3,943
Increase in deferred inflows pension related	468,668
Deduct:	
Increase in accounts receivable, net	(226,810)
Increase in accounts receivable, City of Auburn	(2,923)
Increase in other current assets	(10,792)
Increase in interest receivable	(1,905)
Increase in deferred outflows OPEB related	(3,753)
Decrease in accounts payable	(901,689)
Decrease in retainage payable	(389,350)
Decrease in net pension liability	<u>(620,667)</u>
Net cash provided by operations (A)	<u>\$ 2,337,346</u>
Noncash transactions:	
Estimated cost of water lines installed by and contributed to the Water Works Board by developers	<u>\$ 600,165</u>

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



NOTES TO THE FINANCIAL STATEMENTS

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Works Board of the City of Auburn (Board or Water Board) 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 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 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 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. State 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 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 valued at cost and consists 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 commercial insurance from independent third parties. There were only minimal changes to insurance coverage from coverage in the prior year, and no settlements have exceeded insurance coverage in the past three fiscal years.

The Water 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 member 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.

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.

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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Pensions - The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report. See Note 9.

Recently implemented accounting pronouncements - GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended.

GASB Statement No. 85, *2017 Omnibus*, addresses a variety of topics including the presentation of payroll-related measures in required supplementary information for purposes of reporting by employers that provide OPEB. This statement enhances consistency in the application of accounting and financial reporting requirements and improves usefulness of information for users of these financial statements.

NOTE 2. DEPOSITS AND INVESTMENTS

As of September 30, 2018, all deposits of the Water 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 owners and/or developers and maintained in a capital fund account to be spent for system capacity improvement projects. The amounts collected are reported as nonoperating revenue. The unspent amount at September 30, 2018, was \$1,182,323.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4. RESTRICTED CASH AND INVESTMENTS

At September 30, 2018, the Water Board’s restricted cash, cash equivalents and investments were comprised of the following:

Cash (access fee account)	\$	926,679
Pooled investments with City of Auburn		255,644
Bank of New York Mellon U.S. Treasury Securities Money Market Fund		<u>2,606,798</u>
Total restricted cash and investments	\$	<u><u>3,789,121</u></u>

The Bank of New York Mellon U.S. Treasury Securities Money Market Fund listed above is an open-end mutual fund comprised of U.S. Treasury securities totaling \$2,606,798. The fair value of the units in the fund equals the carrying value.

Restricted investments are held by a trustee and are restricted by the terms of the 2010 and 2015 bond indentures until retirement of the bonds.

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

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

Water	\$	1,806,832
Miscellaneous trade		<u>6,576</u>
Total accounts receivable		1,813,408
Less allowance for doubtful accounts		<u>(86,001)</u>
Accounts receivable (net)	\$	<u><u>1,727,407</u></u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018, was as follows:

	Balance <u>10/01/17</u>	Transfers/ <u>Additions</u>	Transfers/ <u>Deductions</u>	Balance <u>09/30/18</u>
Capital assets, nondepreciable:				
Land and land clearing	\$ 1,338,503	\$ 11,007		\$ 1,349,510
Construction in progress	<u>17,054,850</u>	<u>3,440,833</u>	<u>(19,950,395)</u>	<u>545,288</u>
Total capital assets, nondepreciable	<u>18,393,353</u>	<u>3,451,840</u>	<u>(19,950,395)</u>	<u>1,894,798</u>
Capital assets, depreciable:				
Utility system and plant	76,618,980	20,208,360	(271,886)	96,555,454
Buildings and improvements	6,850,626	294,181	-	7,144,807
Office equipment	686,415	62,620	-	749,035
Mobile equipment	1,535,236	183,557	(76,031)	1,642,762
Tools	<u>412,425</u>	<u>7,317</u>	<u>-</u>	<u>419,742</u>
Total capital assets, depreciable	<u>86,103,682</u>	<u>20,756,035</u>	<u>(347,917)</u>	<u>106,511,800</u>
Less accumulated depreciation for:				
Utility system and plant	(25,988,873)	(1,637,992)	271,886	(27,354,979)
Buildings and improvements	(2,760,411)	(274,298)	-	(3,034,709)
Office equipment	(494,666)	(56,843)	-	(551,509)
Mobile equipment	(793,236)	(178,322)	76,031	(895,527)
Tools	<u>(326,901)</u>	<u>(29,545)</u>	<u>-</u>	<u>(356,446)</u>
Total accumulated depreciation	<u>(30,364,087)</u>	<u>(2,177,000)</u>	<u>347,917</u>	<u>(32,193,170)</u>
Total capital assets, depreciable	<u>55,739,595</u>	<u>18,579,035</u>	<u>-</u>	<u>74,318,630</u>
Capital assets, net	<u>\$ 74,132,948</u>	<u>\$ 22,030,875</u>	<u>\$ (19,950,395)</u>	<u>\$ 76,213,428</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7. 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:

Total interest costs incurred	\$ 1,402,616
Less capitalized interest	<u>(680,805)</u>
Interest expense	<u><u>\$ 721,811</u></u>

NOTE 8. LONG-TERM DEBT

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2018, was as follows:

	<u>Balance</u> <u>09/30/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>09/30/18</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
Bonds payable:					
Bonds payable-2010 issue	\$ 16,750,000	\$ -	\$ (810,000)	\$ 15,940,000	\$ 850,000
Bonds payable-2015 issue	16,635,000	-	(55,000)	16,580,000	60,000
Premium on bonds	<u>2,103,382</u>	<u>-</u>	<u>(110,677)</u>	<u>1,992,705</u>	<u>-</u>
	35,488,382	-	(975,677)	34,512,705	910,000
Accumulated leave	58,391	3,409	(1,171)	60,629	-
Other postemployment					
benefits liability	39,820	9,592	-	49,412	-
Net pension liability	<u>770,235</u>	<u>-</u>	<u>(620,667)</u>	<u>149,568</u>	<u>-</u>
	<u>868,446</u>	<u>13,001</u>	<u>(621,838)</u>	<u>259,609</u>	<u>-</u>
Business-type					
activity long-term					
liabilities	<u><u>\$ 36,356,828</u></u>	<u><u>\$ 13,001</u></u>	<u><u>\$ (1,597,515)</u></u>	<u><u>\$ 34,772,314</u></u>	<u><u>\$ 910,000</u></u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018

NOTE 8. LONG-TERM DEBT - CONTINUED

Bonds payable at September 30, 2018, are comprised of an original bond issue of \$21,595,000 dated June 1, 2010 and an original bond issue of \$16,695,000 dated November 24, 2015. 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 4.35%. The stated maturity dates of the 2010 bonds are September 1 beginning in 2011 and continuing through 2032. The 2015 bond proceeds were used to fund the Lake Ogletree Spillway project. The 2015 bonds were issued at an average interest rate of 4.68%. The stated maturity dates of the 2015 bonds are September 1 beginning in 2017 and continuing through 2040.

Bonds payable of the Water Board of the City of Auburn at September 30, 2018, are comprised of the following individual issues:

	Interest Rate	Interest Dates	Source of Payment	Principal Issued	Principal Outstanding September 30, 2018	Year of Final Principal Maturity
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	\$ 15,940,000	2032
Capital improvement bonds, Dated 11/24/15	3.0% to 5.0%	3/1-9/1	Revenues	\$ 16,695,000	\$ 16,580,000	2040

The following schedule shows debt service to maturity for bonds payable of the Water Board of the City of Auburn at September 30, 2018:

Year Ending September 30	Principal	Interest	Total
2019	\$ 910,000	\$ 1,475,412	\$ 2,385,412
2020	950,000	1,432,013	2,382,013
2021	995,000	1,386,613	2,381,613
2022	1,030,000	1,354,725	2,384,725
2023	1,060,000	1,321,738	2,381,738
2024-2028	6,040,000	5,879,675	11,919,675
2029-2033	7,580,000	4,337,275	11,917,275
2034-2038	9,495,000	2,417,200	11,912,200
2039-2040	4,460,000	310,800	4,770,800
Total	<u>\$ 32,520,000</u>	<u>\$ 19,915,451</u>	<u>\$ 52,435,451</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8. LONG-TERM DEBT - CONTINUED

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

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, 2018.

NOTE 9. DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan - Plan description. The Employees' Retirement System of Alabama (ERS), an agent multiple-employer public employee retirement plan, was established October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and, on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLAN - CONTINUED

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

The ERS serves approximately 909 local participating employers. The ERS membership includes approximately 88,517 participants. As of September 30, 2017, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,853
Terminated employees entitled to but not yet receiving benefits	1,401
Terminated employees not entitled to a benefit	7,154
Active Members	55,941
Post-DROP participants who are still in active service	<u>168</u>
Total	<u><u>88,517</u></u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLAN - CONTINUED

Contributions. Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the preretirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2018, the Board's active employee contribution rate was 3.00% of covered employee payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 4.37% of pensionable payroll.

The Board's contractually required contribution rate for the year ended September 30, 2018 was 8.35% of pensionable pay for Tier 1 employees, and 4.94% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$103,212 for the year ended September 30, 2018.

Net Pension Liability - The Board's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 rolled forward to September 30, 2017 using standard roll-forward techniques as shown in the following table:

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLAN – CONTINUED

	Expected	Actual
(a) Total Pension Liability as of September 30, 2016	\$ 3,541,279	\$ 3,104,204
(b) Discount Rate	7.75%	7.75%
(c) Entry Age Normal Cost for October 1, 2016 - September 30, 2017	99,641	99,641
(d) Transfers Among Employers	-	6,048
(e) Actual Benefit Payments and Refunds for October 1, 2016 - September 30, 2017	(116,494)	(116,494)
(f) Total Pension Liability as of September 30, 2017 =[(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	\$ 3,794,361	\$ 3,329,460

Actuarial assumptions. The total pension liability as of September 30, 2017 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016. The key actuarial assumptions are summarized below:

Inflation	2.75%
Projected salary increases	3.25% - 5.00%
Investment rate of return*	7.75%

* Net of pension plan investment expense,
including inflation

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLAN - CONTINUED

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
US Large Stocks	32.00%	8.00%
US Mid Stocks	9.00%	10.00%
US Small Stocks	4.00%	11.00%
International Developed Mkt Stocks	12.00%	9.50%
International Emerging Mkt Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
	100.00%	

* Includes assumed rate of inflation of 2.50%.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLAN - CONTINUED

Discount rate. The discount rate used to measure the total pension liability was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 9/30/2016	\$ 3,541,279	\$ 2,771,044	\$ 770,235
Changes for the year:			
Service cost	99,641	-	99,641
Interest	269,935	-	269,935
Changes of assumptions	-	-	-
Differences between expected and actual experience	(470,949)	-	(470,949)
Contributions, employer	-	95,617	(95,617)
Contributions, employee	-	65,618	(65,618)
Net investment income	-	358,059	(358,059)
Benefit payments, including refunds of employee contributions	(116,494)	(116,494)	-
Transfers among employers	6,048	6,048	-
Net changes	(211,819)	408,848	(620,667)
Balances at 9/30/2017	\$ 3,329,460	\$ 3,179,892	\$ 149,568

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLAN - CONTINUED

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the Board's net pension liability calculated using the discount rate of 7.75%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Board's net pension liability (asset)	<u>\$ 577,443</u>	<u>\$ 149,568</u>	<u>\$ (210,841)</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report dated August 31, 2018, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the Board recognized pension income of \$125,568. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 602,635
Changes of assumptions	38,142	-
Net difference between projected and actual earnings on plan investments	-	95,107
Employer contributions subsequent to the measurement date	<u>98,355</u>	<u>-</u>
Total	<u>\$ 136,497</u>	<u>\$ 697,742</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLAN - CONTINUED

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2019	\$ (114,445)
2020	(94,961)
2021	(130,527)
2022	(119,298)
2023	(87,340)
Thereafter	<u>(113,029)</u>
	<u>\$ (659,600)</u>

NOTE 10. 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 Board and its employees.

General Information about the OPEB Plan

Plan description. The City of Auburn's General Employees' OPEB Plan provides OPEB for all permanent full-time general and public safety employees of the City. The Plan is a single-employer, defined benefit OPEB plan administered by City personnel. 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 City Council. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided. 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. Surviving spouses of retirees are eligible for COBRA for 36 months. 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

Employees covered by benefit terms. At September 30, 2018, the following employees were covered by the benefit terms:

	Total City	Water Board
Inactive employees or beneficiaries currently receiving benefit payments	36	3
Active plan members	585	21
Total	621	24

Total OPEB Liability

The Board's total OPEB liability of \$148,104 was measured as of September 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation:	3.125% per year
Salary increases:	3.375% to 5.125%, including inflation
Employer funding policy:	Pay-as-you-go cash basis
Healthcare cost trend rates:	8.0% for 2019, decreasing 0.5% per year to an ultimate rate of 5.0% for 2025 and later years
Cost method:	Entry age normal level percent of salary method

The discount rate was based on a yield for 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale) tax-exempt, high quality 20-year municipal bonds. The actual discount rate used in the September 30, 2018 valuation was 4.15%.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

Mortality rates were based on the RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018 (RPH-2018 table is created based on RPH-2014 Total Dataset Mortality Table with 8 years of MP-2014 mortality improvement backed out, projected to 2018 using MP-2018 improvement.)

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of an actuarial experience study for the period October 1, 2016 to September 30, 2017.

Changes in the Total OPEB Liability

Total OPEB Liability 9/30/2017	<u>\$ 142,741</u>
Changes for the year:	
Service cost	4,309
Interest	5,283
Changes in assumptions	(4,600)
Differences between expected and actual experience	4,378
Benefit payments	<u>(4,008)</u>
Net change in total OPEB liability	<u>5,363</u>
Total OPEB Liability 9/30/2018	<u><u>\$ 148,104</u></u>
Plan fiduciary net position 9/30/2017	<u>\$ -</u>
Changes for the year:	
Contributions - employer	4,008
Benefit payments	<u>(4,008)</u>
Net change in plan fiduciary net position	<u>-</u>
Plan fiduciary net position 09/30/2018	<u><u>\$ -</u></u>
Net OPEB Liability 9/30/2018	<u><u>\$ 148,104</u></u>
Plan fiduciary net position as of % of total OPEB liability	0.0%
Covered employee payroll	1,129,589
Net OPEB liability as % of covered payroll	13.11%

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.15 percent) or 1-percentage-point higher (5.15 percent) than the current discount rate:

	1% Decrease (3.15%)	Current Discount Rate (4.15%)	1% Increase (5.15%)
Board's total OPEB liability	<u>\$ 164,387</u>	<u>\$ 148,104</u>	<u>\$ 134,184</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.00 percent decreasing to 4.00 percent) or 1-percentage-point higher (9.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

	1% Decrease (7.00% decreasing to 4.00%)	Healthcare Cost Trend Rates (8.00% decreasing to 5.00%)	1% Increase (9.00% decreasing to 6.00%)
Board's total OPEB liability	<u>\$ 132,072</u>	<u>\$ 148,104</u>	<u>\$ 167,465</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the Board recognized OPEB expense of \$5,553. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,753	\$ -
Changes of assumptions or other inputs	-	3,943
Total	\$ 3,753	\$ 3,943

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	
2019	\$ (32)
2020	(32)
2021	(32)
2022	(32)
2023	(31)
Thereafter	(31)
	\$ (190)

NOTE 11. COMMITMENTS

The Water Board has commitments for construction projects in connection with system improvements totaling \$880,480 as of September 30, 2018.

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 had two commitments. First, the agreement provided that the Auburn Board would 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. Auburn has fulfilled all of these initial commitments. Second, Auburn would pay Opelika for the water it purchased based on its share of the production and transportation costs in relation to total production.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 11. COMMITMENTS - CONTINUED

In return for its payment of these amounts, Auburn's Board receives the right to purchase not greater than 3.6 million gallons of water per day. It is a 'take-or-pay' agreement with the first 138 million gallons annual amount set as a required minimum. The original agreement was set to expire in March of 2013; however, the Board approved the 20 year renewal (at no additional cost as set forth in the agreement) in October of 2012.

The Water Board also entered into an agreement in May 2011 to purchase water from Sandy Springs Farm II, LLC. The agreement included a land lease and permission to build and operate a well on property located on the farm. Construction was completed and Well No 3 was placed in service May of 2012. 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 \$.56 per 1,000 gallons (\$117,734) for the year ended September 30, 2018. The term of the agreement is twenty years, with six five-year extension options. Total water pumped in the 2018 fiscal year was 409,036 thousand gallons with a total annual payment of \$229,060.

The Water Board entered into an agreement in August 2018 to purchase land from Auburn H2O, LLC to construct a water supply well. Also in August 2018, The Water Board entered into an agreement to purchase water from Auburn H2O, LLC once the well and transmission main is complete. The agreement includes a minimum annual purchase of 438,000,000 gallons per year at an initial rate of \$.40 per 1,000 gallons (\$170,200 per year), payable in monthly installments. This rate is subject to increase based on the Consumer Price Index and is adjusted each fiscal year. The term of the agreement is twenty five years, with eleven five-year extension options.

In October of 2003 the Water Board entered into a Safe Harbor Agreement along with Martin Marietta Materials, Inc., The City of Auburn, the State of Alabama, the U.S. Fish and Wildlife Service and other land owners along Chewacla Creek to provide for the protection of certain endangered species. The agreement lays out minimal water discharge, maintenance, testing and reporting along the Chewacla Creek stream bank and bed. The requirements are pursuant to the Safe Harbor Policy for the "enrolled properties" which include the Martin Marietta Quarry, where the Water Board has agreed upon rights to pump water directly from the quarry basin to Lake Ogletree. The Safe Harbor agreement is for 30 years and subject to changes as required by federal laws and the health of the aquatic community.

NOTE 12. SUBSEQUENT EVENTS

Subsequent to September 30, 2018, the Board approved construction contracts totaling approximately \$510,000 and equipment purchases totaling approximately \$140,000 and professional services contracts totaling approximately \$45,000.

Management has evaluated subsequent events through March 12, 2019, the date these financial statements were available to be issued.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE 13. PRIOR PERIOD ADJUSTMENT

The Water Board adopted GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the current year. As a result, beginning net position was reduced by \$102,921 to \$50,412,111 in order to adjust the Board's net OPEB liability at the beginning of fiscal year 2018.

REQUIRED SUPPLEMENTARY INFORMATION

THE WATER WORKS BOARD OF THE CITY OF AUBURN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
SEPTEMBER 30, 2018

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years in which information is available.

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 99,641	\$ 98,797	\$ 96,462	\$ 120,498
Interest	269,935	264,499	272,721	254,155
Differences between expected and actual experience	(470,949)	(13,187)	(291,277)	-
Changes of assumptions	-	50,856	-	-
Benefit payments, including refunds of employee contributions	(116,494)	(215,880)	(145,480)	(139,669)
Changes of benefit terms	6,048	(57,986)	-	-
Net change in total pension liability	(211,819)	127,099	(67,574)	234,984
Total pension liability - beginning	<u>3,541,279</u>	<u>3,414,180</u>	<u>3,481,754</u>	<u>3,246,770</u>
Total pension liability - ending (a)	<u>\$ 3,329,460</u>	<u>\$ 3,541,279</u>	<u>\$ 3,414,180</u>	<u>\$ 3,481,754</u>
Plan fiduciary net position				
Contributions - employer	\$ 95,617	\$ 88,609	\$ 72,750	\$ 74,121
Contributions - member	65,618	61,760	55,865	55,397
Net investment income	358,059	261,830	30,966	292,386
Benefit payments, including refunds of employee contributions	(116,494)	(215,880)	(145,480)	(139,669)
Transfers among employers	6,048	(57,986)	-	(211,095)
Net change in plan fiduciary net position	408,848	138,333	14,101	71,140
Plan net position - beginning	<u>2,771,044</u>	<u>2,632,711</u>	<u>2,618,610</u>	<u>2,547,470</u>
Plan net position - ending (b)	<u>\$ 3,179,892</u>	<u>\$ 2,771,044</u>	<u>\$ 2,632,711</u>	<u>\$ 2,618,610</u>
Net pension liability - ending (a) - (b)	\$ 149,568	\$ 770,235	\$ 781,469	\$ 863,144
Plan fiduciary net position as a percentage of the total pension liability	95.51%	78.25%	77.11%	75.21%
Covered payroll*	\$ 2,210,785	\$ 2,014,542	\$ 1,833,893	\$ 1,825,037
Net pension liability as a percentage of covered payroll	6.77%	38.23%	42.61%	47.29%

*Employer's covered payroll during the measurement period is the total covered payroll. For FY2018 the measurement period is October 1, 2016 to September 30, 2017. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll for FY2017.

See independent auditor's report and notes to required supplementary information.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
SEPTEMBER 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution *	\$ 103,212	\$ 100,331	\$ 89,550	\$ 76,623
Contributions in relation to the actuarially determined contribution *	<u>103,212</u>	<u>100,331</u>	<u>89,550</u>	<u>76,623</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll **	\$ 2,251,929	\$ 2,210,785	\$ 2,014,542	\$ 1,833,893
Contributions as a percentage of covered payroll	4.58%	4.54%	4.45%	4.18%

* The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statement.

**Employer's covered payroll for FY2018 is the total covered payroll for the 12 month period of the underlying financial statement.

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 4,309
Interest	5,283
Changes of assumptions	(4,600)
Differences between expected and actual experience	4,379
Benefit Payments	<u>(4,008)</u>
Net change in total OPEB liability	5,363
Total OPEB liability - beginning	<u>142,741</u>
Total OPEB liability - ending	<u>\$ 148,104</u>
Covered employee payroll*	\$ 1,129,589
Total OPEB liability as a percentage of covered payroll	13.11%

See independent auditor's report and notes to required supplementary information.

THE WATER WORKS BOARD OF THE CITY OF AUBURN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2018

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2018 were based on the September 30, 2015, actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2017 to September 30, 2018:

Actuarial cost method:	Entry Age
Amortization method:	Level percent closed
Remaining amortization period:	18.4 years
Asset valuation method:	Five year smoothed market
Inflation:	3.00%
Salary increases:	3.75-7.25%, including inflation
Investment rate of return:	8.00%, net of pension plan investment expense, including inflation

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY

Actuarially Changes of Assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

<u>2018</u>
4.15%



OTHER OPERATING INFORMATION

THE WATER WORKS BOARD OF THE CITY OF AUBURN
SCHEDULE OF OPERATING EXPENSES
SEPTEMBER 30, 2018

Water treatment and pumping expense

Personal services	
Salaries and wages	\$ 492,611
Employee benefits	110,341
Total personal services	<u>602,952</u>
Contractual services	
Utilities	507,939
Pumping and purification	54,172
Buildings and grounds	9,828
Sewer services	71,250
Travel and training	4,260
Uniform maintenance	2,998
Dams, lakes and spillways	6,444
Source supply DL&S	24,406
Miscellaneous contractual services	57,244
Total contractual services	<u>738,541</u>
Commodities	
Water purchased	1,232,395
Chemical supplies	240,877
Water sample analysis supplies	240
Minor tools and equipment	73,979
Fuel	2,675
Safety clothing	1,130
Miscellaneous commodities	5,392
Communications equipment	2,299
Total commodities	<u>1,558,987</u>
Total water treatment and pumping expense	<u>2,900,480</u>

Distribution expense

Personal services	
Salaries and wages	763,662
Less capitalized costs	(15,131)
Employee benefits	169,874
Total personal services	<u>918,405</u>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN
SCHEDULE OF OPERATING EXPENSES
SEPTEMBER 30, 2018

Contractual services	
Utilities	15,094
Travel and training	10,733
Uniform maintenance	4,214
Miscellaneous contractual services	<u>43,696</u>
Total contractual services	<u>73,737</u>
Commodities	
Mains and services supplies	97,498
Fuel	32,715
Vehicle parts	13,382
Fire hydrants	9,700
Communications equipment	284
Heavy machinery parts	27,426
Minor tools and equipment	26,606
Miscellaneous commodities	<u>41,492</u>
Total commodities	<u>249,103</u>
Total distribution expense	<u>1,241,245</u>
Meter reading expense	
Personal services	
Salaries and wages	238,576
Employee benefits	<u>57,775</u>
Total personal services	<u>296,351</u>
Contractual services	
Travel and training	825
Uniform maintenance	1,412
Utilities	3,220
Testing and repair of large meters	<u>1,750</u>
Total contractual services	<u>7,207</u>
Commodities	
Fuel	15,428
Meter parts	461,592
Miscellaneous commodities	<u>7,194</u>
Total commodities	<u>484,214</u>
Total meter reading expense	<u>787,772</u>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN
SCHEDULE OF OPERATING EXPENSES
SEPTEMBER 30, 2018

Utility billing office expense

Personal services	
Salaries and wages	494,402
Employee benefits	<u>131,767</u>
Total personal services	<u>626,169</u>
Contractual services	
Bank fees	332,715
Data processing professional services	186,388
Office equipment rental	3,598
Travel and training	9,134
Temporary employees	6,892
Utilities	1,159
Miscellaneous contractual services	<u>1,707</u>
Total contractual services	<u>541,593</u>
Commodities	
Printed supplies	1,131
Office and computer supplies	17,388
Miscellaneous commodities	<u>336</u>
Total commodities	<u>18,855</u>
Total utility billing office expense	<u>1,186,617</u>

Operations administration expense

Personal services	
Salaries and wages	308,669
Employee benefits	<u>65,892</u>
Total personal services	<u>374,561</u>
Contractual services	
Memberships and subscriptions	11,224
Travel and training	9,137
Utilities	3,814
Miscellaneous contractual services	<u>250</u>
Total contractual services	<u>24,425</u>
Commodities	
Fuel	<u>1,087</u>
Total commodities	<u>1,087</u>
Total operations administration expense	<u>400,073</u>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN
SCHEDULE OF OPERATING EXPENSES
SEPTEMBER 30, 2018

General operations expense

Personal services	
Contribution to City for salaries	263,014
Pension expense	<u>(125,568)</u>
Total personal services	<u>137,446</u>
Contractual services	
Building and ground contracts	71,056
Fiscal professional services	22,700
Legal professional services	19,394
Insurance	131,152
Postemployment benefits	5,553
Unclassified professional services	235,082
Utilities	65,543
Miscellaneous contractual services	<u>26,630</u>
Total contractual services	<u>577,110</u>
Commodities	
Postage	4,586
Printed supplies	699
Miscellaneous commodities	<u>18,389</u>
Total commodities	<u>23,674</u>
Intergovernmental	
Tax equivalent to City	<u>315,037</u>
Total intergovernmental	<u>315,037</u>
Total general operations expense	<u>1,053,267</u>
Total other operating expenses	<u><u>\$ 7,569,454</u></u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 FIVE YEAR SCHEDULE OF VARIOUS OPERATING DATA
 FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2017, 2016, 2015, 2014

(Unaudited)

	2018	2017	2016	2015	2014
Operating revenues:					
Water sales	\$ 10,403,174	\$ 10,151,654	\$ 9,977,399	\$ 9,104,999	\$ 8,777,975
Fire protection fees	151,324	151,423	151,437	138,713	114,177
Consumer penalties	111,213	101,171	106,934	108,097	111,331
Initiation fees and service charges	87,193	83,069	88,199	88,335	88,417
Collection fees	188,150	182,820	142,250	172,850	233,083
Other operating revenue	290,903	278,153	284,651	292,377	248,964
Total operating revenues	<u>11,231,957</u>	<u>10,948,290</u>	<u>10,750,870</u>	<u>9,905,371</u>	<u>9,573,947</u>
Operating expenses:					
Water treatment and pumping expense	2,900,480	3,680,811	3,111,907	2,751,115	2,620,346
Distribution expense	1,241,245	1,248,912	1,043,283	1,004,424	1,017,529
Meter reading and utility billing office expense	1,974,389	1,866,206	1,738,835	1,539,509	1,418,986
Operations administration and general operations	1,453,340	1,067,921	1,032,059	1,301,474	1,192,686
Total operating expenses	<u>7,569,454</u>	<u>7,863,850</u>	<u>6,926,084</u>	<u>6,596,522</u>	<u>6,249,547</u>
Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions	<u>\$ 3,662,503</u>	<u>\$ 3,084,440</u>	<u>\$ 3,824,786</u>	<u>\$ 3,308,849</u>	<u>\$ 3,324,400</u>
Number of services at September 30 ⁽¹⁾	23,683	23,202	22,752	22,356	22,008
Operating revenues per service	\$ 474	\$ 472	\$ 473	\$ 443	\$ 435
Operating expenses per service	<u>320</u>	<u>339</u>	<u>304</u>	<u>295</u>	<u>284</u>
Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions per service	<u>\$ 155</u>	<u>\$ 133</u>	<u>\$ 168</u>	<u>\$ 148</u>	<u>\$ 151</u>
Million gallons water produced and purchased	<u>2,489.90</u>	<u>2,519.50</u>	<u>2,651.62</u>	<u>2,544.99</u>	<u>2,504.80</u>
Million gallons water sold	<u>2,215.68</u>	<u>2,353.41</u>	<u>2,428.28</u>	<u>2,262.04</u>	<u>2,203.68</u>

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

